



SEBI/HO/DDHS/DDHS-RACPOD2/P/CIR/2022/ 121

September 21, 2022

To

All Credit Rating Agencies (CRAs) registered with SEBI

Dear Sir/ Madam,

**Sub: Firewall between Credit Rating Agencies and their Affiliates**

- I. SEBI (Credit Rating Agencies) Regulations, 1999 (“CRA Regulations”) provide for a principle-based regulation of Credit Rating Agencies (CRAs) focusing *inter alia* on prevention of conflict of interests. Regulation 13 of the CRA Regulations require CRAs to abide by the Code of Conduct contained in the Third Schedule.
- II. Further, CRA Regulations *inter alia* required CRAs to segregate certain activities to a separate entity under Regulation 9(f) of CRA Regulations (hereinafter referred to as “non-rating associate or subsidiary or group entity” or collectively as “non-rating entities”).
- III. In view of the above, the following measures are mandated to strengthen the firewall between SEBI-registered CRAs and their non-rating entities:
  - A. CRAs shall formulate a policy on separation or firewall practices with the non-rating entities and document the same in their internal operational manuals or governing document. Such policy, and revisions thereto, shall be ratified by the Board of Directors of the CRAs and the policy may cover *inter alia* the following:
    - i. Nature and extent of sharing of infrastructure, officials/employees or resources, if any, between the CRA and the non-rating entity, including specification on whether such arrangement is temporary.

- ii. Measures taken by CRA to ensure the independence of its credit rating process in view of the above arrangement with the non-rating entity.
  - iii. Guidance to employees on sharing of information or resources, if any, between the CRA and the non-rating entity in order to mitigate any potential or actual conflict of interest.
- B. A CRA shall disclose on its website, details of any common director or Chief Executive Officer or Managing Director between the CRA and the non-rating entity. Such disclosure shall be updated by the CRA on the first working day of each month. The disclosure should include a reference to the date it was last updated by the CRA, along with a reference or hyperlink to archives of previous such disclosures.
- C. Credit rating scales (i.e., symbols and definitions) prescribed by SEBI vide its circulars dated June 15, 2011 ([CIR/MIRSD/4/2011 dated June 15, 2011](#)) or July 16, 2011 ([SEBI/HO/MIRSD/MIRSD CRADT/P/CIR/ 2021/594 dated July 16, 2021](#)) or any other circular issued under the CRA Regulations, shall not be used by any non-rating entities of the CRA.
- D. The websites of SEBI-registered CRAs and their non-rating entities shall be separate. A CRA's website may contain hyperlinks to the separate websites of the non-rating entities.
- IV. **Applicability:** The circular shall be applicable with effect from January 1, 2023, and CRAs shall report on their compliance with this circular (as ratified by their respective board of directors) to SEBI within one quarter from the date of applicability of this circular.



- V. **Monitoring:** Monitoring of this circular shall be done in terms of the half-yearly internal audit for CRAs, mandated under Regulation 22 of the SEBI (Credit Rating Agencies) Regulations, 1999 and [Circular SEBI/ MIRSD/CRA/Cir-01/ 2010 dated January 06, 2010](#) issued thereunder.
- VI. This circular is issued with the approval of competent authority, in exercise of the powers conferred by Section 11 (1) of Securities and Exchange Board of India Act, 1992 read with the provisions of Regulation 20 of SEBI (Credit Rating Agencies) Regulations, 1999, to protect the interest of investors in securities and to promote the development of, and to regulate, the securities market.

Yours faithfully,

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