



भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

CONSULTATION PAPER

DEPARTMENT OF DEBT AND HYBRID SECURITIES – POD II

Measures for regulation of activities of Credit Rating Agencies (CRAs)

JULY 2025



भारतीय प्रतिभूति और विनियम बोर्ड
Securities and Exchange Board of India

Timeline to Respond

Comments on the
Consultation paper (CP) may
be sent by July 30, 2025

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1. Objective and Background

- 1.1. The objective of this consultation paper is to seek comments/ views/ suggestions from the public on the proposed amendment to SEBI (Credit Rating Agencies) Regulations, 1999 (“**CRA Regulations**”) to introduce measures for regulation of activities of Credit Rating Agencies (CRAs).
- 1.2. The extant CRA Regulations provide that a CRA shall not carry out any activity other than the rating of securities that are listed or proposed to be listed on a stock exchange recognized by SEBI (“the Board”). However, CRA Regulations do not preclude CRAs from undertaking rating of products/ securities/ issuers under the respective guidelines of a financial sector regulator or any authority as may be specified by SEBI.
- 1.3. SEBI has been receiving representation/ feedback from the industry/ other stakeholders with regard to rating of certain financial products/ instruments, under the purview of other Financial Sector Regulators (FSR), where no guidelines in respect of rating of such products/ instruments have been issued by the relevant FSR.
- 1.4. Accordingly, detailed proposals in respect of activities by CRAs that are not regulated by SEBI are made in the ensuing section of this consultation paper.

2. Measures for regulation of activities of CRAs

2.1. Extant Regulatory Provisions:

2.1.1. Regulation 9(f) of the CRA Regulations provides that –

“a credit rating agency shall not carry out any activity other than the rating of securities that are listed or proposed to be listed on a stock exchange recognized by the Board.

Nothing contained in these regulations shall preclude a credit rating agency from carrying out any activity as may be specified by the Board or rating of financial instruments under the respective guidelines of a financial sector regulator or any authority as may be specified by the Board.

Explanation: – For the purposes of this clause, the ratings undertaken by a credit rating agency under the respective guidelines of a financial sector regulator or authority shall be under the purview of the respective financial sector regulator or authority.

Provided that all other activities shall be segregated to a separate entity within a period of two years from the date of notification of Securities and Exchange Board of India (Credit Rating Agencies) (Amendment) Regulations, 2018.”

2.2. Rationale for proposed change:

2.2.1. The extant CRA Regulations permit CRAs to undertake credit ratings of only listed/ proposed to be listed issuers/ securities or rating of financial instruments under the guidelines of a FSR/ any authority specified by SEBI.

2.2.2. SEBI has been receiving representation/ feedback from the industry/ other stakeholders towards permitting CRAs to undertake rating of financial products/ instruments under the purview of other FSR, even where no rating related guidelines may have been issued by the relevant FSR, e.g. rating of unlisted securities. It has also been represented that since rating of said products/ entities is adjacent to the current business of CRAs, permitting the same may lead to significant synergies, while also addressing a gap in the industry.

2.3. Proposal:

Accordingly, it is proposed that CRAs may be permitted to undertake activities that are not regulated by SEBI, subject to the following conditions:

2.3.1. CRA may undertake rating of financial instruments, which fall under the purview of any other FSR, provided it shall comply with the regulatory framework, if any, as may be specified by the respective FSR for the matters relating to policy, eligibility criteria, risk management, investor grievance or dispute handling mechanism, inspection, enforcement and claims;

“Financial Sector Regulator” shall mean an authority or body constituted under any law for the time being in force to regulate services or transactions in the financial sector and includes the Reserve Bank of India (RBI), Insurance and Regulatory Development Authority (IRDA), Pension Funds Regulatory and Development Authority (PFRDA), International Financial Services Centres Authority (IFSCA), Ministry of Corporate Affairs (MCA), Insolvency and Bankruptcy Board of India (IBBI) or such other Authority as may be specified by the Board, from time to time.

- 2.3.2. CRA may only undertake rating activities that are fee-based and non-fund based.
- 2.3.3. CRA shall undertake such activity(ies) that are not regulated by SEBI only at arm's length basis through one or more Separate Business Unit (SBU) of the CRA, segregated by a Chinese Wall and ring-fenced from the SEBI regulated activities.
- 2.3.4. CRA shall ensure that it transfers its activities not regulated by the Board to separate business unit(s) within a period of six months from the date of notification of such proposal.
- 2.3.5. CRA shall ensure that the grievance redressal mechanism, including the escalation mechanism, if any, with respect to activities not regulated by SEBI, is part of the SBU and is separate and distinct from the grievance redressal mechanism provided for activities regulated by SEBI.
- 2.3.6. CRA shall prepare and maintain separate records in the SBU, for the non-SEBI regulated activities. Further, the staff engaged in such activities, should be distinct from the staff handling activities regulated by SEBI. However, the staff can cross the Chinese Wall, subject to due procedures approved by the Board of Directors of the CRA and documentation. Such Chinese Wall shall not be applicable for the key managerial personnel.
- 2.3.7. The other resources, including the information technology infrastructure, may be shared between the activities regulated by SEBI and activities that are not regulated by SEBI subject to due procedures approved by the Board of Directors of the CRA.

- 2.3.8. The minimum net worth requirement of a CRA, specified under the CRA Regulations, shall be ring fenced from any impact arising out of undertaking the activities that are not regulated by SEBI.
- 2.3.9. The CRA shall duly disclose on its website the list of the activities that are not SEBI regulated, along with a disclosure that none of the SEBI investor protection mechanisms will be available for any grievances or disputes arising out of or pertaining to such activities. A CRA undertaking such activity(ies), as on the date of notification of such proposal, shall make the said disclosure on its website within thirty days from the date of notification of such proposal. Further, the said disclosure/ disclaimer shall also be prominently displayed by the CRA in the rating report pertaining to the non-SEBI regulated activities.
- 2.3.10. CRA shall ensure that its advertising or marketing material and its webpage/ website displaying information pertaining to non-SEBI regulated activities shall be separate and distinct from regulated activities.
- 2.3.11. Before undertaking any activities which are not regulated by SEBI, there shall be an upfront written disclosure by the CRA to the relevant stakeholders including clients, beneficiaries and counterparties. The said disclosure shall be made, on all engagement letters, contracts, agreements, and business communication that such activity(ies) do not fall within the regulatory purview of SEBI. In this regard, confirmation shall also be obtained from the stakeholders, at the time of engagement, that they have understood the nature of the activity, risks involved and non-availability of any SEBI investor protection mechanism.

Further, for the existing and ongoing arrangements with regard to such activities, a CRA shall make necessary disclosures and obtain necessary confirmation/ acknowledgement from the stakeholders including clients, beneficiaries and counterparties, and submit a compliance report to SEBI, within a period of six months from notification of such proposal.

- 2.3.12. Every CRA undertaking any activity not regulated by the Board shall ensure that, in respect of such activities, it submits an undertaking as part of the half-yearly internal audit report, confirming compliance with the requirements of these regulations, duly reviewed and approved by its Board of Directors.

Consultation 1: Measures for regulation of activities of CRAs

Kindly provide your comments along with supporting rationale on the following:

- 1) Do you agree with the proposal to permit CRAs to undertake rating of financial instruments which fall under the purview of other Financial Sector Regulators (FSR), where no rating related guidelines may have been issued by the relevant FSR?
- 2) If yes, whether the proposed conditions (specified at Para 2.3.1 to 2.3.12) are appropriate and adequate?

3. Public Comments

3.1. Considering the implications of the aforementioned matters on the market participants, public comments are invited on the above-detailed proposals. The comments/ suggestions should be submitted latest by **July 30, 2025**, through the online web-based form which can be accessed using the following link:

<https://www.sebi.gov.in/sebiweb/publiccommentv2/PublicCommentAction.do?doPublicComments=yes>

3.2. Kindly go through the instructions mentioned on the above link before submitting comments on the consultation paper.

3.3. In case of any technical issue in submitting your comment through web based public comments form, you may contact Ms. Nishtha Tewari, AGM (nishthat@sebi.gov.in) through email with the subject: "*Issue in submitting comments on Consultation Paper on Measures for Regulation of Activities of CRAs*".

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