Chapter - 4
Regulatory Framework for Credit Rating Agencies in India

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Chapter - 4

Regulatory Framework for Credit Rating Agencies in India

4.1 Overview of Credit Rating Regulations in India

Credit rating is entirely a new concept in the history of Indian corporate sector and is intended for investors’ guidance and protection. It came into limelight only when Securities Exchange Board of India (SEBI) made credit rating compulsory for the Indian companies. The Securities and Exchange Board of India (Credit Rating Agencies) Regulations, 1999 empower SEBI to regulate credit rating agencies operating in India. Thus, SEBI regulates the credit rating agencies under the SEBI (Credit Rating Agencies) Regulations, 1999 of the Securities and Exchange Board of India Act, 1992. In fact, SEBI was one of the first few regulators, globally, to put in place an effective and comprehensive regulation for Credit Rating Agencies. SEBI regulates the functioning of credit rating agencies in order to protect the interest of investors and to make the system more helpful to them. Credit rating agencies are amongst the very few market intermediaries for which such detailed operating guidelines have been prescribed under the regulations. The regulation of credit rating agencies has become the point of consideration since the financial crisis hit the financial markets in 2007. The supervisory frameworks for credit rating agencies have been established recently and these regulatory efforts mark a turning point in the credit rating industry.
4.2 Issues of Concern & Recent Regulatory Initiatives

4.2.1 Current Regulatory Position

The Securities and Exchange Board of India (Credit Rating Agencies) Regulations, 1999 empowers SEBI to regulate CRAs operating in India. In fact, SEBI was one of the first few regulators, globally, to put in place an effective and comprehensive regulation for CRAs. SEBI’s CRA regulations have been used as model by other regulators in the emerging Economies. SEBI has also prescribed a Code of Conduct to be followed by the rating agencies in the CRA Regulations. However, SEBI administers the activities of CRAs with respect to their role in securities market only.

In addition to SEBI, the following regulatory agencies are involved in the regulatory mechanism of CRA’s in India:

a. Reserve Bank of India (RBI)
b. Insurance Regulatory and Development Authority (IRDA)
c. Pension Fund Regulatory and Development Authority (PFRDA)

The panel appointed by GOI which includes the officials from the finance ministry along with financial sector regulators like RBI, SEBI and IRDA, has taken the view very recently that SEBI would remain the lead regulator for CRAs in addition to the above three. The panel suggested that while SEBI will set the minimum behavioral standards, the banking, insurance and pension regulators can impose higher discipline on CRAs for their respective sectors, depending on their requirements and capacities, the official said. Thus, the RBI, IRDA and the Pension Fund Regulatory Development Authority (PFRDA) can even accredit raters for meeting their rating requirements.

Though the SEBI has introduced so many amendments in the Securities and Exchange Board of India (Credit Rating Agencies) Regulations, 1999, but still a strong regulatory mechanism could not be developed.
4.2.2 Key Regulatory Issues

Despite maintaining a Chinese wall between advisory services and rating services of Credit Rating Agencies, but still criticism persists as rating and non-rating entities have common ownership and top management. Therefore it is a key regulatory issue for bringing transparency in the functioning of CRA’s especially with reference to investor’s protection.

CRAs in general maintain that while non rating services do pose conflict of interest challenges on one hand, revenues from other services reduce dependence on rating service revenues thereby enabling them to maintain objectivity and independence. The CRA’s regulations cover issues with respect to confidentiality of information and disclosure with respect to the rationale of the rating being assigned. It considers how Indian law and regulation might address the key regulatory issues concerning CRAs that have emerged. These include:

(a) Appropriate level of external oversight
(b) Quality of the ratings process
(c) Monitoring and updating of ratings
(d) Conflicts of interest
(e) Disclosure issues
(f) Adequacy of organizational resources
(g) Over-reliance on credit ratings by investors.

4.2.3 Multiplicity of Regulators

A significant portion of CRAs’ revenues are from products that come under the purview of SEBI. However, there are rating agency products that are regulated by RBI (such as bank loans, fixed deposits, and commercial paper). RBI carried out a detailed and rigorous evaluation of Indian CRAs before granting them External Credit
Assessment Institution status for rating of bank loans under Basel II. Further, some regulators (such as IRDA and PFRDA) have incorporated ratings into the investment guidelines for the entities they regulate. The list of various products, and the relevant regulators, are as noted below:

Table 4.1

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<tr>
<th>S.No.</th>
<th>Instrument</th>
<th>Regulator</th>
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<tbody>
<tr>
<td>1</td>
<td>Public / Rights/ Listed issue of bonds</td>
<td>SEBI</td>
</tr>
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<td>2</td>
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<td>SEBI</td>
</tr>
<tr>
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<td>4</td>
<td>Collective Investment Schemes of plantation companies</td>
<td>SEBI</td>
</tr>
<tr>
<td>5</td>
<td>Commercial Paper</td>
<td>RBI</td>
</tr>
<tr>
<td>6</td>
<td>Bank loans</td>
<td>RBI (Basel II capital computation for banks)</td>
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<td>7</td>
<td>Security Receipts</td>
<td>RBI (For NAV declaration)</td>
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<tr>
<td>8</td>
<td>Securitized instruments (Pass Through Certificates)</td>
<td>RBI ((Basel II capital computation for banks)</td>
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<tr>
<td>9</td>
<td>Fixed Deposits by NBFCs &amp; HFCs</td>
<td>RBI</td>
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<tr>
<td>10</td>
<td>LPG/SKO Rating</td>
<td>Ministry of Petroleum and Natural Gas</td>
</tr>
<tr>
<td>11</td>
<td>Maritime Grading</td>
<td>Directorate General of Shipping (for some courses)</td>
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*Source: Report of the Committee on Comprehensive Regulation for Credit Rating Agencies, by Ministry of Finance Capital Markets Division, December 2009*
It is evident from the above details that there are so many regulators who are monitoring the CRA’s. It has been largely felt that there should be a single regulatory agency which should be fully empowered to regulate the CRA’s or a mechanism should be developed to have a proper coordination among the various regulators in order to bring the transparency and uniformity in the functioning of the CRA’s.

It is also added that we have separate regulators for the various industries, for example, Telecom Regulatory Authority of India (TRAI), Insurance Regulatory and Development Authority (IRDA), Pension Fund Regulatory & Development Authority (PFRDA). Therefore, the government should consider having a separate regulatory authority for CRA’s also.

### 4.3 Role of Regulators in Credit Rating

In India, in 1998, the SEBI constituted a committee to look into a draft regulation for CRAs prepared internally. The committee held the view that in keeping with international practice, the SEBI Act 1992 should be amended to bring CRAs outside the purview of SEBI for a variety of reasons. According to the committee, a regulator will not be in a position to objectively judge the appropriateness of one rating over another. The competency and the credibility of a rating and the CRA should be judged by the market, based on historical record, and not by a regulator. The committee suggested that instead of regulation, SEBI could just recognize certain agencies for particular purposes only, such as allowing ratings by CRAs recognized by it for inclusion in the public/rights issue offer documents.

In consultation with the Government, in July 1999, SEBI issued a notification bringing the CRAs under its regulatory ambit in exercise of powers conferred on it by Section 30 read with Section 11 of the SEBI Act 1992. The Act now requires all CRAs to be registered with SEBI. Regulators like Reserve Bank of India (RBI) and Securities and Exchange Board of India (SEBI) use credit rating to determine eligibility criteria for
some instruments. For example, the RBI has stipulated a minimum credit rating by an approved agency for issue of commercial paper. Reserve Bank of India has decided to review and monitor the performance of credit rating agencies, for continuation of their accreditation. The move is aimed at ensuring greater accountability in the quality of the rating process and methodologies. According to the G-20 Working Group recommendations, all credit rating agencies whose ratings are used for regulatory purposes will be subject to regulatory oversight regime, which includes registration and compliance with the International Organization of Securities Commissions (IOSCO) Code of Conduct Fundamentals. The Reserve Bank of India will liaise with SEBI, on the issue of rating agencies’ adherence to the IOSCO Code of Conduct Fundamentals. RBI has accorded accreditation to four rating agencies registered with market regulator SEBI. This will allow them to use their rating for assigning risk weights within the framework of the Basel II Accord.

The following regulations regarding functioning and affairs of Credit Rating Agencies in India have been prescribed by SEBI:

- **Conditions for setting up a Credit Rating Agency**: Certain conditions have been prescribed by SEBI, for granting certificate of registration which is to be complied by the body corporate.

- **Process of getting Certificate of Registration**: The body corporate which fulfils the required eligibility criteria and which wants to commence activities as a credit rating agency shall make an application to SEBI for the grant of certificate of registration.

- **Obligations of Credit Rating Agency towards SEBI**: SEBI has fixed certain obligations and informational requirements which must be properly obliged by credit rating agencies.
• **Conditions to be followed while assigning ratings**: SEBI has prescribed certain conditions for credit rating agency, which must be fulfilled during the process of rating.

• **Restrictions on ratings**: Certain restrictions have been placed by SEBI on rating of securities issued by promoters or by certain other persons.

• **Inspection and Investigation by SEBI**: SEBI has right to inspect/ investigate the books of accounts, records and documents of credit rating agency and for this purpose SEBI may appoint one or more persons as inspecting officers.

• **Liability in case of default**: Under the SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations 2002, if a credit rating agency fails to comply with any condition subject to which a certificate has been granted or contravenes any of the provisions of the act or these regulations or any other regulation made under the act, then such credit rating agency shall be dealt with in the manner provided under the Securities and Exchange Board of India (Procedure for holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002.

• **Internal audit of Credit Rating Agencies**: SEBI has authorized Chartered Accountants, Company Secretaries or Cost and Management Accountants (who are in practice and who do not have any conflict of interest with the credit rating agency) to carry out internal audit for Credit Rating Agencies on a half yearly basis. These guidelines are issued in exercise of the powers conferred by Section 11 (1) of the Securities and Exchange Board of India Act, 1992 read with the provisions of Regulations 19(1), 20 and 22 of the SEBI (Credit Rating Agencies) Regulations, 1999 to protect the interest of investors in securities and to promote the development and regulation of securities market.
• **Transparency and disclosure norms**: In order to impart high credibility to the rating processes and procedures, a fair degree of transparency and disclosure is required. As a high degree of quantitative and qualitative disclosures are very important for users of credit rating, so SEBI has given certain new guidelines regarding transparency and disclosure by the rating agencies.

### 4.4 Credit Rating and BASEL II

Regulatory changes in banks’ capital requirements under Basel II have resulted in a new role to credit ratings. The role of CRAs has become more important with the revision by the Basel Committee on Banking Supervision (BCBS) of capital standards for banks culminating in Basel II. Under the Standardized Approach to credit risk, Basel II establishes credit risk weights for each supervisory category which rely on “external credit assessments”. Moreover, credit ratings are also used for assessing risks in some of the other rules of Basel II.

In the context of implementation of the Basel II framework in India, from March 2008, for the capital adequacy regime of the banks, the Standardized Approach has been adopted for determining the capital charge for the credit risk inherent in the operations of banks. This allows the use of borrower ratings issued by rating agencies to determine asset risk weights.

Also, RBI has mandated compulsory rating and a minimum level of rating of Commercial papers (CPs) issued by the entities who are eligible participants in the CP market. The major objective of Basel II is to revise the rules of the 1988 Basel Capital Accord in such a way as to align banks’ regulatory capital more closely with their risks, taking account of progress in the measurement and management of these risks and the opportunities which these provide for strengthened supervision.
Under Pillar 1 of Basel II, regulatory capital requirements for credit risk are calculated according to two alternative approaches:

(i) The Standardized Approach: The measurement of credit risk is based on external credit assessments provided by External Credit Assessment Institutions (ECAs) such as credit rating agencies or export credit agencies.

(ii) The Internal Ratings-Based Approach: Banks use their own rating systems to measure some or all of the determinants of credit risk, subject to supervisory approval as to the satisfaction of certain conditions.

Under the Foundation Version (FV), banks calculate the Probability of Default (PD) on the basis of their own ratings but rely on their supervisors for measures of the other determinants of credit risk. Under the Advanced Version (AV), banks also estimate their own measures of all the determinants of credit risk, including Loss Given Default (LGD) and Exposure at Default (EAD).

Under the regulatory capital requirements for operational risk, there are three options of progressively greater sophistication:

(i) Under the Basic Indicator Approach (BIA), the capital charge is a percentage of banks' gross income.

(ii) Under the Standardized Approach (SA), the capital charge is the sum of specified percentages of banks' gross income from eight business lines (or alternatively for two of these business lines, retail and commercial banking, of different percentages of loans and advances).

(iii) Under the Advanced Measurement Approach (AMA), subject to the satisfaction of more stringent supervisory criteria, banks estimate the required capital with their own internal systems for measuring operational risk.
4.5 Impact of International Regulations

International Organization of Securities Commission (IOSCO) has formulated a Code of Conduct Fundamentals for the working of CRAs. The IOSCO Code of Conduct Fundamentals for CRAs was also revised in May 2008. The Code Fundamentals are designed to apply to any CRA and any person employed by a CRA in either in full time or part time capacity. The Code of Conduct focuses on transparency and disclosure in relation to CRA methodologies, conflicts of interest, use of information, performance and duties to the issuers and public, the role of CRA in structured finance transactions etc. It does not dictate business models or governance but rather seeks to provide the market with information to judge and assess CRA activities, performance and reliability.

The codes of conduct for CRA’s stipulated by SEBI are also influenced by the IOSCO code of conduct. It has also been observed that all SEBI regulated CRAs in India have framed their internal code of conduct, which have provisions, inter alia, of conflict of interest management, avoidance and disclosures of conflict of interest situations etc. and such provisions prescribed are by and large in accordance with the IOSCO Code of Conduct Fundamentals for CRAs. The internal code of conduct formulated by the CRAs is in addition to the Code of Conduct prescribed under the SEBI (CRA) Regulations – 1999.

4.6 Regulatory Environment related to Credit Rating Agencies

4.6.1 India

The RBI prescribes a number of regulatory uses of ratings. The RBI requires that a NBFC must have minimum investment grade credit rating if it intends to accept public deposits. Furthermore, unrated or underrated NBFCs in the category of equipment leasing and hire purchase finance companies are required to disclose the fact of their being unrated, to the public, if they intend raising deposits. Finally, as per money-market regulations of RBI, a corporate must get an issue of CP rated and can issue such paper subject to a minimum rating. In the area of investments, SEBI stipulated that ratings are
compulsory on all public issues of debentures with maturity exceeding 18 months. SEBI has also made ratings mandatory for acceptance of public deposits by Collective Investment Schemes. If the size of the issue is larger than Rs.100 crore, two ratings are required. Pension funds can only invest in debt-securities that have two ratings, as per the stipulations of Government of India.

In India, in 1998, SEBI constituted a Committee to look into draft regulation for Credit rating agencies that were prepared internally by SEBI. The Committee held the view that in keeping with international practice, SEBI Act 1992 should be amended to bring Credit rating agencies outside the purview of SEBI for a variety of reasons. According to the Committee, a regulator will not be in a position to objectively judge the appropriateness of one rating over another. The competency and the credibility of a rating and CREDIT RATING AGENCY should be judged by the market, based on historical record, and not by a regulator.

The Committee suggested that instead of regulation, SEBI could just recognize certain agencies for particular purposes only, such as allowing ratings by Credit rating agencies recognized by it for inclusion in the public/rights issue offer documents.

In consultation with Government, in July 1999, SEBI issued a notification bringing the Credit rating agencies under its regulatory ambit in exercise of powers conferred on it by Section 30 read with Section 11 of the SEBI Act 1992. The Act now requires all Credit rating agencies to be registered with SEBI. Since then, all the four Credit rating agencies in India have been registered with SEBI. SEBI Act now defines “credit rating agency”, “rating”, and “securities”. Details of who could promote a CREDIT RATING AGENCY and their eligibility criteria are specified. The Act also mentions about agreement with clients, method of monitoring of ratings, procedures for review of ratings, disclosure of ratings and submission of details to SEBI and stock exchanges. Restrictions have now been placed on Credit rating agencies from rating securities issued by promoters or companies connected with promoters i.e. companies in which directors of Credit rating agencies are interested as directors.
4.6.2 Other Countries

Regulators of both developed and emerging markets rely on credit ratings for a variety of purposes. USA introduced the concept of regulatory use of ratings in 1931. The Office of the Comptroller of Currency used ratings as a means to determine the basis of valuation of bonds. The use of ratings spread to other activities such as determination of capital prescription or margin money for brokers/dealers, disclosure requirements under Securities and Exchange Commission norms, exemption from registration and regulation for certain issuers of asset-backed securities, etc.

The National Association of Insurance Commissioners (NAIC), which determines insurance company’s regulatory capital charges, also relies on ratings. Japan promoted credit ratings in 1974 and regulators used the ratings of Japan Bond Research Institute (a rating agency) as one of the eligibility criteria for bond issues in the 1980s. The Ministry of Finance relies on ratings in a variety of ways, including regulation of money reserve funds. In 1993, the European Community stipulated capital requirements for market risk for banks and security houses based on ratings.

UK adopted rating based Capital Adequacy Directives in 1996. Favored treatment is also accorded to firms engaged in securities business based on rating. France, Italy, Australia, Switzerland, Canada, Argentina, Chile, Mexico, Indonesia, Korea, Malaysia, Philippines, Taiwan Province of China and Thailand are other countries that have regulatory uses for ratings. In fact, the adoption of rating based regulations was the main force leading to the creation of rating agencies in emerging markets in Latin America and Asia.

An important issue is the criteria for recognizing a credit rating agency for use of its ratings in regulation. It is now commonly accepted that criteria are: assured continuous objectivity in methodology; independence from outside influences; credibility, though this should not be an entry barrier; access to all parties with legitimate interest; and adequacy of resources. Most regulators stipulate a list of recognized agencies whose ratings can be used to satisfy rating requirements.
Broadly, there are three areas where extensive use is made of ratings in the regulatory process, viz., investment restrictions on regulated institutions; establishing capital requirements for financial and disclosure as well as issuance requirements. The issues faced by regulators in use of ratings include reconciling divergent ratings by different Credit rating agencies and deciding cut-off of level of ratings. In the aftermath of the Asian crisis and the scathing criticism on the failure of Credit rating agencies to predict the crisis and later on its role in precipitating it through downgrades, the role of credit rating agencies has been placed under microscopic scrutiny. The merits and demerits of regulating credit rating agencies and the issue of rating the rating agencies have been discussed in many international forums.

There is no international regulatory authority overseeing rating agencies. Whether they are regulated or not depends on specific country circumstances. In general, however, countries impose a modest regulation over Credit rating agencies. In USA, Securities and Exchange Commission gives recognition to Credit rating agencies as Nationally Recognized Statistical Rating Organizations (NRSO) for specific purposes. The main form of regulation is USA is in officially recognizing a credit rating agency. Thereafter, there is hardly any regulation. Similarly in UK, recognition as a rating agency is required from the Financial Services Authority (FSA). So is the case in Japan, Australia, France and Spain.

4.7 RBI Draft and SEBI Rules and Regulations

RBI has the powers to determine the policy of the credit information companies with regard to their functioning. RBI shall give directions to the credit information companies; wherever it thinks it is in public interest, or in the interest of credit institutions, specified users, banking policy and proper management. The use of the words “as it deems fit” gives a lot of discretionary powers to RBI.

The duties of the officials of the company formed under the Act have also been specified like the auditors has been entrusted with the task of ensuring that the credit information company furnishes all the relevant documents to RBI and RBI has
simultaneous powers to instruct for an audit of the company under certain circumstances. This audit has been termed as a special audit under the Act. Section 14 of the Act enumerates in substantial detail the functions to be performed by such company, like collection of information pertaining to the financial standing of borrowers, providing credit information to other companies, the relevant provision of credit rating to be done, research activities and any other work as directed by RBI. Directions are also in store for the credit institutions which are to become members of the credit information companies such as requirement of registration and the period within which it is to be obtained for prospective as well as existing credit institutions.

The credit information company has been given powers to refuse registration at RBI’s discretion and in due observance of natural justice and other administrative principles law. The credit information company has been given powers to ask for credit information from its members as and when it thinks necessary, the information being provided to the specified user only and the information so obtained by the credit information company is not to be disclosed to any other person and this applies with equanimity on the specified user as well.

The Act was passed with a view to regulating credit information companies and to facilitating efficient distribution of credit and for matters concerned or incidental to it. The Central Government was empowered to make the Rules while the Reserve Bank was empowered to make the Regulations to carry out the purposes of the Act. Therefore the RBI has prepared the Regulations for implementation of the Credit Information Companies (Regulation) Act, 2005 and placed them on the website for feedback.

Summary of Draft, Rules and Regulations

A. Rules:

1) The Rules enumerate the procedure for appeal and other incidental matters when aggrieved credit information companies whose application for certificate of registration has been rejected or whose certificate of registration has been
cancelled have the power to approach the Appellate authority designated by the Central Government.

2) Rules provide that the credit information company should formulate appropriate policy and procedure duly approved by its board of directors, specifying the steps and security safeguards in regard to

(a) Collecting, processing and collating of data relating to the borrower.
(b) Steps for security & protection of data and the credit information maintained at their end.
(c) Appropriate and necessary steps for maintaining an accurate, complete and updated data.

Moreover the credit institution or the credit information company should ensure that the credit information is accurate and complete with reference to the date on which such information is furnished or disclosed to the credit information company or the specified user as the case may be. The specified user should consider and decide such requisite steps for ensuring and verifying the accuracy and completeness of data received from a credit information company and protect the data from unauthorized access; formulate and adopt an appropriate policy and procedure in this behalf duly approved by its board of directors.

3) The credit information company or credit institution or specified user shall adopt all reasonable procedures to ensure that their managers, officers, employees are obliged to fidelity and secrecy in respect of credit information under their control or to which they have access.

4) The credit information company should maintain a high standard of customer service by maintaining help desk, attending to complaints, feedback, queries, etc., in speedy and efficient manner.
B. Regulations:

1) The Regulations indicate which companies can obtain credit information as specified users (insurance company, cellular/phone Company, rating agency, broker, trading member, SEBI, IRDA etc.) in addition to those provided under section 2(1) of the Act.

2) The Regulations also deal with submission of application, grant of certificate and the form in which application can be submitted and certificate can be issued.

3) The Regulations provide for the form of business in which credit information companies can engage in addition to those provided under section 14(1) of the Act.

4) The Regulations give the format in which a credit information company can issue notice to the credit institutions or other credit information companies for calling for the information.

5) The privacy principles which will guide the credit Information companies, credit institutions and specified users have been indicated in the Regulation. These encompass accuracy, security, secrecy; adequacy of data collected as also limitation on the use of data, that is, the purpose for which the Credit Information Reports can be made available and the procedure to be followed by specified uses for getting reports.

6) Regulations provide that the maximum amount of fees leviable to specified users should not exceed Rs.500 for individuals and Rs.5000 for non-individual borrowers. Further, the fees charged to the credit institutions or credit information companies for admission of a credit information company should not exceed Rs.15,00,000.
7) Regulations provide for the principles and procedures relating to personal credit information in respect of manner and purpose of collection of personal data, solicitation of personal data, accountability in transferring data to third party, protection of personal data etc.

8) Regulations provide that an individual can file a complaint against a credit information company, credit institution or a specified user for contravening any provision of the Act.

4.8 Securities and Exchange Board of India (Credit Rating Agencies) Regulations, 1999

Securities and Exchange Board of India (Credit Rating Agencies) Regulations, 1999 was passed which made even the SEBI keep a watchful eye on the Credit Rating Companies in India with the help of various regulation needed for it. The Securities and Exchange Board of India (Credit Rating Agencies) Regulations, 1999 contains:

1) Regulation regarding the registration of credit rating agencies regulating the application for grant of certificate eligibility criteria for promoter of credit rating agency, furnishing of information, clarification and personal representation by the promoter, grant of certificate of the SEBI its conditions validity period, clauses of its renewal, and procedure for refusal of certificate and its effect.

2) General obligations of credit rating agencies regulating the Code of Conduct, Agreement with the client, Monitoring and process of ratings and the Procedure for review of rating, Appointment of Compliance Officer and compiling the letter circulars of the SEBI, maintaining of proper book of Accounts and having regular audits.
3) Restriction on rating of securities issued by promoters or by certain other persons regulating the securities issued by promoter, certain entities, connected with a promoter or securities already rated.

4) Procedure for inspection and investigation regulating SEBI’s right to inspect after a due notice and obligations to be fulfilled by taking actions on the inspection or investigation report.

5) Procedure for action in case of default fixing the liability of the credit company.

The study of regulatory environment regarding credit rating reflect that the SEBI regulations for credit rating agencies has been designed to protect the interest of investors in securities through widespread investor access to ratings, through a clearly articulated rating dissemination process, and to promote the development of, and to regulate the securities market. Further, the SEBI regulations ensure that the credible players enter this business (through stringent entry norms and eligibility criteria) and credit rating agencies operate in a manner that enables them to issue objective and fair opinions.

4.9 Conclusion

It is well recognized that since ratings are intended to provide investors with an informed and objective opinion expressed by a professional rating agency after analyzing various factors such as business & financial prospects, management quality, corporate governance practices etc; CRAs need to be regulated intensely. The rating agencies in India would have already abilities to undertake relatively fair and systematic rating exercises for issuance of corporate bonds, both domestically and internationally. It is therefore commended that harmonization and adjustment between “local scale” and “international scale” ratings are to be further promoted. The affiliated agencies like CRISIL and ICRA could utilize their own rating system that could be easily comparable to that of international ratings system adopted by Moody’s and S&P.