



MASTER CIRCULAR

IFSCA-PLNP/40/2024-Capital Markets

October 01, 2024

To,

**All Credit Rating Agencies in the IFSC
All Recognised Stock Exchanges in the IFSC**

Madam/Sir,

Sub: Master Circular for Credit Rating Agencies

1. The IFSCA (Capital Market Intermediaries) Regulations, 2021 (“CMI Regulations”) provide the regulatory framework for credit rating agencies registered with International Financial Services Centres Authority (“the Authority”) providing requirements *inter alia* relating to registration, general obligations and responsibilities, specific obligations and responsibilities, inspection etc.
2. Regulation 73(5) of the CMI Regulations provide that - *“The circulars and guidelines issued by SEBI in relation to the regulations specifically covered under sub-regulation (2) and applicable to a capital market intermediary in an IFSC, shall be deemed to have been issued under these regulations unless and until they are superseded or modified by the Authority”*.
3. Subsequently, the Authority has issued following circulars relating to Credit Rating Agencies:
 - a) Circular titled *“Credit Rating Agencies in the IFSC”* dated July 25, 2024 clarifying requirements relating to providing services by SEBI-registered credit rating agencies in the IFSC.
 - b) Circular titled *“Valuation of Assets of Schemes under IFSCA (Fund Management) Regulations 2022 by Credit Rating Agencies at IFSC”* permitting CRAs registered with the Authority to undertake valuation of assets of the schemes under the IFSCA (Fund Management) Regulations, 2022.

- c) Circular titled “*Enabling Credit Rating Agencies to undertake additional activities relating to ESG Ratings and Data Products Providers*” enabling CRAs registered with Authority to also undertake services relating to ERDPPs in accordance with the requirements laid down in this circular.
4. It has been decided that the master circular placed at **Annexure - 1** is being issued superseding all the circulars and guidelines issued by SEBI (prior to October 01, 2020) in respect of credit rating agencies registered with the Authority in accordance with the provisions of regulation 73(5) of the CMI Regulations. Further, the master circular is a compilation of the circulars mentioned at paragraph 3 above.
5. This master circular is being issued in exercise of powers conferred by Sections 12 and 13 of the International Financial Services Centres Authority Act, 2019 and regulation 72 of the IFSCA (Capital Market Intermediaries) Regulations, 2021.

A copy of this circular is available on the website of the International Financial Services Centres Authority at www.ifsc.gov.in.

Yours faithfully,

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Annexure-1

Master Circular for Credit Rating Agencies

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CHAPTER – 1: REGISTRATION PROCESS

SWIT System

1. IFSCA has operationalised Single Window IT System (SWIT System), which can be accessed at <https://swit.ifsc.gov.in/>, for intermediaries, *inter-alia* for CRAs, to submit all the registration applications online. IFSCA's SWIT System includes online application for registration, processing of application, grant of final registration, etc., link for SWIT system is also available on IFSCA website – www.ifsc.gov.in.
2. An entity desirous of seeking registration as Credit Rating Agency with the Authority shall file an application through the SWIT System.

Payment of Fees

3. The CRA registered with the Authority shall pay fees in accordance with the circulars issued by the Authority on "*Fee structure for the entities undertaking or intending to undertake permissible activities in IFSC*" dated May 17, 2023, February 06, 2024 and March 01, 2024 and as may be amended from time to time.

SEBI-registered Credit Rating Agencies

4. Securities and Exchange Board of India, vide circular dated July 19, 2024 on "[*Enabling Credit Rating Agencies to undertake rating activities under IFSCA*](#)" permitted credit rating agencies registered with SEBI to undertake rating activities in the IFSC in accordance with regulation 9(f) of the SEBI (Credit Rating Agencies) Regulations, 1999 ("SEBI CRA Regulations") and para 25 of the Master Circular for CRAs dated May 16, 2024. The Explanation provided under regulation 9(f) of the SEBI CRA Regulations provides that - "*...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*".
5. Accordingly, a credit rating agency registered with SEBI, desirous of providing rating services in the IFSC, shall apply for registration with IFSCA in accordance with the requirements provided under the IFSCA (Capital Market Intermediaries) Regulations, 2021 ("CMI Regulations"), as amended from time to time. The activities of the CRAs operating in the IFSC shall be subject to the requirements in the IFSCA Act, 2019, CMI Regulations and other applicable regulations and circulars notified by IFSCA from time to time. The application shall be filed through the SWIT System.

CHAPTER - 2: PERMISSIBLE ACTIVITIES

Permissible Activities

6. The CRA registered with the Authority (“the CRA”) under the CMI Regulations are permitted to carry out the following activities:

a) Credit Ratings

Explanation 1: Credit ratings can be of any financial product or financial instrument in the IFSC or any Foreign Jurisdiction¹ based on global scale (foreign currency or local currency) ratings.

Explanation 2: Credit ratings shall include private ratings.

b) Sovereign Ratings

c) ESG Ratings and Data Products Providers

d) Valuation Services

e) Research

f) Rating Assessment / Evaluation Services

g) Monitoring Agency

h) Rating related advisory

i) any other activities as permitted by the Authority

Provided that the CRA shall undertake the activities in accordance with the norms and requirements specified by the Authority from time to time.

¹ As defined in the IFSCA (Capital Market Intermediaries) Regulations 2021

CHAPTER - 3: GOVERNANCE

Composition of Board of Directors

7. The composition of the Board of Directors of the CRA shall be as follows:
 - a) The board shall have at least 1/3rd of total strength as independent directors.
 - b) The board shall comprise of not less than 3 directors.
 - c) The majority of members of the board of directors shall have sufficient expertise in financial services.

Provided that a CRA registered in the form of branch shall also comply with the governance requirements specified by the home regulator.

Code of Conduct

8. The CRA shall establish a board approved Code of Conduct based on Schedule III of the International Financial Services Centres Authority (Capital Market Intermediaries) Regulations, 2021 and the IOSCO Report on [*Code of Conduct Fundamentals for Credit Rating Agencies*](#), March 2015.
9. The CRA shall ensure that the Code of Conduct is publicly and prominently disclosed on its website:

Explanation: For the purpose of this circular, the reference to “website” shall include the website of the CRA or any webpage of any group entity of the CRA having a dedicated webpage providing details of the services of the CRA in the IFSC.
10. The CRA shall monitor and review the compliance of the CRA with the provisions of the above mentioned Code of Conduct at least on an annual basis.

CHAPTER - 4: CREDIT RATING ACTIVITIES

Operations Manual

11. The CRA shall formulate an internal Operations Manual, which shall, *inter-alia*, cover operating guidelines, criteria, policies and procedures related to the rating process.

Rating Criteria

12. The CRA shall frame detailed criteria for ratings and the same shall be included in its Internal Operations Manual.
13. The CRA shall ensure that the rating criteria are disclosed on its website. The rating rationale shall have references to the specific criteria applied for the ratings.

Rating Process

A. Solicited Ratings

14. For all solicited ratings, the CRA shall enter into a written agreement with each client whose securities/instruments/facilities or the issuer it proposes to rate, and such agreement shall be entered into prior to commencement of rating exercise.
15. The CRA shall, in all cases, follow a proper rating process which shall also be disclosed on its website. The CRA shall ensure that the rating methodologies are rigorous, capable of being applied consistently, and, where possible, result in credit ratings that can be subjected to some form of objective validation based on historical experience.
16. Where a rating methodology is changed, the CRA shall:
 - a) immediately publish on its website the revised rating methodology with a detailed explanation thereof and the date of application;
 - b) review the affected credit ratings as soon as possible and no later than six months based on the revised methodology.
17. The CRA shall, while assigning a rating, exercise due diligence to ensure that the rating given by the credit rating agency is fair and appropriate.
18. The CRA shall ensure that the credit ratings are based on a fair and thorough analysis of all the information that is available to it and that is relevant to its analysis according to the applicable rating methodologies.
19. The CRA shall seek the necessary information and documents from the issuers required to carry out the rating exercise.

20. The CRA shall communicate to the client the rating assigned.
21. All the rating actions taken by the CRA should be published on its website along with the rationale for rating action. If the rated instruments are listed on a recognised stock exchange in the IFSC, the CRA shall also notify the exchange(s) of the rating action.
22. The CRA shall maintain information and records supporting each credit rating and review in electronic retrieval form for a period (as mentioned in the CMI Regulations) from the date rating is withdrawn or discontinued, including the following information/ records:
 - a) The important factors underlying the credit rating;
 - b) Decisions and minutes of the rating committee.

B. Unsolicited Ratings

23. The CRA shall publicly disclose its policies and procedures regarding unsolicited credit ratings.
24. Where a CRA issues an unsolicited credit rating of an issuer, the CRA shall prominently disclose "*UNSOLICITED*" in the credit rating. Further, the rating rationale shall include the extent of participation of the issuer and whether the CRA had access to the accounts and other relevant internal documents of the issuer or any related party of the issuer.

Sovereign Ratings

25. The CRA shall publicly disclose its methodology for sovereign ratings.
26. The CRA shall review sovereign ratings at least on an annual basis.

Rating Scales

27. The CRA registered with Authority shall use global scale to issue ratings. It shall also publicly disclose clear definitions of its global rating scales, including definition of default. Additionally, the CRA must clarify and state that these ratings are not recommendations to buy, hold or sell any securities /instruments /facilities.

Monitoring and Review of Ratings

28. The CRA shall ensure that adequate employees and financial resources are allocated for monitoring and reviewing all its credit ratings. Except for a credit rating that clearly indicates it does not entail ongoing surveillance, once a credit rating is published, the CRA should monitor the credit rating on an ongoing basis by:

- a) reviewing the creditworthiness of the rated entity or obligation regularly;
- b) initiating a review of the status of the credit rating upon becoming aware of any information that might reasonably be expected to result in a credit rating action, consistent with the applicable credit rating methodology; and
- c) reviewing the impact of and applying a change in the credit rating methodology on the relevant credit ratings within a reasonable period of time no later than six months after change in methodology.

29. If a CRA discontinues monitoring a credit rating for a rated entity or obligation, it should either withdraw the credit rating or disclose such discontinuation.

Dissemination of Ratings

30. All the rating actions on initial credit ratings assignments, once accepted by issuer, shall be disseminated by the CRA on its website along with the rating rationale. All subsequent rating actions on accepted ratings shall be disseminated by CRA on its website along with the rating rationale.

Provided that the said requirement relating to dissemination of ratings shall not be mandatory for unsolicited ratings and private credit rating assignments.

31. Where the rated instruments are listed on a recognised stock exchange in the IFSC, the CRA shall disclose the ratings to the stock exchange(s).

Withdrawal of rating

32. The CRA shall generally not withdraw a rating so long as the obligations under the security /instrument /facility rated by it are outstanding. Withdrawal of rating may however be permitted in the following situations:

- a) Where the entity whose security/instrument/facility is rated is wound up or merged or amalgamated with another entity, or
- b) In case of non-cooperation from the issuers, or non-payment of agreed fee, or
- c) At the request of an issuer, but under no circumstances shall an issuer's request to withdraw a rating avoid an imminent rating change.

33. The CRA shall establish a policy on withdrawal of ratings and the same shall be prominently disclosed on its website.

Rating Committee

34. The CRA shall have professional rating committee, comprising members who are adequately qualified and knowledgeable to assign/review a rating.
35. All rating decisions, including the decisions regarding changes in rating, shall be taken by the rating committee.

Request by Issuers for review/appeal of ratings provided by CRAs

36. The CRA shall provide a reasonable opportunity to its clients for review/appeal against the rating(s) assigned/reviewed.

Rating Analysts

37. The CRA shall assign analysts who have appropriate knowledge and experience for assessing the creditworthiness of the type of entity or obligation being rated.
38. The CRA shall ensure that the roles and responsibilities of the rating analysts are clearly laid out in the CRA's Internal Operations Manual.
39. The CRA shall ensure that the Internal Operations Manual provide that the analysts involved in the credit rating action, while assessing creditworthiness, should use the credit rating methodology established by the CRA for the type of entity or obligation that is subject to the credit rating action.
40. The CRA shall ensure that the rating analysts are not allowed to initiate or participate in negotiations regarding fees or payments with any rated entity or its related entity.

Confidentiality

41. The CRA shall establish, maintain, document, and enforce policies, procedures, and controls to protect confidential and/or material non-public information, including confidential information received from a rated entity, obligor, or originator, or the underwriter or arranger of a rated obligation, and non-public information about a credit rating action. Such confidential information shall not be disclosed to any third party except where such disclosure is required or permitted by applicable law, or where CRA has obtained the written consent from information provider.

Independence and Avoidance of Conflicts of Interest

42. The CRA shall not delay or refrain from taking a credit rating action based on the potential effect (economic, political, or otherwise) of the action on the CRA, a rated entity, obligor, originator, underwriter, arranger, investor, or other market participant.

43. The CRA and its employees shall use care and professional judgment to maintain both the substance and appearance of the CRA's and its employees' independence and objectivity.
44. The CRA's determination of a credit rating should be influenced only by factors relevant to assessing the creditworthiness of the rated entity or obligation. The credit rating a CRA assigns to an entity or obligation should not be affected by whether there is an existing or potential business relationship between the CRA (or its affiliates) and the rated entity, obligor, originator, underwriter, or arranger (or any of their affiliates), or any other party.
45. The CRA shall operationally, legally, and, if practicable, physically separate its credit rating business and its analysts from any other businesses of the CRA that may present a conflict of interest. For other businesses that do not necessarily present a conflict of interest, the CRA should establish, maintain, document, and enforce policies, procedures, and controls designed to minimize the likelihood that conflicts of interest will arise.
46. The CRA shall formulate policies and internal codes for dealing with conflicts of interest, including the following:
 - a) rating analysts involved in the rating process should not participate in any kind of fee negotiations with clients of the CRA.
 - b) compensation of rating analysts at CRA should not be influenced by the revenues generated from the clients they rate.
 - c) the employees' involved in the rating process and their dependents do not have ownership of the shares of the issuer.
 - d) prompt review of the ratings of the entities/securities as and when any of its employees involved in assigning ratings joins the respective issuer.
 - e) it mitigates the potential conflict of interest while engaging into other business activities other than credit rating.
 - f) it shall not rate securities issued by it or its group companies.

Prohibition on Trading

47. The CRA shall frame appropriate policies and have internal control systems for –
 - a) monitoring the holding of securities by its employees in the securities of its clients in order to prevent insider trading.
 - b) preventing trading on the basis of unpublished price sensitive information obtained by them in the course of any professional assignment.

Periodic Disclosures

48. The CRA shall make the following disclosures on its website at the end of each financial year:

- a) the list of defaults separately for each rating category
- b) computation and disclosure of Default Rates
- c) disclosure of Average Rating Transition Rates for long-term securities /Instruments /Facilities /Issuances:

Explanation: The disclosure of Average Rating Transition Rates shall be applicable after 5 years from the commencement of operations of the CRA.

Continuous Disclosures

49. The CRA shall promptly disseminate ratings and any change in ratings as required in the IFSCA (Capital Market Intermediaries) Regulations, 2021 and this circular.

50. The CRA shall ensure that the records of rating history and rating rationales including those ratings which have been withdrawn/discontinued, shall be disclosed on its website.

Guidelines/Policies

51. The CRA shall frame detailed guidelines on the following, include them in its Internal Operations Manual and disclose the same on its website:

- a) Confidentiality policy;
- b) Disclosures on managing Conflicts of interest;
- c) Withdrawal policy; and
- d) Gift policy

CHAPTER - 5: ESG RATINGS AND DATA PRODUCTS PROVIDERS

Introduction

52. Globally, the role of Environmental, Social and Governance Ratings and Data Products Providers (ERDPPs) has seen a significant rise due to factors such as net zero targets in several jurisdictions and companies having their own targets to reduce carbon footprints, demand from investors for businesses to have a positive social impact and pervasiveness of transparency and governance. Further, various regulatory frameworks internationally require disclosures of ESG reports including sustainability reports by entities, thereby increasing the role of ERDPPs.
53. IOSCO published a report in November 2021² on “Environmental, Social and Governance (ESG) Ratings and Data Products Providers” providing 10 recommendations for securities market regulators to consider while regulating ERDPPs with a focus on promoting transparency, good governance, management of conflicts of interest, and robust internal systems and controls.
54. Subsequently, securities market regulators in few global jurisdictions have issued frameworks, including codes of conduct, for regulating ERDPPs. An industry-led working group, with the support of the International Capital Market Association and the International Regulatory Strategy Group, created a voluntary Code of Conduct in December 2023³ for ESG Ratings and Data Products Providers.
55. With an objective to develop an ecosystem for various activities relating to ESG including sustainability in the IFSC, it has been decided that the CRAs registered with the Authority may also undertake services relating to ERDPPs in accordance with the requirements laid down in this circular.

Permitted Services

56. The CRA shall be permitted to provide services relating to ESG Ratings and ESG data products, as mentioned below:
- a) *ESG Ratings*: ESG ratings shall include the broad spectrum of rating products relating to sustainable finance and include ESG scorings, ESG rankings, Sector ESG Ratings, and Thematic scores;
- b) *ESG data products*: ESG data products shall include products and services relating to ESG-related information.

Explanation: The services relating to independent external review for ESG labelled bonds listed on the recognised stock exchanges in the IFSC are included as permitted services by ERDPPs.

² <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD690.pdf>

³ www.icmagroup.org/assets/DRWG-Code-of-Conduct-for-ESG-Ratings-and-Data-Products-Providers-v3.pdf

57. The CRA may provide ERDPP services for any financial product or security or to an issuer (including a sovereign or a multilateral institution) or a financial institution in the IFSC or any Foreign Jurisdiction:

Explanation: For the purpose of this circular, “*Foreign Jurisdiction*” shall have the same meaning as assigned to it under clause (p) of sub-regulation (1) of regulation (2) of the IFSCA (Capital Market Intermediaries) Regulations, 2021.

Code of Conduct

58. The CRA shall adhere to the “Code of Conduct”, on a “comply” or “explain” basis for providing services relating to ERDPP mentioned in this circular:

(a) Principle on Good Governance

The ERDPP shall ensure appropriate governance arrangements are in place that enable it to promote and uphold the principles and overall objectives of the Code of Conduct.

(b) Principle on Securing Quality (Systems and Controls)

The ERDPP shall adopt and implement written policies and procedures designed to help ensure the issuance of high quality ESG ratings and data products.

(c) Principles on managing Conflicts of Interest

(i) The ERDPP shall adopt and implement written policies and procedures designed to help ensure that its decisions are independent, free from political or economic interference, and appropriately address actual or potential conflicts of interest that may arise from, among other things, ERDPP’s organisational structure, business or financial activities, or the financial interests of the ERDPP, its officers and employees.

(ii) The ERDPP shall also identify, avoid or appropriately manage, mitigate and disclose actual or potential conflicts of interest that may compromise the independence and integrity of the ERDPP’s operations.

(d) Principle on Transparency

The ERDPP shall make adequate levels of public disclosure and transparency a priority for its ESG ratings and data products, including its methodologies and processes to enable the users of the product to understand what the product is and how it is produced, including any potential conflicts of interest, while maintaining a balance with respect to proprietary or confidential information, data and methodologies.

(e) Principle on Confidentiality (Systems and Controls)

The ERDPP shall adopt and implement written policies and procedures designed to address and protect all non-public information received from or

communicated to it by any entity, or its agents, related to their ESG ratings and data products, in a manner appropriate in the circumstances.

(f) Principles on Engagement (Systems and Controls)

(i) The ERDPP shall regularly consider whether its information gathering processes with entities covered by its products lead to efficient information procurement for both the providers and these entities. Where potential improvements to information gathering processes are identified, the ERDPP shall consider what measures can be taken to implement them.

(ii) Where feasible and appropriate, the ERDPP shall respond to and address issues flagged by entities covered by its ESG ratings and data products and by users while maintaining the independence and integrity of these products.

ESG Ratings Process

59. The CRA providing ESG Ratings shall have guidelines / criteria on the rating process and the same shall be disclosed on their websites.

Annual Audit

60. The CRA shall have an annual audit conducted by a member of the Institute of Chartered Accountants of India or a member of the Institute of Company Secretaries of India or any person authorised to conduct audit in a Foreign Jurisdiction in accordance with regulation 22 of the IFSCA (Capital Market Intermediaries) Regulations, 2021. The audit shall also cover all aspects relating to ERDPPs and the compliance with the requirements mentioned in this circular.

Segregation

61. The CRA shall segregate the credit rating activities from the services relating to ERDPPs to ensure that there is no conflict of interest between these activities.

Continuous Disclosures

62. The CRA shall disclose the compliance of the “Code of Conduct” referred at clause 58 of this master circular on a “comply” or “explain” basis on its website.

63. The CRA shall disclose all ESG Ratings provided by it on its website.

Power to call for information

64. The Authority may call for any information, documents or records from a CRA, including relating to its activities as an ERDPP and the CRA shall provide such information, documents or records as and when sought by the Authority.

Maintenance of books of account, records and other documents

65. The CRA shall maintain and preserve the books of account, records and other documents in accordance with regulation 14 of the IFSCA (Capital Market Intermediaries) Regulations, 2021 besides maintaining all records relating to its activities as ERDPP in the same manner.

CHAPTER - 6: VALUATION SERVICES

Valuation Services under IFSCA (Fund Management) Regulations, 2022

66. Reference is drawn to sub-regulation (2) of regulation 26, sub-regulation (2) of regulation 38 and sub-regulation (2) of regulation 50 of the IFSCA (Fund Management) Regulations, 2022, which require the valuation of assets of the scheme by an independent third-party service provider, such as a fund administrator or a custodian, registered with the Authority, a valuer registered with the Insolvency and Bankruptcy Board of India or such other person as may be specified by the Authority.
67. In furtherance to the abovementioned regulations, a Credit Rating Agency which has obtained a certificate of registration from the Authority under sub-regulation (1) of regulation 10 of the IFSCA (Capital Market Intermediaries) Regulations, 2021 may also undertake the valuation of assets of the schemes under IFSCA (Fund Management) Regulations, 2022.

CHAPTER - 7: REPORTING

Reporting

68. The CRA shall submit reports to the Authority on a quarterly basis in accordance with the requirements specified under the circular titled [Reporting Norms for Capital Market Intermediaries](#) dated February 08, 2024.
69. The CRA shall furnish such information, documents, or records as may be specified by the Authority from time to time.
