



MASTER CIRCULAR FOR CREDIT RATING AGENCIES

SEBI/HO/MIRSD/DOP2/CIR/P/2018/76

May 02, 2018

To,

All Credit Rating Agencies

Dear Sir / Madam,

Subject: Master Circular for Credit Rating Agencies

Securities and Exchange Board of India (SEBI) has been issuing various circulars/ guidelines from time to time. In order to enable the industry and other users to have access to all the applicable circulars/ directions at one place, Master Circular for Credit Rating Agencies (CRAs) has been prepared.

This Master Circular is a compilation of the circulars issued by SEBI up to March 31, 2018, which are operational as on the date of this circular.

In case of any inconsistency between the Master Circular and the applicable circulars, the contents of the relevant circular shall prevail.

The Master Circular is a compilation of all the existing/ applicable circulars issued by the Market Intermediaries Regulation and Supervision Department of SEBI to CRAs. Efforts have been made to incorporate applicable provisions of existing circulars issued by other Departments of SEBI relevant to CRAs.

Yours faithfully,

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SECTION 1: REGISTRATION REQUIREMENTS

1.1 Online Registration Mechanism for Securities Market Intermediaries¹

- 1.1.1. SEBI has operationalized SEBI Intermediary Portal (<https://siportal.sebi.gov.in>) for the intermediaries, *inter alia* for CRAs, to submit all the registration applications online. The SEBI Intermediary Portal shall include online application for registration, processing of application, grant of final registration, application for surrender / cancellation, submission of periodical reports, requests for change of name/ address/ other details, etc., Link for SEBI Intermediary Portal is also available on SEBI website – www.sebi.gov.in.
- 1.1.2. All applications for registration/ surrender/other requests will be made through SEBI Intermediary Portal only. The applicants will be separately required to submit relevant documents viz. declarations/ undertakings required as a part of application forms prescribed in relevant regulations, in physical form, only for records without impacting the online processing of applications for registration.
- 1.1.3. In case of any queries and clarifications with regard to the SEBI Intermediary Portal, intermediaries may contact on 022-26449364 or may write at portalhelp@sebi.gov.in.

1.2 Digital Mode of Payment²

- 1.2.1. SEBI has notified the SEBI (Payment of Fees and Mode of Payment) (Amendment) Regulations, 2017 on March 06, 2017 to enable digital mode of payment (RTGS/NEFT/IMPS etc.) of fees/penalties/remittance/other payments etc.
- 1.2.2. Pursuant to above, SEBI has been receiving direct credit of amounts from various intermediaries / other entities.
- 1.2.3. In order to identify and account such direct credit in the SEBI account, it has been decided that the various intermediaries / other entities shall provide the information as mentioned in **Annexure** to SEBI once the payment is made.
- 1.2.4. The above information should be emailed to the respective department(s) as well as to Treasury & Accounts division at tad@sebi.gov.in.

¹ SEBI Circular SEBI/HO/MIRSD/MIRSD1/CIR/P/2017/38 dated May 02, 2017.

² SEBI Circular SEBI/HO/GSD/T&A/CIR/P/2017/42 dated May 16, 2017



Annexure

Date	Department of SEBI	Name of Intermediary/ Other Entities	Type of Intermediary	SEBI Registration Number (if any)
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PAN	Amount (in ₹)	Purpose of Payment (including the period for which payment was made e.g. quarterly, annually)	Bank name and Account number from which payment is remitted	UTR No.
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1.3 Grant of Prior approval for change in control to Credit Rating Agencies³

- 1.3.1. All registered CRAs are required to obtain prior approval of SEBI in case of change in control.
- 1.3.2. In case a CRA holds multiple registrations with SEBI, it shall make only one application to SEBI addressed to "Chief General Manager, MIRSD, SEBI" accompanied by the following information about itself, the acquirer and the directors/ partners of the acquirer;
- Whether any application was made in the past to SEBI seeking registration in any capacity but it was not granted? If yes, details thereof.
 - Whether any action has been initiated / taken under SCRA/SEBI Act or rules and regulations made thereunder? If yes, status thereof along with corrective action taken to avoid such violations in the future. The acquirer shall also confirm that it shall honour all past liabilities / obligations of the applicant, if any.
 - Whether any investor complaint is pending? If yes, steps taken and confirmation that the acquirer shall resolve the same.
 - Details of litigation, if any.
 - That all the fees due to SEBI have been paid.
 - That there will not be any change in the Board of Directors of incumbent, till the time prior approval is granted.
 - That the incumbent shall inform all its existing investors / clients in order to enable them to take informed decision regarding their continuance or otherwise with the entity with new management.
- 1.3.3. The prior approval granted by SEBI shall be valid for a period of 180 days from the date of communication.

1.4 Surrender of Certificate of Registration⁴

- 1.4.1 If a CRA wishes to surrender the registration voluntarily, it shall transfer, wherever relevant, its existing business/ client accounts to another SEBI registered intermediary, before they make request to SEBI for accepting the surrender of the certificate of registration.
- 1.4.2 The CRA may, if it so desires, make a representation for dispensing with the procedure, along with the application, for surrender in terms of the first proviso to Regulation 33B of Securities and Exchange Board of India (Intermediaries) Regulations, 2008 in the prescribed format placed as **Annexure**.
- 1.4.3 In all cases of transfer of business or client accounts to another registered intermediary, the clients shall not be subjected to any additional cost.

³ SEBI Circular CIR/MIRSD/14/2011 dated August 02, 2011.

⁴ SEBI Circular No. SEBI/MIRSD/DR-2/SRP/Cir - 2/ 2005 dated January 4, 2005.



Annexure

Letter of Representation for Credit Rating Agency

To,
Securities and Exchange Board of India

Dear Sir,

Sub: Surrender of Certificate of Registration as Credit Rating Agency, Registration No. _____ .

1. We hereby surrender our certificate of registration as Credit Rating Agency.
2. We enclose the original certificate of registration (or indemnity in case the certificate is lost or stolen) for cancellation.
3. We hereby confirm that:
 - a. no complaint /disciplinary proceeding is pending against us;
 - b. no investigation / inquiry by SEBI is pending against us with respect to our activities as a Credit Rating Agency;
 - c. as on date of application, we have paid all fees;
 - d. we shall continue to be liable for all liabilities/obligations (including monetary penalties, if any) for violations, if any, of the provisions of the SEBI Act and the SEBI (Credit Rating Agency) Regulations, 1999 that have taken place before our surrender of certificate of registration;
 - e. all our current assignments as a Credit Rating Agency have been either duly terminated or transferred to another registered Credit Rating Agency _____ with registration no.____ ;
 - f. we have issued a public notice in a widely circulated national and a vernacular daily dated_____ informing surrender of our registration as Credit Rating Agency (Please enclose a clipping of the said public notice);
 - g. we have notified the Depositories and all the stock exchanges where our client companies are listed about the surrender of our registration.
4. *We hereby request SEBI to dispense with the procedure laid down in Regulation 16(1) of the SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 while processing our request for surrender of certificate of registration.

Thanking you,

Yours faithfully,

Name:

(Whole time/Managing Director/Principal Officer)

** Please strike off, if not applicable.*



SECTION 2: RATING OPERATIONS

2.1 Standardization of Rating Symbols and Definitions⁵

- 2.1.1. It is felt that common rating symbols and definitions are needed (i) for easy understanding of the rating symbols and their meanings by the investors, and (ii) to achieve high standards of integrity and fairness in ratings.
- 2.1.2. The issue was discussed in the meeting of Corporate Bonds and Securitisation Advisory Committee of SEBI. The Committee recommended that the rating symbols and their definitions should be standardised.
- 2.1.3. Pursuant to the above, in consultation with the CRAs and considering the international practices, standardised symbols and their definitions have been devised for the following:
- a. Long term debt instruments;
 - b. Short term debt instruments;
 - c. Long term structured finance instruments;
 - d. Short term structured finance instruments;
 - e. Long term mutual fund schemes; and
 - f. Short term mutual fund schemes.
- 2.1.4. The symbols and definitions as given in **Annexures 1-6** shall be used for the ratings/ reviews by the CRAs.
- 2.1.5. A CRA may undertake rating of structured finance products, namely, instruments/ pay-outs resulting from securitization transactions. In such cases, apart from following all the applicable requirements in case of non-structured ratings, the following additional requirements shall also be complied with:⁶
- a. The rating symbols shall clearly indicate that the ratings are for structured finance products.
 - b. The CRA shall include all the assumptions/ covenants made while carrying out the review of such products in the Press Release.⁷
- 2.1.6. For structured products/ market linked debentures, the credit rating shall bear a prefix 'PP-MLD' denoting Principal Protected Market Linked Debentures, followed by the standardized rating symbols for long/ short term debt on the lines specified below.⁸

⁵ Circular No. CIR/MIRSD/4/2011 dated June 15, 2011

⁶ Circular No. CIR/MIRSD/ CRA/ 6/ 2010 May 3, 2010

⁷ Circular No. SEBI/ HO/ MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dated June 30, 2017

⁸ Cir. /IMD/DF/17/2011 dated September 28, 2011



ANNEXURE 1

Rating Symbols and Definitions for Long Term Debt Instruments

Long term debt instruments: The instruments with original maturity exceeding one year

Rating symbols should have CRA's first name as prefix

AAA - Instruments with this rating are considered to have the highest degree of safety regarding timely servicing of financial obligations. Such instruments carry lowest credit risk.

AA - Instruments with this rating are considered to have high degree of safety regarding timely servicing of financial obligations. Such instruments carry very low credit risk.

A - Instruments with this rating are considered to have adequate degree of safety regarding timely servicing of financial obligations. Such instruments carry low credit risk.

BBB - Instruments with this rating are considered to have moderate degree of safety regarding timely servicing of financial obligations. Such instruments carry moderate credit risk.

BB - Instruments with this rating are considered to have moderate risk of default regarding timely servicing of financial obligations.

B - Instruments with this rating are considered to have high risk of default regarding timely servicing of financial obligations.

C - Instruments with this rating are considered to have very high risk of default regarding timely servicing of financial obligations.

D - Instruments with this rating are in default or are expected to be in default soon.

Modifiers {"+" (plus) / "-"(minus)} can be used with the rating symbols for the categories AA to C. The modifiers reflect the comparative standing within the category.



ANNEXURE 2

Rating Symbols and Definitions for Short Term Debt instruments

Short term debt instruments: The instruments with original maturity of up to one year

Rating symbols should have CRA's first name as prefix

A1 – Instruments with this rating are considered to have very strong degree of safety regarding timely payment of financial obligations. Such instruments carry lowest credit risk.

A2 - Instruments with this rating are considered to have strong degree of safety regarding timely payment of financial obligations. Such instruments carry low credit risk.

A3 - Instruments with this rating are considered to have moderate degree of safety regarding timely payment of financial obligations. Such instruments carry higher credit risk as compared to instruments rated in the two higher categories.

A4- Instruments with this rating are considered to have minimal degree of safety regarding timely payment of financial obligations. Such instruments carry very high credit risk and are susceptible to default.

D - Instruments with this rating are in default or expected to be in default on maturity.

Modifier {"+" (plus)} can be used with the rating symbols for the categories A1 to A4. The modifier reflects the comparative standing within the category.



ANNEXURE 3

Rating Symbols and Definitions for Long Term Structured Finance Instruments

Long term structured finance instruments: The instruments with original maturity exceeding one year

Rating symbols should have CRA's first name as prefix

AAA (SO) - Instruments with this rating are considered to have the highest degree of safety regarding timely servicing of financial obligations. Such instruments carry lowest credit risk.

AA (SO) - Instruments with this rating are considered to have high degree of safety regarding timely servicing of financial obligations. Such instruments carry very low credit risk.

A (SO) - Instruments with this rating are considered to have adequate degree of safety regarding timely servicing of financial obligations. Such instruments carry low credit risk.

BBB (SO) - Instruments with this rating are considered to have moderate degree of safety regarding timely servicing of financial obligations. Such instruments carry moderate credit risk.

BB(SO) - Instruments with this rating are considered to have moderate risk of default regarding timely servicing of financial obligations.

B(SO) - Instruments with this rating are considered to have high risk of default regarding timely servicing of financial obligations.

C (SO) - Instruments with this rating are considered to have very high likelihood of default regarding timely payment of financial obligations.

D (SO) - Instruments with this rating are in default or are expected to be in default soon.

Modifiers {"+" (plus) / "-"(minus)} can be used with the rating symbols for the categories AA(SO) to C(SO). The modifiers reflect the comparative standing within the category.



ANNEXURE 4

Rating Symbols and Definitions for Short Term Structured Finance Instruments

Short term structured finance instruments: The instruments with original maturity of upto one year

Rating symbols should have CRA's first name as prefix

A1 (SO) – Instruments with this rating are considered to have very strong degree of safety regarding timely payment of financial obligation. Such instruments carry lowest credit risk.

A2 (SO) - Instruments with this rating are considered to have strong degree of safety regarding timely payment of financial obligation. Such instruments carry low credit risk.

A3 (SO) - Instruments with this rating are considered to have moderate degree of safety regarding timely payment of financial obligation. Such instruments carry higher credit risk as compared to instruments rated in the two higher categories.

A4 (SO) - Instruments with this rating are considered to have minimal degree of safety regarding timely payment of financial obligation. Such instruments carry very high credit risk and are susceptible to default.

D (SO) - Instruments with this rating are in default or expected to be in default on maturity.

Modifier {"+" (plus)} can be used with the rating symbols for the categories A1(SO) to A4(SO). The modifier reflects the comparative standing within the category.



ANNEXURE 5

Rating Symbols and Definitions for Long Term Debt Mutual Fund Schemes

Long term debt mutual fund schemes: The debt mutual fund schemes that have an original maturity exceeding one year.

Rating symbols should have CRA's first name as prefix

AAAmfs – Schemes with this rating are considered to have the highest degree of safety regarding timely receipt of payments from the investments that they have made.

AAmfs – Schemes with this rating are considered to have the high degree of safety regarding timely receipt of payments from the investments that they have made.

Amfs – Schemes with this rating are considered to have the adequate degree of safety regarding timely receipt of payments from the investments that they have made.

BBBmfs - Schemes with this rating are considered to have the moderate degree of safety regarding timely receipt of payments from the investments that they have made.

BBmfs - Schemes with this rating are considered to have moderate risk of default regarding timely receipt of payments from the investments that they have made.

Bmfs - Schemes with this rating are considered to have high risk of default regarding timely receipt of payments from the investments that they have made.

Cmfs - Schemes with this rating are considered to have very high risk of default regarding timely receipt of payments from the investments that they have made.

Modifiers {"+" (plus) / "-"(minus)} can be used with the rating symbols for the categories AAmfs to Cmfs. The modifiers reflect the comparative standing within the category.



ANNEXURE 6

Rating Symbols and Definitions for Short Term Debt Mutual Fund Schemes

Short term debt mutual fund schemes: The debt mutual fund schemes that have an original maturity of upto one year.

Rating symbols should have CRA's first name as prefix

A1mfs - Schemes with this rating are considered to have very strong degree of safety regarding timely receipt of payments from the investments that they have made.

A2mfs - Schemes with this rating are considered to have strong degree of safety regarding timely receipt of payments from the investments that they have made.

A3mfs - Schemes with this rating are considered to have moderate degree of safety regarding timely receipt of payments from the investments that they have made.

A4mfs - Schemes with this rating are considered to have minimal degree of safety regarding timely receipt of payments from the investments that they have made.

Modifier {"+" (plus)} can be used with the rating symbols for the categories A1mfs to A4mfs. The modifier reflects the comparative standing within the category.



2.2 Operations Manual/ Internal governing document⁹

- 2.2.1. The Operations Manual/ Internal governing document, formulated by the CRA, shall, inter-alia, cover operating guidelines, criteria, policies and procedures related to the rating process.
- 2.2.2. The contents of the Operations Manual/ Internal governing document, as well as any changes to the same, shall be communicated to employees promptly, and training of employees on the same shall be conducted at regular intervals.
- 2.2.3. The following shall be specified in the Operations Manual/ Internal governing document of CRAs:
- a. Basic Minimum information required for conducting the Rating Exercise
 - b. External entities (bankers, auditors etc.) that need to be contacted
 - c. Mode of seeking information from external entities. CRAs should endeavour to obtain such information/confirmation in writing.
 - d. Policy regarding internal approvals and timelines at each step of the Rating Exercise
 - e. Policy regarding monitoring and review of ratings, including the timelines within which such review is to be completed
- 2.2.4. **Rating Criteria:** At the least, the following rating criteria shall be formulated by each CRA and should be reviewed periodically:

Criteria on:

- a. Default recognition and post-default curing period (Instrument-wise definition of default to be followed by all CRAs is provided in the **Annexure**)
 - b. Financial ratios (Explaining how a CRA analyses various financial ratios including adjustments made to financial statements for the interpretation of financial ratios)
 - c. Consolidation of companies
 - d. Parent support/group/government support
 - e. Manufacturing, trading companies, and services sector
 - f. Banks and financial institutions
 - g. Securitization transactions
 - h. Public finance
 - i. Infrastructure ratings
- 2.2.5. **Rating Process and Policies:** Each CRA shall frame detailed guidelines on the following:
- a. General nature of compensation arrangements with rated entities
 - b. Policy for appeal by Issuer against the rating being assigned to its instruments
 - c. Policy for placing ratings on credit watch
 - d. Guidelines on what constitutes non-cooperation.
 - e. Gift policy

⁹ Circular No. SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dated November 1, 2016



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Securities and Exchange Board of India

- f. Confidentiality policy
- g. Policy on outsourcing of activities
- h. Policy on provisional ratings
- i. FAQs on ratings
- j. Disclosure on managing conflict of interest



Annexure: Instrument-wise definition of default

Facilities	Rating Scale	Proposed Definition of Default
<i>Fund-based facilities & Facilities with pre-defined repayment schedule</i>		
Term Loan	Long Term	A delay of 1 day even of 1 rupee (of principal or interest) from the scheduled repayment date.
Working Capital Term Loan		
Working Capital Demand Loan (WC DL)		
Debentures/Bonds		
Certificate of Deposits (CD)/ Fixed Deposits (FD)	Short Term/ Long term	Overdue/unpaid for more than 30 days.
Commercial Paper	Short term	
Packing Credit (pre-shipment credit)	Short Term	
Buyer's Credit	Short Term	Continuously overdrawn for more than 30 days.
Bill Purchase/Bill discounting/Foreign bill discounting /Negotiation (BP/BD/ FBP/ FBDN)	Short Term	Overdue/unpaid for more than 30 days.
<i>Fund-based facilities & No Pre - Defined Repayment Schedule</i>		
Cash Credit	Long Term	Continuously overdrawn for more than 30 days.
Overdraft	Short Term	Continuously overdrawn for more than 30 days.
<i>Non fund-based facilities</i>		
Letter of credit (LC)	Short Term	Overdue for more than 30 days from the day of devolvement.
Bank Guarantee (BG)(Performance/ Financial)	Short Term	Amount remaining unpaid from 30 days from invocation of the facility.
<i>Other Scenarios</i>		
When rated instrument is rescheduled:		Non-servicing of the debt (principal as well as interest) as per the existing repayment terms in anticipation of a favourable response from the banks of accepting their restructuring application/ proposal shall be considered as a default. Rescheduling of the debt instrument by the lenders prior to the due date of payment will not be treated as default, unless the same is done to avoid default or bankruptcy.
Curing Period		90 Days – for Default to Speculative Grade and generally 365 Days for Default to Investment Grade.

**For bank loan ratings, default recognition will need to be in line with the RBI guidance.*



2.2.6. Accountability of Rating Analysts of CRAs:

- a. Roles and responsibilities of the rating analysts of CRAs shall be clearly laid out in the CRA's Operations Manual/ Internal governing document.
- b. Analysts shall be responsible for undertaking the rating process and adhering to the timelines as specified in the Operations Manual/ Internal governing document.

2.2.7. Functioning and Evaluation of Rating Committees/Sub-Committees

- a. Each CRA shall define the obligations, responsibilities, areas of conflict of interest, etc. of rating committee members in its Operations Manual/ Internal governing document. The following shall be specifically set out in the Operations Manual/ Internal governing document of each CRA and disclosed on its website
 - i. Eligibility for becoming committee/sub-committee members
 - ii. Composition of committee/sub-committee
 - iii. Minimum quorum required
 - iv. Duties of committee members
 - v. System of voting and recording of dissent.
 - vi. Managing conflict of interest in the rating committee/sub-committee.
- b. Persons who have business responsibility shall not be part of the Rating Committee. However, the MD/ CEO may be a member of the Rating Committee if the majority of the Rating Committee members are independent. ("*Independent*" would mean people not having any pecuniary relationship with the CRA or any of its employees).
- c. Minutes of each case discussed at the committee shall be maintained and signed (digitally or manually) by the Chairperson. Standard format for the Minutes of Rating Committee Meeting is placed at the **Annexure** below.
- d. The process of discussion of case by circulation must be avoided, unless there is urgency in taking a rating action.
- e. Chairperson(s) of each rating committee/sub-committee of the CRA shall, on an annual basis, undertake a review of the decisions taken by the Committees in that year, which would, inter alia, include:
 - i. Ratings assigned by the rating committees/ sub-committees including ratings assigned based on best available information in cases of non-cooperation by the issuer.
 - ii. Sharp changes in ratings.

The review report thereof shall be placed before the Board of the CRA.



Annexure: Summary Record of the Rating Committee Meeting (RCM)

A. Preliminary Information

- Date of the RCM
- Names of all the persons attending the RCM
- Names of rating committee members present (only rating committee members will have voting rights)
- Name of the chairperson of the meeting
- Any other special invitees (if any)

B. Information Relating to Rating Decision

Following information/details of each rating decision shall be captured:

- Name of the rated issuer/entity
- Rating exercise i.e. whether it is a fresh rating or review/ surveillance case
- Rating outcome i.e. rating assigned, along with rating outlook and special rating symbol, if any
- Summary of key issues discussed during the RCM
- Dissent (if any) by any RCM member

C. Authentication and Maintenance of Rating Committee Summary

- The summary of the RCM shall be approved/ signed by the Chairperson, either manually or digitally.
- The approved/ signed summary shall be maintained either manually or electronically.



2.3 Rating Process¹⁰

- 2.3.1. A CRA shall keep the following records in support of each credit rating and review/ surveillance thereof:
- The important factors underlying the credit rating and sensitivity of such credit rating to changes in these factors,
 - Summary of discussions with the issuer, its management, auditors and bankers which have a bearing on the credit rating,
 - Decisions of the rating committee(s), including voting details and notes of dissent, if any, by any member of the rating committee, and
 - If a quantitative model is a substantial component of the credit rating process, the rationale for any material difference between the credit rating implied by the model and the credit rating actually assigned.
 - These records should be maintained till five years after maturity of instruments and be made available to auditors and regulatory bodies when sought by them.
- 2.3.2. The CRAs shall at all times observe high standards and fairness in conduct of the business and any act of omission or commission in contravention of the provisions of clauses 12 and/or 23 of Code of Conduct, as specified under Third Schedule of the SEBI (Credit Rating Agencies) Regulations, 1999, in letter or spirit, may result in violation of the provisions of section 12A of the Securities and Exchange Board of India Act, 1992 and SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003.¹¹

2.4 Monitoring and Review of Ratings¹²

2.4.1. Monitoring of repayment schedules:

- CRAs have to be proactive in early detection of defaults/ delays in making payments. In this regard, CRAs are required to track the servicing of debt obligations for each instrument rated by them, ISIN-wise, and look for potential deterioration in financials which might lead to defaults/ delays, particularly before/ around the due date(s) for servicing of debt obligations, on the basis of monitoring of indicators including, but not restricted to, the following:
 - Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) not being sufficient to meet even the interest payments for last 3 years
 - Deterioration in liquidity conditions of the Issuer
 - Abnormal increase in borrowing cost of the Issuer
 - Any other information indicating deterioration in credit quality/ debt servicing capability of the Issuer.

¹⁰ Circular No. CIR/MIRSD/CRA/6/2010 dated May 3, 2010

¹¹ Circular No. SEBI/ HO/ MIRSD/ MIRSD4/ CIR/ P/ 2016/ 119 dated November 1, 2016

¹² Circular No. SEBI/ HO/ MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dated June 30, 2017



- b. The CRA shall also monitor the Exchange website for disclosures made by the Issuer in this regard.

2.4.2. Material Events requiring a review:

- a. CRAs shall carry out a review of the ratings upon the occurrence of or announcement/ news of material events including, but not restricted to, the following:
- i. Quarterly/ Half-yearly/ Annual results
 - ii. Merger/ Demerger/ Amalgamation/ Acquisition
 - iii. Corporate debt restructuring, reference to BIFR and winding-up petition filed by any party /creditors.
 - iv. Significant decline in share prices/bond prices of the issuer or group companies which is not linked to overall market movement
 - v. Significant increase in debt level or cost of debt of the issuer company
 - vi. Losses, sharp revenue de-growth etc. based on publicly disclosed financial statements, which are not in line with CRA's earlier estimates
 - vii. Granting, withdrawal, surrender, cancellation or suspension of key licenses or regulatory approvals.
 - viii. Disruption/ commencement/ postponement of operations of any unit or division of the listed entity.
 - ix. Any attachment or prohibitory orders against the Issuer
 - x. Any rating action taken by an International Rating Agency with respect to rating assigned to the Issuer/ Instruments issued by the Issuer.

2.4.3. 'No Default Statement' to be sought from the Issuer on a monthly basis:

- a. In order to enable timely recognition of default by the CRA, the CRA shall seek a '*No Default Statement (NDS)*' from the Issuer at the end of each month, which shall be provided to the CRA by the Issuer on the first working day of the next month.
- b. The NDS shall require the Issuer to explicitly confirm to the CRA that it has not delayed on any payment of interest/ principal in the previous month.
- c. A standardized format of the NDS is provided as Annexure.



**Annexure: Standard Template for No Default Statement (Minimum Information
be sought)**

To

<CRA Name and Address>

Dear Sir/ Madam,

1. We hereby Confirm that as on date there are no Over dues or default on our debt obligations
2. We also confirm that in the month ended <Month and Year name>, there has been no instance of delay in servicing of our debt obligations.
3. We also confirm that there has not been any instance of devolvement of Letter of Credit in the month ended <Month and Year name>.
4. We also confirm that in the month ended <Month and Year name>, there has been no instance of delay in servicing of debt obligations guaranteed by us.
5. We also confirm that there has been no overdraft of the drawing power sanctioned by the bank for a period of more than 30 consecutive days in case of bank facilities which do not have scheduled maturity/repayment dates.
6. Details of delay/ default/ rescheduling of interest or principal as on date/ in the month ended <Month and Year name>, in any of the above case (if any) :

Name of the Instrument	ISIN	Amount to be paid	Due Date of Payment	Actual Date of Payment	Remarks

Thanking You,

Yours faithfully,

<Authorized Signatory of Issuer>



2.5 Standardization of Press Release for Rating Actions¹³

- 2.5.1. CRAs are mandated to issue a Press Release after assigning a rating. With a view to harmonizing the format of the Press Release, it has been decided that all CRAs shall follow a standardised template, which is attached as **Annexure**. It may be noted that this template specifies the minimum information that must be covered in the Press Release. CRAs can include additional information, while maintaining the basic format of the Press Release.
- 2.5.2. While the Press release for the initial rating of bonds, debentures, etc. shall disclose information about the rated amount of the instrument, the subsequent Press Releases shall also disclose additional details of the rated instrument, viz. coupon, maturity date, etc.
- 2.5.3. Each CRA shall assign a rating Outlook and disclose the same in the Press Release.
- 2.5.4. Rating Outlooks may not be assigned for:¹⁴
- Short term ratings
 - Ratings in the 'C' and 'D' categories
 - Ratings on watch
 - Ratings of securitization transactions backed by pool of loans, as CRAs are already mandated to disclose at least once in every six months the performance of the rated pool, as per the provision at paragraph 3.2.1.4.
 - Credit quality ratings of mutual fund schemes, provided surveillance of the fund's holdings is carried out by the CRAs on a monthly basis.
- 2.5.5. Press Release related to review of rating shall also carry the rating transition/ history of all instruments of that issuer, rated by the CRA in the past 3 years, irrespective of whether the instrument is currently outstanding or not.

¹³ Circular No. SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dated November 1, 2016

¹⁴ Circular No. SEBI/HO/MIRSD/MIRSD4/CIR/P/2017/28 dated March 31, 2017



Annexure: Standard Template for Press Release (Minimum Information be disclosed)

Name of the Company

Date of Press Release

Details of Instrument(s)

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue	Rating assigned, along with Rating Outlook

Rating action (assigned/ upgraded/ downgraded) for the instrument.

Detailed Rationale justifying the Rating Action/ rating assigned.

List of key rating drivers for the Rating Action i.e. factors justifying favourable assessment (strengths) and factors constituting risk (weakness).

Detailed description of key rating drivers highlighted above.

Analytical approach (wherever applicable) taken by the CRA to assign the rating.

Hyperlink/ reference to the applicable "Criteria" for rating the instrument.

About the Company: Factual details of the company along with the major financial information for the last and current financial year. This shall include key financial indicators and ratios for the Issuer for the last and current financial year, in tabular form, as well as any other significant information relevant to the Issuer and its Sector.¹⁵

Status of non-cooperation with previous CRA (if applicable): Reason and comments on status of non-co-operation with the previous CRA (if applicable).

Any other information:

Rating History for last three years:

S.No	Name of Instrument (NCD/ Bank Loan/ Non-Fund based facilities/ Commercial Paper etc.)	Current Rating (Year T)			Chronology of Rating History for the past 3 years (Rating Assigned and Press Release Date) along with Outlook/ Watch, if applicable		
		Type (long term/ Short term)	Amount Outstanding (₹ Crores)	Rating	Date(s) & Rating(s) assigned in Year T-1	Date(s) & Rating(s) assigned in Year T-2	Date(s) & Rating(s) assigned in Year T-3
1							
2							

¹⁵ Circular No. SEBI/ HO/ MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dated June 30, 2017



Note on complexity levels of the rated instrument:

Name and Contact Details of the Rating Analyst(s):

About CRA:

CRA Disclaimer:

Note: Considering the nature of instruments, following details may not be provided under the head "Details of Instrument(s)": ¹⁶

- i. Interest rate/ coupon rate for all types of bank loan facilities.
- ii. Maturity details for working capital facilities (including cash credit facilities).
- iii. Tranche-wise interest rate and maturity details for money market instruments such as Commercial Papers, Certificate of Deposit and short-term NCDs which are reissued frequently. However, the range of duration of these instruments (e.g. 7 - 90 days) shall be provided in the press release.

¹⁶ Circular No. SEBI/HO/MIRSD/MIRSD4/CIR/P/2017/28 dated March 31, 2017



2.6 Rating Agreement between the Issuer and the CRA¹⁷

2.6.1. Rating Agreement to be signed between Issuer and CRA prior to commencement of rating exercise:

2.6.1.1. Regulation 14 of SEBI (CRA) Regulations, 1999 requires CRAs to enter into a written agreement with each client whose securities it proposes to rate.

2.6.1.2. In this regard, it has come to the notice that in some instances, CRAs have provided indicative ratings to Issuers without entering into a written agreement with such Issuers and have thereafter not disclosed such ratings on their websites.

2.6.1.3. CRAs are advised to refrain from giving Indicative Ratings without having a written agreement in place. In case such Indicative Ratings are provided by the CRA, it shall be considered as aiding and abetting the Issuer in suppression of material information by the CRA which would be in contravention of Clause 12 of Code of Conduct of CRAs and may result in violation of the provisions of section 12A of the Securities and Exchange Board of India Act, 1992 and SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 by the CRA.

2.6.2. Strengthening of Rating Agreement:

2.6.2.1. The Rating Agreement, signed between the CRA and its client (issuer/borrower), shall have an additional clause stating that - ¹⁸

"The client (issuer/ borrower) agrees to disclose the history and status (non-cooperation, non-payment of fees etc.) of previous rating relation with the earlier CRA(s) to the new CRA along with reasons for non-cooperation, etc. if applicable."

2.6.2.2. In order to ensure cooperation from the Issuer, as required under Regulation 14(d) of SEBI (CRA) Regulations, 1999, the following enabling clauses maybe built in the Rating Agreement:

a. *"The client (issuer/ borrower) agrees to provide the information sought by the CRA immediately, but not later than 7 days from the date of seeking such information by the CRA."*

In cases of delay/ default in servicing debt obligations, the information shall be provided immediately. Failure to provide the same immediately shall be considered as suppression of material information and may result in violation of the provisions of section 12A of the Securities and Exchange Board of India Act, 1992 and SEBI (Prohibition of Fraudulent

¹⁷ Circular No. SEBI/ HO/ MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dated June 30, 2017

¹⁸ Circular No. SEBI/ HO/ MIRSD/ MIRSD4/ CIR/ P/ 2016/ 119 dated November 1, 2016



and Unfair Trade Practices relating to Securities Market) Regulations, 2003”

- b. "The client (issuer/ borrower) agrees to inform the CRA details about the instrument in the format below immediately, but not later than 7 days from the date of placing the debt security. For instruments already listed, the information will be provided at the time of signing the agreement."

Instrument type	ISIN	Issue Size (₹ cr)	Coupon Rate	Coupon Payment Dates	Terms of Redemption	Redemption date	Name and contact details of Debenture Trustee	Details of top 10 investors

- c. "The client (Issuer/ borrower) undertakes to provide the CRA a No Default Statement on a monthly basis wherein the Issuer shall explicitly confirm that it has not delayed on any payment of interest/ principal in the previous month. Such statement shall be provided to the CRA on the first working day of the next month."

2.7 Dealing with Conflict of interest¹⁹

2.7.1. A CRA shall formulate the policies and internal codes for dealing with the conflict of interest.

2.7.2. A CRA shall ensure:

- that its analysts do not participate in any kind of marketing and business development including negotiations of fees with the issuer whose securities are being rated,
- that the employees' involved in the credit rating process and their dependants do not have ownership of the shares of the issuer.
- prompt review of the credit ratings of the securities as and when any of its employees joins the respective issuer.

2.7.3. While undertaking rating of structured finance products, apart from following all the applicable requirements in case of non-structured ratings, the following additional requirements shall also be complied with

- A CRA or its subsidiaries shall not provide consultancy or advisory services regarding the design of structured finance instrument.

¹⁹ Circular No. CIR/MIRSD/CRA/6/2010 dated May 3, 2010



2.7.4. Guidelines for dealing with Conflict of Interest for investment/ trading by CRAs, Access Persons and other employees²⁰

- a. These Guidelines shall be applicable in case of investment / trading by CRAs and Access Persons connected to CRAs and in case of disclosures to all employees of CRAs.

Explanation: "Access Persons" means officials of CRA appointed as Chief Executive or by any other designation (such as CEO/MD/President or by whatever name called who are performing functions similar to those of the Chief Executive), the employees of CRA doing the function of analyst, or compliance, or heads of the departments or divisions or any other employee as decided by CRA and the members of the Rating Committee of the CRA.

- b. These guidelines shall cover transactions for purchase or sale of securities either individually or jointly or in the name of their dependents or as a member of HUF.

- c. With a view to adopting best industry practices and systems by CRAs for managing conflict of interest in case of investment/ trading in securities (except schemes of Mutual Funds) done by CRAs or their Access Persons as defined hereunder, the following guidelines, framed in consultation with CRAs are laid down:

- i. CRAs shall adopt adequate systems, procedures and policies to ensure that they address conflict of interest while making their own investments in securities.

- ii. b. The CRAs, their employees and Access Persons shall not take undue advantage of any price sensitive information that they may have about any company.

iii. Access Persons to seek prior approval for transactions:

- An Access Person shall apply to the Compliance Officer for prior approval of transactions for purchase or sale of securities of the companies which have been rated or graded by the CRA or whose securities / instruments / facilities have been rated or graded by the CRA.
- The Compliance Officer of the CRA shall apply to the Chief Executive of the CRA for such prior approval.
- The CEO/Compliance Officer shall ensure that there is no conflict of interest while considering the request for prior approval.
- Such approvals, if granted, shall be valid for 7 working days from the date of approval.

iv. Disclosures:

- Any person, who becomes an employee of the CRA, shall submit a statement of holding of all securities in respect of persons mentioned at 2.7.4 (b) above to the Compliance officer or Chief

²⁰ Circular No. CIR/MIRSD/6/2013 dated August 28, 2013



Executive, as the case may be, within 7 working days of joining CRA.

- All employees of CRA including the Access Persons shall submit the following details to the CEO/Compliance Officer, as the case may be:
 - Details of purchase or sale transactions effected within 7 working days from the date of transaction.
 - A consolidated statement of holding of all securities within 30 working days from the end of the Financial Year.
- The members of the Rating Committee shall upfront declare / disclose their interest, if any, to the Chief Executive Officer or Compliance Officer, as per the policy of the CRA, in the securities /instruments/ facilities that are considered for rating / grading by the CRA.

- v. **Restrictions on employees holding ownership of securities of the issuer:** A CRA shall ensure that employees involved in the rating / grading process shall not have ownership of the securities of the issuer.

2.8 Unsolicited Credit Ratings²¹

- 2.8.1. In case of unsolicited credit ratings, i.e. the credit ratings not arising out of the agreement between a CRA and the issuer, credit rating symbol shall be accompanied by the word “UNSOLICITED” in the same font size.
- 2.8.2. A CRA shall monitor and disclose credit rating during the life of the rated securities, as if it were a solicited rating.

2.9 Policy in respect of non-co-operation by the issuer ²²

- 2.9.1. In case of non-cooperation by the issuer (such as not providing information required for rating, non-payment of fees for conducting surveillance), in line with the existing Regulations, the CRA shall continue to review the instrument, on an ongoing basis throughout the instrument's lifetime, on the basis of best available information, in accordance with the rating process and policies set forth in its Operations Manual/ Internal governing document.
- 2.9.2. In such cases the credit rating symbol shall be accompanied by the suffix “**ISSUER NOT COOPERATING***” in the same font size. The suffix shall be explained below and shall read as ‘Issuer did not cooperate; based on best available information’.²³
- 2.9.3. The rating action(s) in such cases shall be promptly disclosed through press release(s), which shall mention, at least, the following:

²¹ Circular No. CIR/ MIRSD/ CRA/ 6/ 2010 dated May 3, 2010

²² Circular No. SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dated November 1, 2016

²³ Circular No. SEBI/HO/MIRSD/MIRSD4/CIR/P/2017/28 dated March 31, 2017



- a. Date of Press Release
- b. Details of Instrument
- c. Rating Action and Indicative/updated rating based on best available information
- d. A brief write-up on the non-co-operation by the Issuer/ Borrower and the consistent follow-up done by the CRA for getting the information.
- e. Hyperlink/ reference to the applicable "Criteria"
- f. Limitations regarding information availability (shall have a suitable caveat cautioning the investors/lenders /public)
- g. Rating History for last three years
- h. Name and contact details of the Rating Analyst(s)

2.9.4. In case an issuer, having not co-operated with a CRA in the past, approaches another CRA for rating, the new CRA shall, in its Press Release, disclose the aspect of non-co-operation.

2.10 Withdrawal of ratings²⁴

2.10.1. Bank loans/ facilities generally being non-transferable in nature and their only user being banks, withdrawal of ratings is permitted. All norms/ standards prescribed in this regard at paragraph 2.12 shall continue to apply.

2.10.2. Open ended Mutual Fund schemes being perpetual in nature and having no specified maturity, withdrawal of rating of such schemes is permitted. However, as units of such schemes are held by many investors, such ratings shall be placed on notice of withdrawal for at least 30 days, which shall be publicly available on the CRA's website.

2.10.3. Ratings of the aforementioned facilities/ securities can be withdrawn after receiving request for withdrawal from the Asset Management Company (AMC) in case of mutual funds; or request for withdrawal from the Borrower along with No Objection from the lending bank(s) in case of Bank facilities.

2.10.4. At the time of withdrawal, the CRA shall assign a rating to such facility/ security and issue a press release as per the format prescribed at the Annexure to paragraph 2.5. The Press Release shall also mention the reason(s) for withdrawal.

2.11 Sharing of information regarding issuer companies between Debenture Trustees and Credit Rating Agencies²⁵

2.11.1. SEBI (Debenture Trustee) Regulations, 1993 require the Debenture Trustees (DTs) to share information regarding the issuer companies that are their clients, with Credit Rating Agencies (CRAs). The purpose of the Regulations is to enable CRAs to perform their obligations effectively.

²⁴ Circular No. SEBI/HO/MIRSD/MIRSD4/CIR/P/2017/28 dated March 31, 2017

²⁵ Circular No. CIR/MIRSD/3/2013 dated March 15, 2013

- 2.11.2. DTs have also expressed the need to receive relevant information on issuer companies from CRAs.
- 2.11.3. In consultation with DTs and CRAs, it has been decided that registered DTs and CRAs shall share information with each other as specified in the Annexure. DTs and CRAs may share any other information from time to time in respect of issues/issuer companies which would help them in effective discharge of their duties.
- 2.11.4. Further, the DTs and CRAs shall assign designated email addresses for sending and receiving such information and ensure appropriate action, if any, based on the information received.



ANNEXURE: Sharing of information between Debenture Trustees (DTs) and Credit Rating Agencies (CRAs)

A. Information from CRAs to DTs

- i. Rating assigned/revised for debt securities along with the rationale for the same.
- ii. Press release, outstanding ratings etc. in respect of debt securities.
- iii. Non-cooperation by the issuers with respect to sharing necessary information for monitoring the credit quality of the rated instrument with CRAs.
- iv. Press release and separate communication to DT on withdrawal of rating post redemption of entire amount due towards debenture-holders.
- v. Default of any type committed by the issuer.

B. Information from DTs to CRAs

- i. Whether the asset in respect of which security has been created is free from any encumbrance and adequate to ensure asset cover for the debentures or if there is any breach of the terms of creation of the security. This information shall be shared on half yearly basis.
- ii. Funds transferred to Debenture Redemption Reserve (DRR), depletion of the DRR/invocation of guarantee which could affect the payment of debenture obligations. This information shall be shared annually.
- iii. Details of redemption of the issue.
- iv. Any default committed including the default in payment of interest or redemption of debentures or delay in creation of security.
- v. Any change or restructuring of the terms of the issue.
- vi. Periodic reports from lead banks about the progress of the project for which funds have been raised through debentures and certificate from issuer's auditors in respect of utilization of funds.
- vii. Details of grievances filed by debenture-holders and action taken to resolve them.
- viii. Non-cooperation by the issuer with respect to furnishing required reports/ certificates/ information.

Information pertaining to points iii. to viii. above shall be shared as and when available.



2.12 Rating of instruments other than “securities”²⁶

- 2.12.1. According to SEBI (Credit Rating Agencies) Regulations, 1999, CRA has been defined as a body corporate which is engaged in the business of rating of securities offered by way of public or rights issues. The term “securities” has been defined in Clause (h) of section 2 of the Securities Contracts (Regulation) Act, 1956.
- 2.12.2. However it is observed that the CRAs registered with SEBI also carry out rating of other securities / instruments and loans / facilities provided by banks which are not regulated by SEBI. Such ratings are being used by the other regulators or their regulated entities for the specified purposes.
- 2.12.3. Therefore, it is desirable that in addition to the review/accreditation process put in place by these regulators, if any, such ratings should also be governed by the same stringent norms as applicable for rating of securities issued by way of public and rights issues.
- 2.12.4. In view of the above, it has been decided in consultation with the CRAs and also with other regulators that for the above mentioned ratings, CRAs shall follow the applicable requirements pertaining to rating process and methodology and its records, transparency and disclosures, avoidance of conflict of interest, code of conduct, etc. as prescribed in the Regulations and circulars issued by SEBI from time to time.
- 2.12.5. The half-yearly internal audit for the CRAs as prescribed by SEBI shall also cover the above mentioned ratings.

²⁶ Circular No. CIR/MIRSD/3/2012 dated March 01, 2012



SECTION 3: REPORTING AND DISCLOSURES

3.1 Default Studies²⁷

3.1.1. Default studies are central to evaluating the performance of a credit rating agency and whether its ratings can predict default over a period of time. In order to promote transparency and to enable the market to best judge the performance of the ratings, the CRA, should publish information about the historical default rates of CRA rating categories and whether the default rates of these categories have changed over time, so that the public 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.

3.1.2. The default rates shall be calculated in the following manner:

- a. One Year Default Rate is the weighted average of default rates of all possible 1 year static pools in the 5-year period.
- b. Cumulative Default Rate: The cumulative default rate (CDR) represents the likelihood of an entity that was rated at the beginning of any multi-year period defaulting at any time during the multi-year period. Three-year cumulative default rate shall be computed as:

Three-year CDR for rating category X = No. of issuers which defaulted over the three-year period / No. of issuers outstanding at the beginning of the three-year period.

3.1.3. For the above purposes, the following terms shall have the meaning as under:

- a. Static Pool Non-defaulted ratings that were outstanding at the beginning of any period.
- b. Default: Non-payment of interest or principal amount in full on the pre-agreed date. A CRA shall recognize default at the first instance of delay in servicing of interest or principal on the rated debt instrument.
- c. Default Rate: The number of defaults among rated entities in the static pool as a percentage of the total number of entities in the static pool.
- d. Averaging: All averaging across static pools for default rate computations must be based on the weighted average method where the weights are the number of ratings in each static period.

3.2 Periodic Disclosures

3.2.1. A CRA shall make all the disclosures stipulated below on their websites. In case of listed securities, the CRA shall also make disclosures to the stock exchanges as specified in the SEBI (Credit Ratings) Regulations, 1999. For ratings assigned

²⁷ Circular No. CIR/MIRSD/CRA/6/2010 dated May 3, 2010



and their periodic reviews, the CRA shall issue press releases which shall also be kept on their websites. Where a specific format has been prescribed, the disclosures shall be made in that format.

3.2.1.1. Rating Procedure: A CRA shall formulate and disclose its policies, methodology and procedures in detail regarding solicited and unsolicited credit ratings.

3.2.1.2. Credit Rating History and Defaults : A CRA shall disclose in the formats specified below:

- a. Details of new credit ratings assigned during last six-months (Annexure I),
- b. Movement of credit rating of all outstanding securities during the last six-months:
 - i. Movement of each credit rating (Annexure II),
 - ii. Movement of each credit rating from investment grade to noninvestment grade and vice versa (Annexure III) and
 - iii. Movement of each credit rating that has moved by more than one notch (Annexure IV).
- c. The history of credit rating of all outstanding securities (Annexure V),
- d. On annual basis, the list of defaults separately for each rating category (e.g. AAA, AA, A, BBB, BB, B, C) (Annexure VI). This shall include the initial credit rating assigned by the CRA, month and year of initial rating, month and year of default, last credit rating assigned by the CRA before the issuer defaulted, comments of CRAs, if any.
- e. On annual basis, the average one-year and three-year cumulative default rates (based on weighted average), for the last 5 years, separately for each following category:
 - i. each credit rating category (e.g. AAA, AA, A, BBB, BB, B, C), separately (Annexure VII),;
 - ii. structured instruments and non-structured instruments, separately (Annexure VII),

3.2.1.3. Income

- a. A CRA shall disclose the general nature of its compensation arrangements with the issuers.
- b. A CRA shall disclose, in case of accepted ratings, its conflict of interest, if any, including the details of relationship – commercial or otherwise – between the issuer whose securities are being rated / any of its associate of such issuer and the CRA or its subsidiaries.
- c. A CRA shall disclose annually



- i. its total receipt from rating services and non-rating services,
- ii. issuer wise percentage share of non-rating income of the CRA and its subsidiary to the total revenue of the CRA and its subsidiary from that issuer, and
- iii. names of the rated issuers who along with their associates contribute 10% or more of total revenue of the CRA and its subsidiaries.

3.2.1.4. Structured Finance Products

- a. While publishing the ratings of structured finance products and their movements, a CRA apart from following all the applicable requirements in case of non-structured ratings shall also disclose the track record of the originator and details of nature of underlying assets while assigning the credit rating. The track record shall include a brief description of the financials of the originator, rating migrations to speculative categories and defaults.
- b. A CRA shall also disclose at least once in every six months, the performance of the rated pool, i.e., collection efficiency, delinquencies. A CRA shall also provide a detailed description of the underlying pools including ageing, Credit enhancements such as liquidity supports, first and second loss guarantee provided shall also be disclosed.

3.2.1.5. Unsolicited Credit Ratings

- a. While publishing unsolicited ratings and their movements, a CRA apart from following all the applicable requirements in case of solicited ratings shall make the following disclosures:
 - i. the extent of participation by the issuer, its management, bankers and auditors in the credit rating process.
 - ii. the information used and its source in arriving at and reviewing the credit rating.
- b. A CRA shall disclose annually
 - i. all the unsolicited ratings carried out in the last three financial years (Annexure VIII);
 - ii. names of issuers, out of those mentioned in (i) above, which were given solicited rating in the last financial year (Annexure VIII).

3.2.1.6. Shareholding - A CRA shall disclose its shareholding pattern as prescribed by stock exchanges for a listed company under clause 35 of Listing Agreement.

3.2.1.7. Compliance Status of IOSCO Code of Conduct - A CRA shall disclose the compliance status of each provision of IOSCO code of conduct.

3.2.2. The half-yearly disclosures stipulated above shall be made by the CRAs within 15 days from the end of the half-year (March / September). The yearly

disclosures stipulated above shall be made by the CRAs within 30 days from the end of the financial year.

- 3.2.3.** A CRA can make additional disclosures other than those stipulated above with the prior approval of its Board.

3.3 Continuous Disclosures and Reporting²⁸

- 3.3.1.** The rating history, Press Releases and Rating Reports, including those ratings which have been withdrawn, shall be available on the CRA's website.
- 3.3.2.** In case no confirmation of servicing of debt obligation by the Issuer is received by the CRA from the Debenture Trustee within 1 day post the due date, the CRA shall immediately follow up with the Issuer for confirmation of payment. In case no response is received from the Issuer within 2 days of such communication, the CRA shall issue a Press Release as enlisted at paragraph 3.3.7.c. and disseminate the same on its website and to all stock exchanges where the security is listed.
- 3.3.3.** The CRA shall also make a reference to SEBI regarding such suppression of information by the issuer/ non-cooperation of Issuer with CRA. Failure to make such reference shall be considered as aiding and abetting the Issuer in suppression of material information by the CRA which would be in contravention of Clause 12 of Code of Conduct of CRAs and may result in violation of the provisions of section 12A of the Securities and Exchange Board of India Act, 1992 and SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 by the CRA.
- 3.3.4.** Upon the occurrence of or announcement/ news of material events, as elaborated at paragraph 2.4.2, CRAs shall publish on their website press release regarding the rating action (including reiteration of existing rating), if warranted, immediately, but not later than 7 days of occurrence of the said event.
- 3.3.5.** In case there have been delays in the payment of interest/ principal by the Issuer, the Issuers shall state the same in this statement and the CRA shall promptly conduct a rating review and disseminate the rating action through Press Release within 2 days of receipt of such statement.

3.3.6. Timelines of review and Press Releases

- a. In order to enable CRAs to disseminate information on ratings promptly through press releases as per requirements of Regulation 15 and 16 of SEBI (CRA) Regulations, following is clarified:

i. Initial Rating:

Scenario	Timelines – immediately but not later than
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²⁸ Circular No. SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dated November 1, 2016 and SEBI/ HO/ MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dated June 30, 2017



Acceptance of Rating/ Appeal for Review of Rating by the Issuer	5 working days of communication of rating by the CRA to the Issuer
Disclosure of rating as non-accepted Rating	In case rating is not accepted by the Issuer within a month of communication of rating by the CRA to the Issuer, the same shall be disclosed as Non-Accepted Rating on the CRA's website
Dissemination of Press Release on CRA's website and intimation of same to Stock Exchange/ Debenture Trustee	2 working days of acceptance of Rating by the Issuer

ii. **Periodic Surveillance:**

Scenario	Timeline - immediately but not later than
Dissemination of Press Release on CRA's website and intimation of same to Stock Exchange/ Debenture Trustee	5 working days of Rating Committee Meeting

iii. **Dissemination of Press Release on CRA's website and intimation of same to Stock Exchange/ Debenture Trustee in case of event based review:**

Scenario	Timeline- immediately but not later than
Intimation from Issuer/ Debenture Trustee/ Bankers of the Issuer regarding delay in servicing debt obligation	2 working days of intimation
Material Events requiring review (as stated in paragraph 2.4.2)	7 working days of occurrence of the event.

3.3.7. Disclosures in case of considerable delay in providing information by the Issuer:

- As per Regulation 18(2) of SEBI (CRA) Regulations, 1999, the CRA, while covering the analysis of the various factors justifying the assessment in press release, shall also disclose the factors constituting a risk.
- Accordingly, it is further clarified that if the issuer does not share information sought by the CRA within 7 days of seeking such information from the Issuer, even after repeated reminders (within these 7 days) from the CRA, the CRA shall take appropriate rating action depending upon the severity of information risk of the issuer.



- c. The Press Release in such cases shall mention the efforts made by the CRA in seeking such information and limitations regarding such information availability.

3.3.8. Disclosures in case of rating not accepted by an issuer

- a. Each CRA shall disclose on its website details of all ratings assigned by them, irrespective of whether the rating is accepted by the issuer or not, even in case of non-public issues. Details disclosed shall include the name of the issuer, name/ type of instrument, size of the issue, rating and outlook assigned, etc.

3.3.9. Disclosures in case of delay in periodic review

- a. Each CRA shall promptly disclose on its website details of all such ratings where the review became due but was not completed by the due date, as per the timelines specified in the CRA's Operations Manual/ Internal governing document. Details disclosed shall include the name of the issuer, name/ type of instrument, size of the issue, date of last review, reasons for delay in periodic review, hyperlink to the last Press Release, etc.

3.3.10. Disclosure of guidelines for dealing with Conflict of Interest:²⁹

- a. The policies adopted by the CRAs for effective implementation of guidelines for dealing with Conflict of Interest for investment/ trading by CRAs, Access Persons and other employees, shall be disclosed on the CRAs' website.

²⁹ SEBI Circular No. CIR/MIRSD/6/2013 dated August 28, 2013



ANNEXURE I to VIII

Annexure I - Details of new credit ratings assigned during last six-months

New Ratings assigned between Apr-Sep / Oct - Mar				
S. No	Name of the Issuer	Instrument Type	Issue Size (₹ million)	Rating

Annexure II–Movement* of Each Credit Rating

Rating Movements between Apr-Sep / Oct - Mar			
S. No	Name of the Issuer	Rating prior to Revision	Rating post Revision

**Will cover only rating changes. Reaffirmations shall be excluded*

Annexure III - Movement of each credit rating from investment grade to non-investment grade and vice versa

Rating Movement from Investment Grade and Non-investment Grade between Apr-Sep / Oct - Mar			
From Investment Grade to Non-investment Grade			
S. No	Name of the Issuer	Rating prior to Revision	Rating post Revision
From Speculative Grade to Investment Grade			
S. No	Name of the Issuer	Rating prior to Revision	Rating post Revision



Annexure IV: Movement of each credit rating that has moved by more than one notch³⁰

Rating Movement by more than one notch between Apr-Sep/ Oct -Mar				
S. No.	Name of the Issuer	Rating post revision	Notch Difference	Date of Rating Change
Rating prior to revision- AAA category				
1.				
2.				
Rating prior to revision- AA category				
1.				
2.				
Rating prior to revision- A category				
1.				
2.				
Rating prior to revision- BBB category				
1.				
2.				
Rating prior to revision- BB category				
1.				
2.				
Rating prior to revision- B category				
1.				
2.				
Rating prior to revision- C category				
1.				
2.				

³⁰ Circular No. SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dated November 1, 2016



Annexure V – History of Credit Rating of all Outstanding Securities

History of Credit Rating of all Outstanding Securities										
S. No	Name of the Issuer	Initial Rating	Date of Initial Rating	Rating after 1 st Revision	Date of 1 st Revision	Rating after 2 nd Revision	Date of 2 nd Revision	Rating after 3 rd Revision	Date of 3 rd Revision

Annexure VI – List of Defaults Separately for Each Rating Category

Annexure VI A – Long Term Scale

Rating Movement by more than one notch between Apr-Sep/ Oct -Mar				
S. No.	Name of the Issuer	Initial rating	Date of Initial Rating	Date of Default Recognition
Rating prior to default- AAA category				
1.				
2.				
Rating prior to default- AA category				
1.				
2.				
Rating prior to default- A category				
1.				
2.				
Rating prior to default- BBB category				
1.				
2.				
Rating prior to default- BB category				
1.				
2.				
Rating prior to default- B category				
1.				
2.				
Rating prior to default- C category				
1.				
2.				

Annexure VI B – Short Term Scale

Rating Movement by more than one notch between Apr-Sep/ Oct -Mar				
S. No.	Name of the Issuer	Initial rating	Date of Initial Rating	Date of Default Recognition
Rating prior to default- A1 category				



1.				
2.				
Rating prior to default- A2 category				
1.				
2.				
Rating prior to default- A3 category				
1.				
2.				
Rating prior to default- A4 category				
1.				
2.				

Annexure VII – Average Default Rates for the last 5-Financial Year Period

Annexure VII A- STRUCTURED INSTRUMENTS

Rating Category	1-Year Default Rate	3-Year Cumulative Default Rate
AAA		
AA		
A		
BBB		
BB		
B		
C		

Annexure VII B- NON - STRUCTURED INSTRUMENTS

Rating Category	1-Year Default Rate	3-Year Cumulative Default Rate
AAA		
AA		
A		
BBB		
BB		
B		
C		

ANNEXURE VIII

Unsolicited Credit rating*

S. No.	Name of the Issuer	Rating assigned		
		Financial Year 1	Financial Year 2	Financial Year 3



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* If in a particular financial year, a rating has subsequently been changed, then that shall also be disclosed

Solicited Credit Ratings assigned to those issuers mentioned in the table above in the last financial year**

S. No.	Name of the Issuer	Rating assigned

** Any subsequent revision of the rating in the same year shall also be disclosed



3.4 Rating Criteria, Rating Process and their Disclosure³¹

3.4.1 Rating 'Criteria'

- a. Each CRA shall frame detailed rating criteria, include the same in its Operations Manual/ Internal governing document and disclose the same on its website.
- b. Periodicity of review shall be disclosed on the CRA's website. While disclosing the revised criteria on their website, CRAs shall also provide a reference/ hyperlink to the original criteria (before revision), so as to enable investors to discern the changes made to the same.
- c. The criteria shall be placed on the CRA's website in a user-friendly manner in order to facilitate easy and ready access of the same by investors.
- d. Press Release, related to rating action, shall provide a reference/ hyperlink to the specific criteria applied for the rating.

3.4.2 Rating Process and Policies

- a. CRAs are mandated to have in place a proper rating process and disclose the same on their website
- b. Each CRA shall frame detailed guidelines in line with policies mentioned at para 2.2.5 above, include them in its Operations Manual/ Internal governing document and disclose the same on its website.
- c. Any change in the rating process or policies shall be disclosed on the CRA's website, while also providing a reference/ hyperlink to the original provision/ process/ policy, to enable the investors to discern the changes made to the same.

3.5 Periodical report to be submitted to SEBI³²

- 3.5.1 All CRAs shall report the following change(s) to SEBI while submitting the Action Taken Report in accordance with SEBI Circular No. SEBI/ MIRSD/ CRA/ Cir-01/ 2010 dated January 06, 2010:
 - a. Amalgamation, demerger, consolidation or any other kind of corporate restructuring falling within the scope of section 391 of the Companies Act, 1956 (1 of 1956) or the corresponding provision of any other law for the time being in force;
 - b. Change in Director, including managing director/ whole-time director;
 - c. Change in shareholding not resulting in change in control.

³¹ Circular No. SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dated November 1, 2016

³² Circular No. CIR/MIRSD/8/2011 dated June 17, 2011



- 3.5.2 If there is no change during the relevant half year, it shall be indicated in the report.

3.6 Centralized Database for Corporate Bonds/ Debentures³³

- 3.6.1. SEBI, in consultation with various stakeholders, decided to create a centralized database regarding corporate bonds which are available in demat form for public dissemination. Both the depositories, viz. NSDL and CDSL, jointly, made the repository of information pertaining to the corporate bonds/ debentures.

- 3.6.2. **Contents of Database:** The various data fields for which the information has to be made available in the centralized database of bonds/ debentures by CRAs in first phase are as under:

- a. Credit Rating with name of Credit Rating Agency and Date of Credit Rating:

- i. Current rating (if rated by multiple Credit Rating Agencies, include all such ratings):
ii.

Name of the CRA	Credit Rating	Date of Credit Rating

- iii. Earlier rating and date of rating (if any):

Name of the CRA	Credit Rating	Date of Credit Rating	Date of Rating change

3.6.3. Information providers:

- a. The issuers shall provide the ISIN details to the CRAs, along with the reference number and date of the rating letter, pursuant to issue of instruments for review/ updation of credit ratings by CRAs in the database, within 2 days after allotment of ISIN.
- b. CRAs shall be provided secure logins by the depositories for verification and updation of the requisite information in the database on an ongoing basis.
- c. CRAs shall access the database and shall update the credit rating provided by the agency and the subsequent rating migrations, within the time stipulated below:

Sr. No.	Activity	Remarks
1	Verification of initial rating information provided by the Issuer in respect of the ISINs	In case of any variation, CRAs to update the

³³ Circular No. CIR/IMD/DF/17/2013 dated October 22, 2013.



	for the instruments.	same within 3 working days.
2	Updation of subsequent rating migrations information in the database.	Within one working day from the press release

- 3.6.4. **Updation of database:** The information mentioned in this circular shall be provided by the issuer at the time of applying for ISIN to Depositories and shall hosted by the Depositories. In case of any changes/ updation to the information, as available in the database, the Issuer must promptly inform the Depositories and the information providers such as Stock Exchanges, Credit Rating Agencies and Debenture Trustees shall update the same.



SECTION 4: INTERNAL AUDIT FOR CREDIT RATING AGENCIES (CRAs)

4.1 Internal Audit for Credit Rating Agencies (CRAs)³⁴

4.1.1 The audit envisaged under Regulation 22 of the SEBI (Credit Rating Regulations), 1999 shall include an internal audit to be undertaken in the following manner:

- a. It shall be conducted on a half yearly basis.
- b. It shall be conducted by Chartered Accountants, Company Secretaries or Cost and Management Accountants who are in practice and who do not have any conflict of interest with the CRA.
- c. It shall cover all aspects of CRA operations and procedures, including investor grievance redressal mechanism, compliance with the requirements stipulated in the SEBI Act, Rules and Regulations made thereunder, and guidelines issued by SEBI from time to time.
- d. The report shall state the methodology adopted, deficiencies observed, and consideration of response of the management on the deficiencies.
- e. The report shall include a summary of operations and of the audit, covering the size of operations, number of transactions audited and the number of instances where violations / deviations were observed while making observations on the compliance of any regulatory requirement.
- f. The report shall comment on the adequacy of systems adopted by the CRA for compliance with the requirements of regulations and guidelines issued by SEBI and investor grievance redressal.

4.2 Requirements related to Internal Audit of CRAs ³⁵

4.2.1 Eligibility of Auditors for conducting the Internal Audit of the CRA

- a. The audit firm shall have a minimum experience of three years in the financial sector.
- b. The internal auditor of a CRA shall declare that

³⁴ Circular No. SEBI/MIRSD/CRA/Cir-01/2010 dated January 06, 2010

³⁵ Circular No. SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dated November 1, 2016



- i. The firm has not been employed by other CRAs for any other services (such as statutory audit, taxation, consultancy/ retainership etc.) in the past two years, and
- ii. The partners/ firm do not have any association with any other CRA.
- c. The audit team must be composed of, at least, a Chartered Accountant (ACA/FCA) and a Certified Information Systems Auditor (CISA).

4.2.2 Rotation of Internal Auditors: An auditor shall be appointed for a maximum term of five years, with a cooling-off period of two years.

4.2.3 Scope of the Internal Audit: The scope of the internal audit shall be expanded to include the following additional checks:

- a. CRA and its employees, who are associated directly or indirectly with the rating business, have complied with the regulations and code of conduct.
- b. CRA has defined processes for operations that have been followed during the rating exercise.
- c. Rating analysts have adhered to their roles and responsibilities laid down in the Operations Manual/Internal governing document and processes disclosed on the CRA's website, during the rating
- d. Policy in respect of non-cooperation by the issuer, including procedures to be followed for the same, have been complied with.
- e. CRA has framed a policy for default recognition, consistent with regulatory guidelines, and is adhering to the same. At a minimum, it shall be checked if any irregularities/ delays/ defaults in debt servicing had been indicated by any of the below mentioned entities and suitable action with regard to the same was taken by the CRA:
 - i. The issuer/ borrower
 - ii. The Company's statutory auditor
 - iii. The borrower's bankers, during interactions with the CRA
 - iv. Debenture Trustees

Cases where there are deviations to the checklist shall be documented by the auditor as part of the audit report submitted to the board.

- f. Review of ratings has been carried out as per the review policy of the CRA.
- g. Dissents, if any, have been recorded for each committee meeting, as stated in the Operations Manual/ Internal governing document.
- h. CRA has complied with the timelines for publication of press release/ rating rationale for the ratings assigned, as set out in its Operations Manual/ Internal governing document.



- i. The Press Releases issued are broadly in line with the standard template prescribed by SEBI.
- j. Verify the rating disclosures made by the CRAs on their website.
- k. Comment on the conflict of interest, if any, arising due to composition of the rating committee and participation in the rating committee meetings.

4.2.4 Action on the Internal Audit Report:

- a. The CRA shall receive the report of the internal audit within two months from the end of the half-year.³⁶
- b. Upon receipt of the internal audit report, the Compliance Officer of the CRA shall provide detailed comments on each of the observations therein and place the same before the Board of the CRA.
- c. The final action taken report, including the comments/ recommendations made by Compliance Officer and the Board of the CRA as well as the corrective steps taken by the CRA, shall be submitted to SEBI within 2 months from the date of receipt of the internal audit report or 1 month from the date of Board Meeting of the CRA, whichever is later, in the following format:

Sr. No.	Observations of the auditor	Remarks by the Compliance Officer	Comments of the Board of the CRA	Corrective actions taken

³⁶ Circular No. SEBI/MIRSD/CRA/Cir-01/2010 dated January 06, 2010



SECTION 5: REDRESSAL OF INVESTOR GRIEVANCES

5.1 Designated e-mail ID for regulatory communication with SEBI³⁷

- 5.1.1. SEBI has been communicating with the registered market intermediaries through circulars, letters, directions etc. In order to facilitate the issuance of digitally signed circulars, all registered intermediaries are required to create a designated email id for regulatory communications. This email id shall be an exclusive email id only for the above purpose and should not be a person centric email id.
- 5.1.2. The Designated e-mail ID shall be communicated to SEBI by emailing a file to intermediary@sebi.gov.in, as per the format prescribed below:
- The file should be an excel file.
 - The name of the file and the subject of the email shall specify the type of intermediary and the name of the intermediary. For example – “Credit Rating Agency – ABC co. Ltd.”
 - The file shall contain the following details:

Name	Address	Category	Registrati on No.	Designated email id	Name of compliance officer

5.2 Redressal of investor grievances through SEBI Complaints Redress System (SCORES) platform³⁸

- 5.2.1. SEBI launched a centralized web based complaints redress system ‘SCORES’ in June 2011. The purpose of SCORES is to provide a platform for aggrieved investors, whose grievances, pertaining to securities market, remain unresolved by the concerned listed company or SEBI registered Credit Rating Agencies after a direct approach. SCORES also provides a platform, overseen by SEBI through which the investors can approach the concerned listed company or SEBI registered Credit Rating Agencies in an endeavor towards speedy redressal of grievances of investors in the securities market. It would, however, be advisable that investors may initially take up their grievances for redressal with the concerned listed company or SEBI registered Credit Rating Agencies, who are required to have designated persons/ officials for handling issues relating to compliance and redressal of investor grievance.
- 5.2.2. The salient features of SCORES are:
- Centralized database of all complaints.
 - Online movement of complaints to the concerned SEBI registered Credit Rating Agencies

³⁷ SEBI Circular No. MIRSD/ DPSIII/ Cir-21/ 08 dated July 7, 2008.

³⁸ Circular No. CIR/ OIAE/ 1/ 2014 dated December 18, 2014



- c. Online upload of Action Taken Reports (ATRs) by the concerned entities, and
 - d. Online viewing by investors of action on the complaints and its current status.
- 5.2.3. All SEBI registered Credit Rating Agencies are hereby advised to send their details, as per Form - B annexed, to SEBI in hard copy and by email to scores@sebi.gov.in and obtain SCORES user id and password immediately within a period of one month from the date of registration. The email id to be furnished by the SEBI registered Credit Rating Agencies for receiving SCORES user id and password from SEBI has to be preferably a corporate email id and necessarily a permanent one. Failure by any SEBI registered Credit Rating Agency to obtain the SCORES user ID and password would not only be deemed as non-redressal of investor grievances but also indicate willful avoidance of the same.
- 5.2.4. The SEBI registered Credit Rating Agencies shall submit the details in hard copy (Form - B) to the Department/ Division of SEBI which has granted them registration to operate in the securities market. SCORES user id and password of the Credit Rating Agencies shall be created only after receiving approval from the concerned Department/ Division of SEBI.
- 5.2.5. All SEBI registered Credit Rating Agencies shall review their investors' grievances redressal mechanism so as to further strengthen it and correct the existing shortcomings, if any. The SEBI registered Credit Rating Agencies to whom complaints are forwarded through SCORES, shall take immediate efforts on receipt of a complaint, for its resolution, within thirty days. The SEBI registered Credit Rating Agencies shall keep the complainant duly informed of the action taken thereon.
- 5.2.6. The SEBI registered Credit Rating Agencies shall update the ATR along with supporting documents, if any, electronically in SCORES. ATR in physical form need not be sent to SEBI. The proof of dispatch of the reply of the SEBI registered Credit Rating Agencies to the concerned investor should also be uploaded in SCORES and preserved by the SEBI registered intermediary, for future reference.
- 5.2.7. Action taken by the SEBI registered Credit Rating Agencies will not be considered as complete if the relevant details/ supporting documents are not uploaded in SCORES and consequently, the complaints will be treated as pending.
- 5.2.8. A complaint shall be treated as resolved/ disposed/ closed only when SEBI disposes/ closes the complaint in SCORES. Hence, mere filing of ATR by a SEBI registered Credit Rating Agencies with respect to a complaint will not mean that the complaint is not pending against them.
- 5.2.9. Failure by SEBI registered Credit Rating Agencies to file ATR under SCORES within thirty days of date of receipt of the grievance shall not only be treated as failure to furnish information to SEBI but shall also be deemed to constitute non-redressal of investor grievance.



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Securities and Exchange Board of India

- 5.2.10. The Board of Directors/ Proprietor/ Partner of the SEBI registered Credit Rating Agencies shall be responsible for ensuring compliance with the provisions of this Circular.



FORM - B

**AUTHENTICATION FOR SCORES BY SEBI REGISTERED CREDIT RATING
AGENCIES**

1. Name of SEBI registered Credit Rating Agency:
2. Nature of registered intermediary:
3. SEBI registration no.
4. PAN of SEBI registered Credit Rating Agency:
5. Date of SEBI registration of Credit Rating Agency:
6. SEBI registration valid upto:
7. Office address of the Credit Rating Agency:
8. The details of the concerned person of the Credit Rating Agency to whom
User id and password will be sent:

Name:

Designation:

Email id: (corporate and permanent email id)

Mobile no.

Telephone No. :

Fax No.:

Place:

Signature:

Date:

Name:

Designation:

Seal:

Note: A scanned copy to be sent by email to scores@sebi.gov.in followed by hard copy to the concerned Department/Division of Securities and Exchange Board of India, Plot No. C4-A, 'G' Block, Bandra Kurla Complex, Mumbai - 400 051

Important: Please note that SCORES has the provision for updating SEBI registered Credit Rating Agency's details by the Credit Rating Agency itself. Any field (except the e-mail id which is permanent) such as registered office address, name/ details of the compliance officer, telephone numbers, etc. should be changed by the SEBI registered Credit Rating Agency immediately when warranted.



5.3 Information regarding Grievance Redressal Mechanism³⁹

- 5.3.1. For information of all investors who deal/ invest/ transact in the market, it has now been decided that the information as provided below shall be prominently displayed in the offices of the CRAs:

Dear Investor,

In case of any grievance / complaint against the Credit Rating Agency:

- Please contact Compliance Officer of the Credit Rating Agency (Name and Address) / email-id (xxx.@email.com) and Phone No. - 91-XXXXXXXXXX.
- You may also approach CEO / Partner / Proprietor (Name) / email-id (xxx.@email.com) and Phone No. - 91-XXXXXXXXXX.
- If not satisfied with the response of the CRA you can lodge your grievances with SEBI at <http://scores.gov.in> or you may also write to any of the offices of SEBI. For any queries, feedback or assistance, please contact SEBI Office on Toll Free Helpline at 1800 22 7575 / 1800 266 7575.

³⁹ Circular No. CIR/MIRSD/3/2014 dated August 28, 2014



SECTION 6: OTHERS

6.1 Guidelines on Outsourcing of Activities by Credit Rating Agencies⁴⁰

- 6.1.1. SEBI Regulations for various intermediaries require that they shall render at all times high standards of service and exercise due diligence and ensure proper care in their operations.
- 6.1.2. It has been observed that often intermediaries resort to outsourcing with a view to reduce costs, and at times, for strategic reasons.
- 6.1.3. Outsourcing may be defined as the use of one or more than one third party – either within or outside the group - by a registered intermediary to perform the activities associated with services which the intermediary offers.
- 6.1.4. The principles for outsourcing by intermediaries have been framed (placed as Annexure). These principles shall be followed by all intermediaries registered with SEBI.
- 6.1.5. The SEBI registered Credit Rating Agencies desirous of outsourcing their activities shall not, however, outsource their core business activities and compliance functions. A few examples of core business activities may be – execution of orders and monitoring of trading activities of clients in case of stock brokers; dematerialization of securities in case of depository participants; investment related activities in case of Mutual Funds and Portfolio Managers. Regarding Know Your Client (KYC) requirements, the SEBI registered Credit Rating Agencies shall comply with the provisions of SEBI {KYC (Know Your Client) Registration Agency} Regulations, 2011 and Guidelines issued thereunder from time to time.
- 6.1.6. The SEBI registered Credit Rating Agencies shall be responsible for reporting of any suspicious transactions / reports to FIU or any other competent authority in respect of activities carried out by the third parties.

⁴⁰ SEBI Circular No. CIR/MIRSD/24/2011 dated December 15, 2011.



Annexure

PRINCIPLES FOR OUTSOURCING FOR INTERMEDIARIES

- 1. An intermediary seeking to outsource activities shall have in place a comprehensive policy to guide the assessment of whether and how those activities can be appropriately outsourced. The Board / partners (as the case may be) {hereinafter referred to as the “the Board”} of the intermediary shall have the responsibility for the outsourcing policy and related overall responsibility for activities undertaken under that policy.**
 - 1.1 The policy shall cover activities or the nature of activities that can be outsourced, the authorities who can approve outsourcing of such activities, and the selection of third party to whom it can be outsourced. For example, an activity shall not be outsourced if it would impair the supervisory authority’s right to assess, or its ability to supervise the business of the intermediary. The policy shall be based on an evaluation of risk concentrations, limits on the acceptable overall level of outsourced activities, risks arising from outsourcing multiple activities to the same entity, etc.
 - 1.2 The Board shall mandate a regular review of outsourcing policy for such activities in the wake of changing business environment. It shall also have overall responsibility for ensuring that all ongoing outsourcing decisions taken by the intermediary and the activities undertaken by the third-party, are in keeping with its outsourcing policy.
- 2. The intermediary shall establish a comprehensive outsourcing risk management programme to address the outsourced activities and the relationship with the third party.**
 - 2.1 An intermediary shall make an assessment of outsourcing risk which depends on several factors, including the scope and materiality of the outsourced activity, etc. The factors that could help in considering materiality in a risk management programme include-
 - a) The impact of failure of a third party to adequately perform the activity on the financial, reputational and operational performance of the intermediary and on the investors / clients;
 - b) Ability of the intermediary to cope up with the work, in case of non-performance or failure by a third party by having suitable back-up arrangements;
 - c) Regulatory status of the third party, including its fitness and probity status;
 - d) Situations involving conflict of interest between the intermediary and the third party and the measures put in place by the intermediary to address such potential conflicts, etc.
 - 2.2 While there shall not be any prohibition on a group entity / associate of the intermediary to act as the third party, systems shall be put in place to have an arm’s length distance between the intermediary and the third party in terms of infrastructure, manpower, decision-making, record keeping, etc. for avoidance of potential conflict of interests. Necessary disclosures in this regard shall be made as part of the contractual agreement. It shall be kept in mind that the risk management



practices expected to be adopted by an intermediary while outsourcing to a related party or an associate would be identical to those followed while outsourcing to an unrelated party.

- 2.3 The records relating to all activities outsourced shall be preserved centrally so that the same is readily accessible for review by the Board of the intermediary and / or its senior management, as and when needed. Such records shall be regularly updated and may also form part of the corporate governance review by the management of the intermediary.
- 2.4 Regular reviews by internal or external auditors of the outsourcing policies, risk management system and requirements of the regulator shall be mandated by the Board wherever felt necessary. The intermediary shall review the financial and operational capabilities of the third party in order to assess its ability to continue to meet its outsourcing obligations.
- 3. The intermediary shall ensure that outsourcing arrangements neither diminish its ability to fulfill its obligations to customers and regulators, nor impede effective supervision by the regulators.**
 - 3.1 The intermediary shall be fully liable and accountable for the activities that are being outsourced to the same extent as if the service were provided in-house.
 - 3.2 Outsourcing arrangements shall not affect the rights of an investor or client against the intermediary in any manner. The intermediary shall be liable to the investors for the loss incurred by them due to the failure of the third party and also be responsible for redressal of the grievances received from investors arising out of activities rendered by the third party.
 - 3.3 The facilities / premises / data that are involved in carrying out the outsourced activity by the service provider shall be deemed to be those of the registered intermediary. The intermediary itself and Regulator or the persons authorized by it shall have the right to access the same at any point of time.
 - 3.4 Outsourcing arrangements shall not impair the ability of SEBI/SRO or auditors to exercise its regulatory responsibilities such as supervision/inspection of the intermediary.
- 4. The intermediary shall conduct appropriate due diligence in selecting the third party and in monitoring of its performance.**
 - 4.1 It is important that the intermediary exercises due care, skill, and diligence in the selection of the third party to ensure that the third party has the ability and capacity to undertake the provision of the service effectively.
 - 4.2 The due diligence undertaken by an intermediary shall include assessment of:
 - a) third party's resources and capabilities, including financial soundness, to perform the outsourcing work within the timelines fixed;
 - b) compatibility of the practices and systems of the third party with the intermediary's requirements and objectives;



- c) market feedback of the prospective third party's business reputation and track record of their services rendered in the past;
 - d) level of concentration of the outsourced arrangements with a single third party; and
 - e) the environment of the foreign country where the third party is located.
- 5. Outsourcing relationships shall be governed by written contracts / agreements / terms and conditions (as deemed appropriate) {hereinafter referred to as "contract"} that clearly describe all material aspects of the outsourcing arrangement, including the rights, responsibilities and expectations of the parties to the contract, client confidentiality issues, termination procedures, etc.**
- 5.1 Outsourcing arrangements shall be governed by a clearly defined and legally binding written contract between the intermediary and each of the third parties, the nature and detail of which shall be appropriate to the materiality of the outsourced activity in relation to the ongoing business of the intermediary.
- 5.2 Care shall be taken to ensure that the outsourcing contract:
- a) clearly defines what activities are going to be outsourced, including appropriate service and performance levels;
 - b) provides for mutual rights, obligations and responsibilities of the intermediary and the third party, including indemnity by the parties;
 - c) provides for the liability of the third party to the intermediary for unsatisfactory performance/other breach of the contract
 - d) provides for the continuous monitoring and assessment by the intermediary of the third party so that any necessary corrective measures can be taken up immediately, i.e., the contract shall enable the intermediary to retain an appropriate level of control over the outsourcing and the right to intervene with appropriate measures to meet legal and regulatory obligations;
 - e) includes, where necessary, conditions of sub-contracting by the third-party, i.e. the contract shall enable intermediary to maintain a similar control over the risks when a third party outsources to further third parties as in the original direct outsourcing;
 - f) has unambiguous confidentiality clauses to ensure protection of proprietary and customer data during the tenure of the contract and also after the expiry of the contract;
 - g) specifies the responsibilities of the third party with respect to the IT security and contingency plans, insurance cover, business continuity and disaster recovery plans, force majeure clause, etc.;
 - h) provides for preservation of the documents and data by third party ;
 - i) provides for the mechanisms to resolve disputes arising from implementation of the outsourcing contract;
 - j) provides for termination of the contract, termination rights, transfer of information and exit strategies;
 - k) addresses additional issues arising from country risks and potential obstacles in exercising oversight and management of the arrangements when



intermediary outsources its activities to foreign third party. For example, the contract shall include choice-of-law provisions and agreement covenants and jurisdictional covenants that provide for adjudication of disputes between the parties under the laws of a specific jurisdiction;

- l) neither prevents nor impedes the intermediary from meeting its respective regulatory obligations, nor the regulator from exercising its regulatory powers; and
- m) provides for the intermediary and /or the regulator or the persons authorized by it to have the ability to inspect, access all books, records and information relevant to the outsourced activity with the third party.

6. The intermediary and its third parties shall establish and maintain contingency plans, including a plan for disaster recovery and periodic testing of backup facilities.

6.1 Specific contingency plans shall be separately developed for each outsourcing arrangement, as is done in individual business lines.

6.2 An intermediary shall take appropriate steps to assess and address the potential consequence of a business disruption or other problems at the third party level. Notably, it shall consider contingency plans at the third party; co-ordination of contingency plans at both the intermediary and the third party; and contingency plans of the intermediary in the event of non-performance by the third party.

6.3 To ensure business continuity, robust information technology security is a necessity. A breakdown in the IT capacity may impair the ability of the intermediary to fulfill its obligations to other market participants/clients/regulators and could undermine the privacy interests of its customers, harm the intermediary's reputation, and may ultimately impact on its overall operational risk profile. Intermediaries shall, therefore, seek to ensure that third party maintains appropriate IT security and robust disaster recovery capabilities.

6.4 Periodic tests of the critical security procedures and systems and review of the backup facilities shall be undertaken by the intermediary to confirm the adequacy of the third party's systems.

7. The intermediary shall take appropriate steps to require that third parties protect confidential information of both the intermediary and its customers from intentional or inadvertent disclosure to unauthorized persons.

7.1 An intermediary that engages in outsourcing is expected to take appropriate steps to protect its proprietary and confidential customer information and ensure that it is not misused or misappropriated.

7.2 The intermediary shall prevail upon the third party to ensure that the employees of the third party have limited access to the data handled and only on a "need to know" basis and the third party shall have adequate checks and balances to ensure the same.

7.3 In cases where the third party is providing similar services to multiple entities, the intermediary shall ensure that adequate care is taken by the third party to build safeguards for data security and confidentiality.



8. Potential risks posed where the outsourced activities of multiple intermediaries are concentrated with a limited number of third parties.

- 8.1. In instances, where the third party acts as an outsourcing agent for multiple intermediaries, it is the duty of the third party and the intermediary to ensure that strong safeguards are put in place so that there is no co-mingling of information /documents, records and assets.



6.2 Unauthenticated news circulated by SEBI Registered Market Intermediaries through various modes of communication⁴¹

- 6.2.1. It has been observed by SEBI that unauthenticated news related to various scrips are circulated in blogs/ chat forums/ e-mail etc. by employees of Broking Houses/ Other Intermediaries without adequate caution as mandated in the Code of Conduct for Stock Brokers and respective Regulations of various intermediaries registered with SEBI
- 6.2.2. Further, in various instances, it has been observed that the Intermediaries do not have proper internal controls and do not ensure that proper checks and balances are in place to govern the conduct of their employees. Due to lack of proper internal controls and poor training, employees of such intermediaries are sometimes not aware of the damage which can be caused by circulation of unauthenticated news or rumours. It is a well-established fact that market rumours can do considerable damage to the normal functioning and behaviour of the market and distort the price discovery mechanisms.
- 6.2.3. In view of the above facts, SEBI registered Credit Rating Agencies are directed that:
- Proper internal code of conduct and controls should be put in place.
 - Employees/temporary staff/voluntary workers etc. employed/working in the
Offices of SEBI registered CRAs do not encourage or circulate rumours or unverified information obtained from client, industry, any trade or any other sources without verification.
 - Access to Blogs/Chat forums/Messenger sites etc. should either be restricted under supervision or access should not be allowed.
 - Logs for any usage of such Blogs/Chat forums/Messenger sites (called by any nomenclature) shall be treated as records and the same should be maintained as specified by the respective Regulations which govern the concerned intermediary.
 - Employees should be directed that any market related news received by them either in their official mail/personal mail/blog or in any other manner, should be forwarded only after the same has been seen and approved by the concerned SEBI registered CRAs' ' Compliance Officer. If an employee fails to do so, he/ she shall be deemed to have violated the various provisions contained in SEBI Act/ Rules/ Regulations etc. and shall be liable for action. The Compliance Officer shall also be held liable for breach of duty in this regard.⁴²

⁴¹ Circular No. CIR/ISD/1/2011 dated March 23, 2011

⁴² Circular No. CIR/ISD/2/2011 dated March 24, 2011



6.3 General Guidelines for dealing with Conflicts of Interest of Credit Rating Agencies and their Associated Persons in Securities Market⁴³

- 6.3.1. All intermediaries, recognised stock exchanges, recognised clearing corporations and depositories (hereinafter collectively referred to as "such entities") are presently governed by the provisions for avoidance of conflict of interest as mandated in the respective regulations read with relevant circulars issued from time to time by SEBI. On the lines of Principle 8 of the International Organisation of Securities Commissions (IOSCO) Objectives and Principles of Securities Regulations, it has been decided to put in place comprehensive guidelines to collectively cover such entities and their associated persons, for elimination of their conflict of interest, as detailed hereunder.
- 6.3.2. Such entities shall adhere to these guidelines for avoiding or dealing with or managing conflict of interest. They shall be responsible for educating their associated persons for compliance of these guidelines.
- 6.3.3. For the purpose of these guidelines "intermediaries" and "associated persons" have the same meaning as defined in Securities and Exchange Board of India Certification of Associated Persons in the Securities Markets) Regulations, 2007.
- 6.3.4. Such entities and their associated persons shall,
- lay down, with active involvement of senior management, policies and internal procedures to identify and avoid or to deal or manage actual or potential conflict of interest, develop an internal code of conduct governing operations and formulate standards of appropriate conduct in the performance of their activities, and ensure to communicate such policies, procedures and code to all concerned;
 - at all times maintain high standards of integrity in the conduct of their business;
 - ensure fair treatment of their clients and not discriminate amongst them;
 - ensure that their personal interest does not, at any time conflict with their duty to their clients and client's interest always takes primacy in their advice, investment decisions and transactions;
 - make appropriate disclosure to the clients of possible source or potential areas of conflict of interest which would impair their ability to render fair, objective and unbiased services;
 - endeavor to reduce opportunities for conflict through prescriptive measures such as through information barriers to block or hinder the flow of information from one department/ unit to another, etc.;

⁴³ SEBI Circular No. CIR/ MIRSD/ 5/ 2013 dated August 27, 2013



- g. place appropriate restrictions on transactions in securities while handling a mandate of issuer or client in respect of such security so as to avoid any conflict;
 - h. not deal in securities while in possession of material non - published information
 - i. not to communicate the material non-published information while dealing in securities on behalf of others
 - j. not in any way contribute to manipulate the demand for or supply of securities in the market or to influence prices of securities;
 - k. not have an incentive structure that encourages sale of products not suiting the risk profile of their clients;
 - l. not share information received from clients or pertaining to them, obtained as a result of their dealings, for their personal interest;
- 6.3.5. The Boards of such entities shall put in place systems for implementation of this circular and provide necessary guidance enabling identification, elimination or management of conflict of interest situations. The Boards shall review the compliance of this circular periodically.
- 6.3.6. The said guidelines shall be in addition to the provisions, if any, contained in respective regulations/ circulars issued by the Board from time to time regarding dealing with conflict of interest, in respect of such entities



SCHEDULE: List of Circulars

1. Circular No. SEBI/MIRSD/DR-2/SRP/Cir - 2/ 2005 dated January 4, 2005.
2. Circular No. MIRSD/ DPSIII/ Cir-21/ 08 dated July 7, 2008.
3. Circular No. SEBI/MIRSD/CRA/Cir-01/2010 dated January 06, 2010
4. Circular No. CIR/MIRSD/CRA/6/2010 dated May 3, 2010
5. Circular No. CIR/ISD/1/2011 dated March 23, 2011
6. Circular No. CIR/ISD/2/2011 dated March 24, 2011
7. Circular No. CIR/MIRSD/4/2011 dated June 15, 2011
8. Circular No. CIR/MIRSD/8/2011 dated June 17, 2011
9. Circular No. CIR/MIRSD/14/2011 dated August 02, 2011
10. Circular No. Cir. /IMD/DF/17/2011 dated September 28, 2011
11. Circular No. CIR/MIRSD/24/2011 dated December 15, 2011
12. Circular No. CIR/MIRSD/3/2012 dated March 01, 2012
13. Circular No. CIR/MIRSD/3/2013 dated March 15, 2013
14. Circular No. CIR/ MIRSD/ 5/ 2013 dated August 27, 2013
15. Circular No. CIR/MIRSD/6/2013 dated August 28, 2013
16. Circular No. CIR/IMD/DF/17/2013 dated October 22, 2013.
17. Circular No. CIR/MIRSD/3/2014 dated August 28, 2014
18. Circular No. CIR/ OIAE/ 1/ 2014 dated Dec 18, 2014
19. Circular No. SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dated November 1, 2016
20. Circular No. SEBI/HO/MIRSD/MIRSD4/CIR/P/2017/28 dated March 31, 2017
21. Circular No. SEBI/HO/MIRSD/MIRSD1/CIR/P/2017/38 dated May 02, 2017
22. Circular No. SEBI/HO/GSD/T&A/CIR/P/2017/42 dated May 16, 2017
23. Circular No. SEBI/ HO/ MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dated June 30, 2017