

CIRCULAR

SEBI/HO/DDHS/DDHS-RACPOD2/P/CIR/2022/ 146

October 31, 2022

To,

All Credit Rating Agencies (CRAs) registered with SEBI

Dear Madam / Sir,

Sub: Standardisation of Rating Scales Used by Credit Rating Agencies (CRAs)

1. SEBI, vide circular numbered [CIR/MIRSD/4/2011](#) dated June 15, 2011, had devised certain standardised rating symbols and their definitions used by the Credit Rating Agencies (CRAs). Further, SEBI vide circular numbered [SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70](#) dated June 13, 2019 had standardised symbols and definitions for ratings of instruments having explicit credit enhancement feature.
2. In supersession of Section B of SEBI circular numbered [SEBI/HO/MIRSD /MIRSD CRADT /P/CIR/2021/594](#) dated July 16, 2021, the following guidelines are prescribed with regard to standardisation of rating scales used by CRAs:
 - 2.1. CRAs, in terms of Regulation 9(f) of SEBI (Credit Rating Agencies) Regulations, 1999 (“CRA Regulations”), undertake ratings of various financial instruments under the guidelines of different financial sector regulators or authorities.
 - 2.2. In order to standardise the usage of rating scales, CRAs are advised to align their rating scales with the rating scales prescribed under the guidelines of respective financial sector regulator or authority in terms of Regulation 9(f) of CRA Regulations.
3. Further, in view of discussions with stakeholders, including CRAs, the following guidelines are issued with regard to rating scales used by CRAs:
 - 3.1. **Issuer Rating/ Corporate Credit Rating:**
 - 3.1.1 Issuer Rating / Corporate Credit Rating indicates the degree of safety of the issuer or the rated entity with regard to timely servicing of all its debt obligations.

3.1.2 Pursuant to the consultation with the CRAs, standardised symbols and their definitions have been devised for Issuer Rating / Corporate Credit Rating. The new symbols and definitions as given in **Annexure** shall henceforth be used for the new ratings/ reviews by the CRAs for Issuer Rating / Corporate Credit Rating.

3.2. Standard descriptors for Rating Watch & Rating Outlook:

3.2.1. A 'rating outlook' indicates CRA's view on the expected direction of the rating movement in the near to medium term, whereas a 'rating watch' indicates a CRA's view on the expected direction of the rating movement in the short term.

3.2.2. SEBI vide circular No. [SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119](#) dated November 1, 2016 mandated the CRAs to frame detailed guidelines on *policy for placing ratings on credit watch*. The circular also mandates each CRA to assign a rating outlook and disclose the same in the press release.

3.2.3. In furtherance to the above guidelines, and in consultation with CRAs, the following standard descriptors shall be specified for "Rating Watch" and "Rating Outlook":

3.2.4. Standard descriptors to be used for when an issuer / security is placed on "Rating Watch":

3.2.4.1. "Rating Watch with Positive Implications"

3.2.4.2. "Rating Watch with Developing Implications"

3.2.4.3. "Rating Watch with Negative Implications"

3.2.5. Standard descriptors to be used for when an issuer / security is placed on "Rating Outlook":

3.2.5.1. Stable

3.2.5.2. Positive

3.2.5.3. Negative

3.3. **Ratings of Capital Protection Oriented Schemes:** Pursuant to the consultation with stakeholders, and in line with the industry practice, it is reiterated that for ratings of Capital Protection Oriented Schemes, as required under [Regulation 38A of SEBI \(Mutual Fund\) Regulations, 1996](#), CRAs shall use rating scales (i.e. symbols and their definitions) for 'structured finance (SO)' instruments as prescribed vide SEBI circular [CIR/MIRSD/4/2011 dated June 15, 2011](#).

4. **Applicability:** The circular shall be applicable with effect from January 1, 2023, and CRAs shall report on their compliance with the same (as ratified by their respective board of directors) to SEBI within one quarter from the specified date of applicability.
5. **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.
6. This circular is issued by the 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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ANNEXURE

Rating Symbols and Definitions for Issuer Rating

Rating symbols should have CRA's first name as prefix

AAA - Issuers with this rating are considered to have the highest degree of safety regarding timely servicing of debt obligations. Debt exposures to such issuers carry lowest credit risk.

AA - Issuers with this rating are considered to have high degree of safety regarding timely servicing of debt obligations. Debt exposures to such issuers carry very low credit risk.

A - Issuers with this rating are considered to have adequate degree of safety regarding timely servicing of debt obligations. Debt exposures to such issuers carry low credit risk.

BBB - Issuers with this rating are considered to have moderate degree of safety regarding timely servicing of debt obligations. Debt exposures to such issuers carry moderate credit risk.

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

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

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

D - Issuers 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.