India (as of May 2014)

Reducing mechanistic reliance on CRA ratings

A brief note on the India position

As per the decision of Sub Committee of Financial Stability and Development Council (FSDC), inter agency/ inter departmental implementation groups have been set up on various areas of reform as recommended by Financial Stability Board (FSB).

SEBI has been identified as the lead regulator for the Implementation Group on Credit Rating Agencies (CRAs) to assess the position of compliance of regulatory framework in the country vis-à-vis the FSB principles for reducing reliance on CRA ratings, The Group had representatives from regulatory bodies of securities markets (SEBI), banking (RBI), insurance (IRDA) and pension funds (PFRDA).

Each regulator from the Group identified the regulations and guidelines issued by them where there are references to CRA ratings i.e. there is reliance on the use of ratings. The Group also carried out a gap analysis to identify the reform measures that can be implemented and those where implementation may not be desirable given the specific domestic conditions.

The Group had extensive discussions and exchange of views through meetings and e-mails and after analysis of the status in all the areas of financial sector, it was concluded that though there were references to the use of CRA ratings in the regulations, the financial institutions are required to do their own due diligence prior to investment as specified in the Regulations. There are requirements of adequate disclosures by the issuer companies which help the investors to take well informed investment decisions. The ratings serve as a supplementary input for risk assessment and hence there is no mechanistic reliance on ratings by the institutions.

Securities Markets

SEBI being the regulator for the CRAs has taken a number of initiatives in enhancing disclosure requirements for the issuers, strengthening regulatory framework for the CRAs and for reducing reliance on CRAs.

a) Enhancing disclosure

i) Disclosure norms have been made stringent by requiring the issuers/ registered intermediaries to disseminate various data and information to the public, so as to enable the investors to carry out their own due diligence while making investment in debt securities.

ii) In the case of issuance of Securitized Debt Instruments, comprehensive disclosure requirements are specified. These comprehensive disclosure requirements are in line with the IOSCO Disclosure Principles for Public Offerings and Listings of Asset-Backed Securities and enable the investors to take well informed investment decisions.

b) Strengthening regulatory framework

iii) CRA Regulations in India have been in existence since 1999 and the regulatory framework has been strengthened over a period of time. The CRAs are required to follow IOSCO code of conduct and also disclose the status of compliance on their websites There are comprehensive disclosure requirements for the issuers enabling the investors to do their own due diligence and take well informed investment decisions.

iv) A standing committee for CRAs has been constituted which comprises of representations from regulatory bodies of securities market (SEBI), banking sector (RBI), insurance sector (IRDA) and pension funds (PFRDA). The committee has met at several occasions to deliberate on various regulatory issues.

v) An internal audit of all SEBI registered CRAs is mandated to be conducted on a half yearly basis. The exercise is undertaken by Chartered Accountants, Company Secretaries or Cost and Management Accountants who are in practice and who do not have any conflict of interest with the CRA. The audit covers compliance of the regulatory requirements stipulated by SEBI from time to time.

vi) CRAs registered with SEBI also carry out rating of other securities/instruments and loans/facilities provided by banks which are not regulated by SEBI. Such ratings are being relied upon by other regulators or their regulated entities for the specified purposes. Therefore, it has been mandated in consultation with the regulators that in case of rating of such instruments, the CRAs should follow the applicable requirements pertaining to rating process and methodology and maintaining its records, transparency and disclosures, avoidance of conflict of interest, code of conduct, as specified in the SEBI Regulations. These guidelines have brought about better governance and transparency in the operations of CRAs.

c) Reducing Reliance on CRAs

vii) SEBI regulations now stipulate that credit rating may be obtained from one or more credit rating agencies as against earlier requirement of obtaining ratings from at least two CRAs, in case of debt issues by the issuers. As the retail investors also subscribe to debt issues, the Group felt that rating is an essential tool for these investors to make investment decisions.

viii) SEBI has reviewed the guidelines for valuation of securities for mutual funds and introduced the 'Principles of Fair Valuation'. Earlier for valuation of Non-Traded debt securities, the valuation matrix provided by CRAs was required. The investment managers have now been given flexibility to value such securities by applying principle of fair valuation and need not necessarily rely on the said matrix

ix) SEBI has recently made the IPO grading of equity issues by the CRAs “voluntary” as against the earlier provision of the same being “mandatory”.

x) SEBI Mutual Funds Regulations require the asset management company (AMC) to exercise due diligence and care in all its investment decisions. Further, Trustees and the AMC are required to render high standards of service, exercise due diligence, ensure proper care and exercise independent professional judgment at all times. Also, SEBI has prescribed risk management manual for mutual funds (MFs) which states that the MFs should have a dedicated research team and MFs should hire qualified and experienced portfolio managers, research analysts and dealers with adequate experience in the industry. The fund management and research teams should have access to research from multiple sources, both internal and external. Thus, the Regulations encourage mutual funds not to completely rely on rating agencies and have their own systems to check credit assessments.

Banking Sector

Reserve Bank of India’s regulatory framework requires banks to have their own credit risk assessment framework for lending and investment decisions and not rely only on ratings assigned by Credit Rating Agencies. The adequacy and effectiveness of banks’ credit risk management framework, including aspects relating to credit assessment process and rating/grading, is one of the focus areas of the Reserve Bank’s Annual Financial Inspection of banks. Further, adequate disclosure requirements are already in place.

The Indian banking system’s mandated reliance on external credit ratings is limited to capital adequacy computation for credit risk and general market risk under Standardised Approach of Basel II. At present, all banks in India are under Standardised Approach.

The Task Force on Standardised Approaches and Ratings & Securitisation Workstream of Basel Committee on Banking Supervision is working on various measures which seek to reduce or remove the reliance on external ratings, including developing supplementary measures for risk classification and encouraging stronger supervisory practices to promote alternative measures for risk assessment. As and when the work is finalised, Reserve Bank of India would consider adopting the same for Indian banks.

Further, certain major banks have applied for migration to the advanced approaches namely, Internal Rating Based (IRB) approach, towards computation of capital charge for credit risk under Basel II. Reserve Bank of India is presently carrying out model validation/ parallel run exercise for some select banks, based on their preparedness, which may take a minimum period of 12-18 months. It is expected that banks which satisfy with all IRB requirements under Basel II will be accredited to migrate to IRB approach, which may help in further reducing the reliance on external CRA ratings.

Insurance Sector

The regulations emphasize that rating should not replace appropriate risk analysis and management on the part of the insurer. The insurers have been relying on the internal due

diligence process along with the ratings given by the CRAs. The investment committee is required to play active role in drawing up investment policy relating to liquidity, prudential norms, exposure limits and management of all investment risks including credit risks. It is mandated that the insurer should conduct risk analysis commensurate with the complexity of the product(s) and the materiality of their holding, or could also refrain from such investments. Insurers are also permitted to invest in various instruments such as sovereign securities, approved securities without insisting on the credit rating. The IRDA takes suitable steps to strengthen internal due diligence of the insurers, as and when required.

Pension Sector

Under National Pension System, PFRDA has advised the Pension Funds to undertake their own due diligence for assessment of risks associated with securities before investments and CRA ratings may be referred to as a supplementary input for risk assessment. Disclosure and reporting by Pension Funds has also been prescribed in respect of the approach adopted for investments and risk assessment.

No additional action was planned for removing references to CRA ratings in investment guidelines as reference to ratings cannot be dispensed off completely in the near future due to variance in practices of risk assessment adopted by Pension Funds.

Conclusion

1. The main focus of FSB is that the banks, financial institutions and market participants should do their own due diligence in credit assessment while taking investment decisions and there should not be any mechanistic reliance on credit ratings. In fact, FSB Principles recognize that the CRAs play an important role and their ratings can appropriately be used as an input to firms' own judgment as part of internal credit assessment processes.

2. Each regulator from the Group identified the regulations and guidelines issued by them where there are references to CRA ratings and carried out a gap analysis to identify the reform measures that can be implemented and those where implementation may not be desirable given the specific domestic conditions.

3. On analysis, the Group found that Indian regulatory regime in the financial sector complies with the principles of FSB. Though there are references to the use of CRA ratings in the Regulations, these serve as a supplementary input for risk assessment. The institutions are required to do their due diligence prior to investment and there is no mechanistic reliance on CRAs. In case of retail investors in debt issues, the ratings assist them in making investment decisions.

4. As regards setting up of roadmap indicating timelines for implementation of reform areas, as stated above the Group concludes that there is compliance on the basic principles of FSB in Indian financial sector. Wherever possible, regulatory requirements have been modified to reduce the reliance on ratings. Further, in case of banking sector, certain major banks have

applied to RBI for migration to the advanced approaches namely, Internal Rating Based (IRB) approach, towards computation of capital charge for credit risk under Basel II. It is expected that banks which satisfy with all IRB requirements under Basel II will be accredited to migrate to IRB approach, which may help in further reducing the reliance on external CRA ratings within a period of 12-18 months.

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INDIA

Annex I: Banks

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
1. Reducing reliance on CRA ratings in laws and regulations (Principle I)			
Based on the findings from the stock-taking exercise, please describe the areas identified as needing change and those areas considered priorities, as well as the steps authorities intend to take to reduce reliance on CRA ratings in laws and regulations. In addition, authorities should describe the incentives put in place for market participants to develop their own independent credit assessment processes. Examples of incentives might include disclosure requirements relating to credit risk assessment practices or articulating clear supervisory expectations of the extent to which firms should perform their own due diligence before making lending decisions.			
Reserve Bank of India's regulatory framework requires banks to have their own credit risk assessment framework for lending decisions and not rely only on ratings assigned by Credit Rating Agencies (CRAs). Banks in India are, thus, required to exercise due diligence and make internal credit assessments before advancing loans. Banks are required to take credit related decisions based on their internal assessment of the commercial viability of the loan within their Board approved policies and Broad regulatory guidelines. As such no changes are contemplated in banking regulations on credit assessment.			

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
a) Remove references to CRA ratings in laws and regulations relating to banks.	Reserve Bank of India	No changes are contemplated in banking regulations related to credit assessments as there is no mandatory reliance on CRA ratings (except in case of capital computation under Basel II Standardised Approach). All Scheduled commercial banks in India currently follow Basel II standardised approach for credit, market and operational risk. 14 banks had applied for migrating to advanced approaches (Internal Rating Based Approaches or IRB approaches) for credit risk regulatory capital calculation. After detailed validation of the banks' IRB framework RBI may give final approval to some banks for using IRB approach. The earliest possible timeline for this approval is April 2015. Further, the Task Force on Standardised Approaches and Ratings & Securitisation Workstream of Basel Committee on Banking Supervision are working on various measures to which seek to reduce or remove the reliance on external ratings, including developing supplementary measures for risk classification and encouraging stronger supervisory practices to promote alternative measures for risk assessment. As and when the work is finalised, Reserve Bank of India would consider adopting the same for Indian banks.	Implemented

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
b) Develop alternative standards of credit assessment, where needed, for the purpose of replacing references to CRA ratings in laws and regulations relating to banks.	Reserve Bank of India	Please refer to our comments against Principle I(a).	Not applicable/ Implemented
2. Reducing market reliance on CRA ratings (Principle II)			
a) Enhance supervisory processes and procedures to assess the adequacy of banks' own credit assessment processes and incentivise market participants to develop internal risk management capabilities.	Reserve Bank of India	The adequacy and effectiveness of banks' credit risk management framework, including aspects relating to credit assessment process and rating/grading, is one of the focus areas of the Reserve Bank's Annual Financial Inspection of banks. No changes are contemplated.	Not applicable/ Implemented
b) Require or incentivise market participants to disclose information about their internal credit risk assessment processes.	Reserve Bank of India	Disclosure requirements are already in place and no changes are contemplated.	Not applicable/ Implemented

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
3.2 Prudential supervision of banks (Principle III.2)			
a) Enhance supervisory oversight of banks to ensure they develop adequate internal credit assessment processes that avoid mechanistic reliance on CRA ratings (differentiating where appropriate between banks subject to the internal ratings-based (IRB), Standardised Approach of other capital regime).	Reserve Bank of India	Please refer to our comments against Principle I and II. Accordingly, it is reiterated that Reserve Bank of India's regulatory framework requires banks to have their own credit risk assessment framework for lending decisions and not rely only on ratings assigned by Credit Rating Agencies (CRAs). The adequacy and effectiveness of banks' credit risk management framework, including aspects relating to credit assessment process and rating/grading, is one of the focus areas of the Reserve Bank's Annual Financial Inspection of banks. All Scheduled commercial banks in India currently follow Basel II standardised approach for credit market and operational risk.14 banks had applied for migrating to advanced approaches (Internal Rating Based Approaches or IRB approaches) for credit risk regulatory capital calculation. After detailed validation of the banks' IRB framework RBI may give final approval to some banks for using IRB approach. The earliest possible timeline for this approval is April 2015.	Not applicable/ Implemented

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
b) Revise CRA ratings in other prudential supervisory policies (e.g. relating to liquidity requirements) to reduce reliance on CRA ratings.	Reserve Bank of India	Indian banks investments in securities counting for Statutory Liquidity Ratio are strictly required to be made in risk free Central and state government securities. As such there is no reliance on CRA ratings in case of liquidity policies.	Not applicable/ Implemented

Annex II: Central bank operations

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
3. Application of the basic principles to particular financial market activities (Principle III)			
Based on the findings from the stock-taking exercise, please describe the areas identified as needing changes, including which areas are considered priorities, and the steps authorities intend to take to reduce reliance on CRA ratings in central bank policies and operations.			
The Reserve Bank of India deals only with Government Securities issued by the Government of India and other State Governments. Hence, credit ratings play no role in market operations of the Reserve Bank of India.			

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
3.1 Central bank operations (Principle III.1)			
a) Reduce reliance on CRA ratings in central bank policies (such as investments, asset management frameworks, and conventional and unconventional operations), including the decision to accept or reject an instrument as collateral or for outright purchase and in determining haircuts.	Reserve Bank of India	With regard to central bank operations, no reliance is placed by the Reserve Bank on its market operations viz., asset management frameworks, conventional and non-conventions operations, etc.), including in the decision to accept or reject an instrument as collateral or for outright purchase and in determining haircuts. Only domestic government securities are accepted as collateral for monetary policy operations. In case of reserves management, the Reserve Bank of India has an internal model for the assessment of counterparty credit risks of which external credit ratings are just one parameter. The non- CRA ratings in reserve management is not a recent development.	Not applicable/ Implemented
b) Adjust policies for imposing risk control measures (including haircuts) on financial instruments to align with the FSB Principles on CRA ratings.	Reserve Bank of India	Please see response to (a) above.	Not applicable/ Implemented
c) Develop the central bank's internal credit risk assessment capabilities and use of alternative measures of creditworthiness.	Reserve Bank of India	Please see response to (a) above.	Not applicable/ Implemented

Annex III: Insurance/Reinsurance Companies[1]

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
1. Reducing reliance on CRA ratings in laws and regulations (Principle I)			
Based on the findings from the stock-taking exercise, please describe the areas identified as needing change and those areas considered priorities, as well as the steps authorities intend to take to reduce reliance on CRA ratings in laws and regulations. In addition, authorities should describe the incentives put in place for market participants to develop their own independent credit assessment processes. Examples of incentives might include disclosure requirements relating to credit risk assessment practices or articulating clear supervisory expectations of the extent to which firms should perform their own due diligence before making lending or investment decisions.			

[1] Answers in this section should relate to the prudential regulation of insurance companies and reinsurance companies. Laws and regulations relating to insurance companies in their capacity as institutional investors should be included in the section entitled "Investment Funds Management."

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
a) Remove references to CRA ratings in laws and regulations relating to insurance/reinsurance companies.	IRDA	The Expert Committee on Investments, Expenditure and ULIP issues in its meeting held on 27th May 2013 deliberated on the priniciples for reducing reliance on ratings on ratings of CRAs and the thematic review process of FSB. It was observed that Insurance Act,1938 kept reliance on dividend track record, interest payments, collateral while making investments, due diligence etc. As a matter of prudence practice, Insurers have been relying on the internal due diligence process along with the ratings given by the CRAs. The role of investment committee shall be more active while making/continuing investments. It is recommended by the committee that though the ratings of CRAs cannot be substituted, the internal processes of the Insurers should be further strengthened.	Strengthening internal due diligence is a continuous process. As and when required, the authority takes suitable steps.
b) Develop alternative standards of credit assessment, where needed, for the purpose of replacing references to CRA ratings in laws and regulations relating to insurance/reinsurance	IRDA	The existing regulatory framework has the inbuilt checks so that the ratings of the CRAs should not be over emphasized. These provisions allow the companies to	Not applicable

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
companies.		investment in instruments without insisting for ratings. Such Provisions include : i) Mandatory Investment in securities issued by Government. (Sec. 27 (1) of Insurance Act ,1938) ii) Investment in debentures secured by a first charge on any immovable property, plant and equipment which has the interest payment track record. (Sec.27A(1)(f)) iii) Investments in such debentures which has the charge on assets and the value of such assets should be more than 3 times of the value of debentures issued. (Sec.27A(1)(g)) iv) Debentures which has the floating charge on all of the assets of the issuer company and has the dividend track record for the prescribed years. (Sec.27A(1)(h)) The companies can make investments in these securities based on their internal assessment without referring to the Rating. Further, As per Note No.8 to the Regulations 3 to 8 of IRDA (Investment)(Fifth Amendment) Regulations,2013 notified on 16th February , 2013 emphasised that rating	

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
		should not replace appropriate risk analysis and management on the part of the Insurer. The Insurer should conduct risk analysis commensurate with complexity of the product. The Investment committee shall play active role in draw up investment policy relating to liquidity, prudential norms, exposure limits and management of all investment risks including credit risks. The IRDA takes suitable steps to strengthen internal due diligence as and when required.	
2. Reducing market reliance on CRA ratings (Principle II)			
a) Enhance supervisory processes and procedures to assess the adequacy of insurers'/reinsurers' own credit assessment processes and incentivise market participants to develop internal risk management capabilities.	IRDA	As per Note No:8 to the Regulations 3 to 8 of IRDA (Investment)(Fifth Amendment)Regulations , 2013 notified on 16th February ,2013 states that " Notwithstanding the above, it is emphasised that rating should not replace appropriate risk analysis and management on the part of the insurer. The insurer should conduct risk analysis commensurate with the complexity of the product(s) and the materiality of their holding, or could also refrain from such investments.	Not applicable

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
b) Require or incentivise market participants to disclose information about their internal credit risk assessment processes.	IRDA	Every Insurer shall constitute an investment Committee which shall consist of a minimum of two non-executive directors of the Insurer, the Chief Executive Officer, the CIO, the CFO and the appointed actuary of the Insurer. Every Insurer shall draw up, annually an Investment Policy and place the same before the Board for its approval. The Investment Policy considers issues relating to liquidity, prudential norms, exposure limits and management of all investment risks including Credit risks. The Investment Committee will implement the Investment Policy approved by the Board. The details of the Investment Policy or its review shall be made available to the internal or concurrent Auditor for their comments. The same is also available to the authority for verification during onsite inspection.	Not applicable

Annex IV: Investment Funds Management
(including collective investment schemes, alternative investment schemes, occupational retirement schemes)

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
1. Reducing reliance on CRA ratings in laws and regulations (Principle I)			
Based on the findings from the stock-taking exercise, please describe the areas identified as needing change and those areas considered priorities, as well as the steps authorities intend to take to reduce reliance on CRA ratings in laws and regulations. In addition, authorities should describe the incentives put in place for market participants to develop their own independent credit assessment processes. Examples of incentives might include disclosure requirements relating to credit risk assessment practices.			
a) Remove references to CRA ratings in laws and regulations for investment funds management.	For *pension funds* – PFRDA	Reference to CRA ratings cannot be completely dispensed within the guidelines. The Pension Funds ought to refer to such CRA ratings as a supplementary input for risk assessment and to be utilised as standardised points of references. No additional action was planned for removing references to CRA ratings in investment guidelines as reference to ratings cannot be dispensed off completely in the near future due to variance in practices of risk assessment adopted by Pension Funds and low levels of financial literacy among the subscribers.	Implemented

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
	SEBI	In term of Eighth Schedule on 'Principle of Fair Valuation' of SEBI (Mutual Fund) Regulations, 1996, the valuation is required to be done in good faith and in true and fair manner through appropriate valuation policies and procedures. Investment managers may disclose their credit evaluation policy for the investments in debt securities. To value an un-rated security, the fund manager is required to assign an internal credit rating, which will be used for valuation. The asset management companies are required to provide for the periodic review of the valuation policies and procedures to ensure the appropriateness and accuracy of the methodologies used and its effective implementation in valuing the securities/ assets. The Board of Trustee and the Board of asset management company is required to be updated of these developments at appropriate intervals. The valuation policies and procedures are required to be regularly reviewed (at least once in a Financial Year) by an independent auditor.	Implemented

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
		SEBI encourages mutual funds not to completely rely on rating agencies and have their own systems to check and balance CRA ratings used. Earlier, for valuation of non-traded debt securities reference to a valuation matrix giving details of yield and duration was required, wherein, responsibility of providing such matrix was with credit rating agencies. Subsequently, upon introduction of 'principles of fair Valuation' in 2012, the investment managers have been given flexibility to value such securities by applying Principle of fair valuation and need not necessary rely only on the said matrix. As per Principles of fair valuation, the valuation is required to be done in good faith and in true and fair manner through appropriate valuation policies and procedures. To ensure transparency of valuation norms to be adopted by Asset Management Company (AMC's), disclosure of the valuation polity and procedures adopted for valuation of each	

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
		category of securities/assets, has to be made in offer documents of the Scheme. Further, as per the extant governing norms, it is duty of AMC to lay down an adequate system of internal controls and risk management for mitigate risks, including credit risks. Mutual Funds /AMC's are required to develop Operating Manual for Risk Management to ensure minimum standards of due diligence and Risk Management to ensure minimum standards of due diligence and Risk Management Systems for all the Mutual Funds in various operational areas. The Mutual Funds should have an independent risk management function consisting of one or more risk managers. They will be responsible for identifying, evaluating or measuring all risks including credit risk inherent in a mutual fund organization as well as establishing controls to mitigate such risk. The internal credit evaluation policy of AMC's has to be disclosed in the Scheme	

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
		information Document (SID) of closed-ended schemes. Further as per Chapter VII of SEBI (Mutual Fund) Regulations 1996, SEBI carries out inspection of Mutual Funds, the trustees and AMC on periodic basis and while carrying out such inspection their valuation, risk management system and appropriate disclosure in SIDs are also being reviewed inter alia to confirm valuation of securities were in accordance to the 'Principles of Fair Valuation', circulars pertaining on Risk Management System have been adequately implemented and disclosure in offer documents were in accordance to the governing norms. The compliance of norms pertaining to valuation and risk management system are also being reviewed and reported to SEBI in periodic compliance test report & half-yearly trustee reports being submitted by board of AMC and Trustees, respectively.	

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
b) Develop alternative standards of credit assessment, where needed, for the purpose of replacing references to CRA ratings in laws and regulations for investment funds management.	For *pension funds* – PFRDA	Pension Funds are mandated to undertake their own due diligence for assessment of risks associated with the securities before investments.	Not applicable/ Implemented
	SEBI	In term of Eighth Schedule on 'Principle of Fair Valuation' of SEBI (Mutual Fund) Regulations, 1996, the valuation is required to be done in good faith and in true and fair manner through appropriate valuation policies and procedures. To ensure transparency of valuation norms to be adopted by asset management company, disclosure of the valuation policy and procedures adopted for valuation of each category of securities/assets shall be made in offer documents of the Scheme. Investment managers may disclose their credit evaluation policy for the investments in debt securities. To value an un-rated security, the fund manager is required to assign an internal credit rating, which will be used for valuation. The asset management companies are required to provide for the periodic review of the valuation policies and procedures to ensure the appropriateness and accuracy	Not applicable/ Implemented

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
		of the methodologies used and its effective implementation in valuing the securities/ assets. The Board of Trustee and the Board of asset management company is required to be updated of these developments at appropriate intervals. The valuation policies and procedures are required to be regularly reviewed (at least once in a Financial Year) by an independent auditor. SEBI encourages mutual funds not to completely rely on rating agencies and have their own systems to check and balance CRA ratings used. Further, as per the extant regulations, it is duty of AMC to lay down an adequate system of internal controls and risk management for identifying, evaluating or measuring all risks including credit risk inherent in a mutual fund organization as well as establishing controls to mitigate such risks. The Mutual Fund should have an independent risk management function consisting of one or more risk managers.	

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
2. Reducing market reliance on CRA ratings (Principle II)			
a) Enhance supervisory processes and procedures to assess the adequacy of market participants' own credit assessment processes.	For *pension funds* – PFRDA	Justifications for investments are to be appropriately recorded by Pension Funds and investments undertaken should be in compliance of the investment guidelines laid down by PFRDA.	Not applicable/ Implemented

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
	SEBI	In terms of SEBI Mutual Fund circular Mutual Funds/ AMCs are required to develop Operating Manual for Risk Management to ensure minimum standards of due diligence and Risk Management Systems for all the Mutual Funds in various operational areas (for e.g. Fund Management, Operations, Customer Service, Marketing and Distribution, Disaster Recovery and Business Contingency, etc.). The Mutual Fund should have an independent risk management function consisting of one or more risk managers. This function will be responsible for identifying, evaluating or measuring all risks including credit risk inherent in a mutual fund organization as well as establishing controls to mitigate such risks. SEBI encourages mutual funds not to completely rely on rating agencies and have their own systems to check and balance CRA ratings used. SEBI carries out inspection, of Mutual Funds, the Trustees and Asset Management Companies on periodic basis and while carrying out such inspection the risk management system are also reviewed and reported in the inspection report. There is no reference to credit rating in the	Not applicable/ Implemented

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
		Regulations governing Portfolio Managers or Alternative Investment Fund. Based on objective criteria SEBI prescribed the risk management framework for the securities market. The collateral policies prescribed by SEBI are the minimum threshold for the purpose of risk management in the securities market. The clearing corporation may adopt a collateral policy over and above the SEBI prescribed guidelines. Further, the market participants may adopt collateral policies in addition to the guidelines prescribed by clearing corporation and SEBI. Credit rating agencies are regulated by SEBI. The SEBI (Credit Rating Agencies) Regulations, 1999 govern the credit rating agencies and provide for eligibility criteria for registration of credit rating agencies, monitoring and review of ratings, requirements for a proper rating process, avoidance of conflict of interest and inspection of rating agencies by SEBI, amongst other things.	

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
3. Application of the basic principles to particular financial market activities (Principle III.3)			
a) Establish, as appropriate, supervisory review of internal limits and investment policies of investment managers and institutional investors.			
a. Insurance companies (in their capacity as institutional investors)	IRDA	The existing regulatory framework has the inbuilt checks so that the ratings of the CRAs should not be over emphasized. Such provisions include : i) Investment in securities issued by Government, Govt. Authorities companies promoted by the Govt. with sovereign guarantee. ii) Investment in debentures secured by a first charge on any immovable property, plant and equipment which has the payment of interest track record. iii) Investments in such debentures which has the charge on assets and the value of such assets should be more than 3 times of the value of debentures issued. iv) Debentures which has the floating charge on all of the assets of the issuer Company and has the dividend track record for the prescribed years. v) Investment in shares which are being guaranteed by another company.	Not applicable/ Implemented

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
b. Investment managers (i.e. mangers of collective investment schemes).	SEBI	Seventh Schedule of SEBI (Mutual Fund) Regulations, 1996, has prescribed the restriction on the investments that can be made by the investment managers of mutual funds. The internal limits are disclosed in the offer document, i.e. Scheme Information Document. . These internal limits for investments in mutual funds have to be kept within the regulatory limits stated in Seventh Schedule of SEBI (Mutual Fund) Regulations, 1996 and circulars. The Investment Managers are required to ensure that they adhere to these limits and same are required to be reviewed by the trustees. Internal limits and investment policies are reviewed and form part of regulatory inspections, periodic trustee review and periodic compliance test reporting. In case any default is observed, then the same is dealt with in the manner specified in the respective regulations. Apart from credit assessment and due diligence being performed by the asset	Not applicable/ Implemented

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
		management company (AMCs) in all their investment decision, while setting investment limits mutual funds are allowed to use credit rating in below stated cases: With view to reduce credit risk associated with debt instruments, reference to credit rating can be used to limit investments in debt instruments of those issuer that have been rated above investment grade. Similarly, in case of infrastructure debt fund scheme, reference to credit rating can be used to limit investment in debt instrument issued by Infrastructure Company or project or special purpose vehicles created for facilitating or promoting investment in infrastructure or bank loans, that have been rated above investment grade by credit rating agency. However, investment in unrated instruments up to a certain extent of the net assets of the scheme is allowed by mutual funds. Given the nature of ‘Capital Protection Oriented Schemes’ that endeavour to	

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
		protect the capital invested therein through suitable orientation of its portfolio, these schemes mainly invest in highest rated debt securities. As corporate debt securities carry a credit risk profile that is distinct from government securities, usage of credit rating is allowed to limit participation in repo transaction of corporate debt securities rated above a specific grade. While assessing risk associated with overseas investments, reference to credit rating is generally being used to restrict investments in overseas money market instruments above investment grade or in government securities of countries rated above investment grade. In order to enhance transparency to the investor while disclosing asset allocation pattern of closed ended debt schemes, floors and ceilings of asset allocation (in %) being set against each sub asset class & credit rating are being disclosed in their SID.	

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
		Given that AMCs have internal credit evaluation policy, which is also being disclosed in SIDs (especially in case of closed-ended schemes) and parameters for credit assessment include study of operating environment of the issuer, past track record and future short term / long term financial health of issuer, etc. Thus, credit rating is not considered to be the only measure of credit risk or the panacea for addressing credit risk. Further, while referring to the rating of security in the aforementioned points, in case if multiple ratings of the same security are available, the most conservative publicly available rating is being used by the Mutual Funds.	
c. Alternative investment managers (e.g. hedge funds, endowments).	SEBI	There is no reference to credit rating in the Regulations governing Portfolio Managers or Alternative Investment Fund	Not applicable/ Implemented

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
d. Managers of occupational retirement schemes.	For *pension funds* – PFRDA	Investment guidelines compliance reporting, audit of schemes managed by Pension Funds are mandated by PFRDA and regulatory onsite due diligence of Pension Fund is undertaken once in a quarter.	Not applicable/ Implemented
b) Require changes to internal limits and investment policies.			
a. Insurance companies (in their capacity as institutional investors)	IRDA	The existing regulatory framework has the inbuilt checks so that the ratings of the CRAs should not be over emphasized. Such provisions include : i) Investment in securities issued by Government, Government Authorities companies promoted by the Government with sovereign guarantee. ii) Investment in debentures secured by a first charge on any immovable property, plant and equipment which has the payment of interest track record. iii) Investments in such debentures which have the charge on assets and the value of such assets should be more than 3 times of the value of debentures issued. iv) Debentures which have the floating	Not applicable/ Implemented

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
		charge on all of the assets of the issuer Company and have the dividend track record for the prescribed years. v) Investment in shares which are being guaranteed by another company.	
b. Investment managers (i.e. mangers of collective investment schemes).	SEBI	In case of Mutual Funds, the internal limits are disclosed in the offer document, i.e. Scheme Information Document. The Investment Managers are required to ensure that they adhere to these limits and same are required to be reviewed by the trustees. Internal limits and investment policies are reviewed and form part of regulatory inspections, periodic trustee review and periodic compliance test reporting. In case any non-compliance is observed, then the same is dealt with in the manner specified in the respective regulations. Presently, no further revisions are envisaged	Not applicable/ Implemented
c. Alternative investment managers (e.g. hedge funds, endowments).	SEBI	There is no reference to credit rating in the Regulations governing Portfolio Managers or Alternative Investment Fund	Not applicable/ Implemented

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
d. Managers of occupational retirement schemes.	For *pension funds* – PFRDA	Presently, no further revisions are envisaged in the investment management agreement.	Not applicable/ Implemented
c) Incentivise compliance with the CRA Principles.			
a. Insurance companies (in their capacity as institutional investors)	IRDA	Expert Advisory Committee of IRDA – Committee on Investments, Expenditure and ULIP issues – in its meeting held on 27th May, 2013 deliberated on the principles for reducing reliance on ratings of CRAs and the thematic review process of FSB. It was observed that Insurance Act, 1938 kept reliance on dividend track record, interest payments, collateral while making investments, due diligence, etc. As a matter of prudence practice, insurers have been relying on the Internal due diligence process along with the ratings given by the CRAs. The role of investment committee shall be more active while making/ continuing investments. Relying on the rating of two agencies may also be considered by the Authority. The Committee opined that though the ratings of CRAs cannot be substituted, but the internal processes of	Strengthening internal due diligence is a continuous process. As and when required, the Authority takes suitable steps

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
		the Insurers should be further strengthened. The said issue was again discussed in CIO/s/ CFOs meeting with IRDA on 22nd July, 2013, wherein it was opined that reducing reliance on CRAs ratings at this juncture is difficult. However, internal due diligence process could be further strengthen to supplement ratings of CRAs. The matter is under further examination.	

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
b. Investment managers (i.e. mangers of collective investment schemes).	SEBI	SEBI encourages Mutual Funds not to completely rely on rating agencies and have their own systems to check and balance CRA ratings used. Further, as per the extant regulations, it is duty of AMC to lay down an adequate system of internal controls and risk management for identifying, evaluating or measuring all risks including credit risk inherent in a mutual fund organization as well as establishing controls to mitigate such risks. In the offer documents of the scheme, Investment managers may disclose their credit evaluation policy for the investments in debt securities. Also, as per 'Principles of Fair Valuation' wherein the valuation is required to be done in good faith and in true and fair manner through appropriate valuation policies and procedures. These valuation policy and procedures have to be disclosed in the offer documents of scheme.	Not applicable/ Implemented

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
c. Alternative investment managers (e.g. hedge funds, endowments).	SEBI	There is no reference to credit rating in the Regulations governing Portfolio Managers or Alternative Investment Funds.	Not applicable/ Implemented
d. Managers of occupational retirement schemes.	For *pension funds* – PFRDA	Pension Funds should undertake public disclosures in their website in uniform formats approved by PFRDA disclosing its portfolio details, investment policy, risk policy etc.	Not applicable/ Implemented

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
d) Strengthen supervisory oversight to assess whether investments managers and institutional investors have made changes to the role that CRA ratings play in investment mandates, thresholds and triggers.			
a. Insurance companies (in their capacity as institutional investors)	IRDA	The existing regulatory framework has inbuilt checks so that the ratings of the CRAs should not be over emphasized. As per Note No:8 to the Regulations 3 to 8 of IRDA (Investment) (Fifth Amendment) Regulations, 2013 notified on 16th February, 2013 states that " Notwithstanding the above, it is emphasised that rating should not replace appropriate risk analysis and management on the part of the insurer. The insurer should conduct risk analysis commensurate with the complexity of the product(s) and the materiality of their holding, or could also refrain from such investments".	Not applicable/ Implemented

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
b. Investment managers (i.e. mangers of collective investment schemes).	SEBI	In case of Mutual Funds, investment policies are reviewed and form part of regulatory inspections, periodic trustee review and periodic compliance test reporting. In case any non-compliance is observed, then the same is dealt with in the manner specified in the respective regulations. Further, SEBI encourages Mutual Funds not to completely rely on rating agencies and have their own systems to check and balance CRA ratings used.	Not applicable/ Implemented
c. Alternative investment managers (e.g. hedge funds, endowments).	SEBI	There is no reference to credit rating in the Regulations governing Portfolio Managers or Alternative Investment Fund	Not applicable/ Implemented
d. Managers of occupational retirement schemes.	For *pension funds* – PFRDA	Investment Policy of Pension Funds has to be approved by its Board and should be reviewed on a half-yearly basis by the Investment Committee. Pension Funds are also required to report compliance of investment guidelines to PFRDA on a monthly basis.	Not applicable/ Implemented

Annex V: Collateral Policies for Central Counterparties (CCPs)

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
Based on the findings from the stock-taking exercise, please describe the areas identified as needing change and those areas considered priorities, as well as the steps authorities intend to take to reduce reliance on CRA ratings in laws and regulations. In addition, authorities should describe the incentives put in place for market participants to develop their own independent credit assessment processes. Examples of incentives might include disclosure requirements relating to credit risk assessment practices or articulating clear supervisory expectations of the extent to which CCPs should perform their own due diligence.			
1. Reducing reliance on CRA ratings in laws and regulations (Principle I)			
a) Remove references to CRA ratings in laws and regulations relating to collateral policies for CCPs.	SEBI	SEBI has prescribed a risk management framework which permits several instruments such as – Cash, Fixed Deposits, Bank Guarantees, G-Sec, Securities etc that can be placed as collateral. The role played by ratings in the risk management framework is very minimal. While the rated instruments such as AAA foreign sovereign securities are permitted to be accepted as collateral, currently these not being placed towards margins and the AA and above rated corporate bonds have been permitted only	**SEBI:** Not applicable/ Implemented

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
		recently. The policy also prescribes other eligible collaterals such as- Cash Equivalents a. Cash, b. Bank Fixed Deposits c. Bank Guarantees d. Securities of the Central Government e. Units of liquid mutual funds or government securities mutual funds (by whatever name called which invest in government securities) Other Liquid Assets f. Liquid (Group I) Equity Shares g. Mutual fund units other than those listed under cash equivalents h. Corporate Bonds (AA rating and above). SEBI has prescribed that collateral given towards margins should consist of, at the minimum, 50% cash equivalent. Bulk of	

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
	RBI	the collateral with the CCP is in the form of Fixed Deposits, Bank Guarantees, Cash and Securities. Presently the quantum of AA and above rated corporate bonds in the overall collateral with the CCP is negligible whereas AAA sovereign securities are not being offered as collateral. Therefore, no measures are envisaged to use alternative methods to define sovereigns / corporate bonds. The Clearing Corporation of India Limited (CCIL) (the CCP under the regulation and supervision of RBI) is currently using ratings from CRA for calculation of margin factor in certain segments; stepping up the initial margin in certain segments; estimating the loss absorption capability of members in case of default; and investment purposes. The minimum rating for investment etc. have been clearly stipulated in the investment policy of the CCP which is reviewed by the supervisor/regulator. CCP does not accept corporate securities. It only accepts government securities as collaterals.	**RBI:** The internal assessment process for credit risk exposures which can be used alongside CRA ratings is expected to be in place by mid-2014

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
		Work is ongoing to develop an internal assessment process for credit risk exposures which can be used alongside CRA ratings to make the credit exposure control more effective. The information requirements for undertaking credit exposure assessment, obligation of members to report required data, design of reporting format, etc. are being examined.	
b) Develop alternative standards of credit assessment, where necessary, for the purpose of replacing references to CRA ratings in laws and regulations relating to collateral policies for CCPs.	SEBI	SEBI has prescribed a risk management framework which permits several instruments such as – Cash, Fixed Deposits, Bank Guarantees, G-Sec, Securities etc that can be placed as collateral. The role played by ratings in the risk management framework is very minimal. While the rated instruments such as AAA foreign sovereign securities are permitted to be accepted as collateral, currently these not being placed towards margins and the AA and above rated corporate bonds have been permitted only recently. No forthcoming measures are envisaged. The Clearing Corporation of India Limited	**SEBI:** Not applicable/ Implemented

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
		(CCIL) (the CCP under the regulation and supervision of RBI) is currently using ratings from CRA for calculation of margin factor in certain segments; stepping up the initial margin in certain segments; estimating the loss absorption capability of members in case of default; and investment purposes. The minimum rating for investment etc. have been clearly stipulated in the investment policy of the CCP which is reviewed by the supervisor/regulator.	
	RBI	Work is ongoing to develop an internal assessment process for credit risk exposures which can be used alongside CRA ratings to make the credit exposure control more effective. The information requirements for undertaking credit exposure assessment, obligation of members to report required data, design of reporting format, etc. are being examined.	**RBI:** The internal assessment process for credit risk exposures which can be used alongside CRA ratings is expected to be in place by mid-2014

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
2. Reducing market reliance on CRA ratings (Principle II)			
a) Enhance supervisory processes and procedures to assess the adequacy of CCPs' own credit assessment processes.	SEBI	SEBI has prescribed a risk management framework which permits several instruments such as – Cash, Fixed Deposits, Bank Guarantees, G-Sec, Securities etc that can be placed as collateral. The role played by ratings in the risk management framework is very minimal. While the rated instruments such as AAA foreign sovereign securities are permitted to be accepted as collateral, currently these not being placed towards margins and the AA and above rated corporate bonds have been permitted only recently. No forthcoming measures are envisaged.	**SEBI:** Not applicable/ Implemented
	RBI	The Clearing Corporation of India Limited (CCIL) (the CCP under the regulation and supervision of RBI) is currently using ratings from CRA for calculation of margin factor in certain segments; stepping up the initial margin in certain segments; estimating the loss absorption capability of members in case of default; and investment purposes. The minimum rating for investment etc. have been clearly stipulated in the investment policy of the	**RBI:** The internal assessment process for credit risk exposures which can be used alongside CRA ratings is expected to be in place by mid-2014

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
		CCP which is reviewed by the supervisor/regulator. Work is ongoing to develop an internal assessment process for credit risk exposures which can be used alongside CRA ratings to make the credit exposure control more effective. The information requirements for undertaking credit exposure assessment, obligation of members to report required data, design of reporting format, etc. are being examined.	
3. Application of the basic principles to particular financial market activities (Principle III)			
3.1 Central counterparties and private sector margin agreements (Principle III.4a)			
a) Conduct stress tests or estimate the procyclical effect, on the overall margin requirements for the CCP participants, of a sudden downgrade of the credit ratings of some widely used securities.	SEBI	SEBI permits several instruments such as – Cash, Fixed Deposits, Bank Guarantees, G-Sec, Equity Securities, Foreign Sovereign Securities, Corporate Bonds (AA rating and above) etc, to be given as collateral for margins. The proportion of rated instruments such as Foreign Sovereign Securities and Corporate Bonds in the overall collateral kept with the Clearing Corporations is negligible.	Not applicable/ Implemented

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
	RBI	The Clearing Corporation of India Limited (CCIL) (the CCP under the regulation and supervision of RBI) accepts only cash and Government Securities denominated in Indian Rupee (sovereign exposure) as collaterals. Credit downgrade is not likely to have significant impact on the value of these securities in Indian market which cannot be covered through haircuts. Further, margin requirements are VaR based and moreover there is concept of minimum margin requirements for derivatives segments to address pro-cyclicality.	
b) Assess the reliance on credit ratings in the investment policy of the CCP.	SEBI	CCP uses the credit ratings for investment. The minimum rating for investment etc. have been clearly stipulated in the investment policy of the CCP which is reviewed by the supervisor/regulator. Presently the CCPs are investing their financial resources in very liquid financial assets. SEBI vide circular dated September 04, 2013 mandated the CCPs to comply with the Principles of Financial Market Infrastructures (PFMI) which	Not applicable/ Implemented

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
	RBI	inter-alia requires the CCPs to manage their liquidity risk. Based on the PFMIs SEBI conducted an assessment of the CCPs. With regard to the investment policy of CCPs, as stated above, presently the CCPs are investing their financial resources in very liquid financial assets. With regard to margins, SEBI has prescribed a Value at Risk (VaR) margining mechanism for the securities market which is updated five times in a day. The margining mechanism prescribes eligible collateral as mentioned at point 1 (a) above, which may have a tendency to be pro-cyclical. SEBI is in the process of reviewing the margining framework. Further, CCPs are also permitted to enhance the margining framework over and above the minimum prescribed by SEBI. The Clearing Corporation of India Limited (CCIL) (the CCP under the regulation and supervision of RBI) invests only in bank deposits and Government treasury bills. It undertakes internal credit risk analysis for investment in bank	

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
		deposits. Margin requirements are VaR based and moreover there is concept of minimum margin requirements for derivatives segments to address pro-cyclicality.	
c) Review private sector margin agreements to ensure compliance with the Principle.	SEBI	SEBI only prescribes risk management requirements for products traded on the screen based platform provided by recognized stock exchanges.	Not applicable/ Implemented
d) Require changes to private sector margin agreements.	SEBI	SEBI only prescribes risk management requirements for products traded on the screen based platform provided by recognized stock exchanges.	Not applicable/ Implemented
e) Incentivise compliance with the CRA Principles.	SEBI	SEBI only prescribes risk management requirements for products traded on the screen based platform provided by recognized stock exchanges.	Not applicable/ Implemented

Annex VI: Securities Issuance (debt and equity, whether public issuance or private placement), including asset-backed securities and corporate debt

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
Based on the findings from the stock-taking exercise, please describe the areas identified as needing change and those areas considered priorities, as well as the steps authorities intend to take to reduce reliance on CRA ratings in laws and regulations. In addition, authorities should describe the incentives put in place for market participants to develop their own independent credit assessment processes. Examples of incentives might include disclosure requirements relating to credit risk assessment practices.			
1. Reducing reliance on CRA ratings in laws and regulations (Principle I)			
a) Remove references to CRA ratings in laws and regulations related to securities issuance.	SEBI/ RBI	SEBI Credit Rating Agencies Regulations, 1999, Issue of Capital and other regulations stipulate that credit rating may be obtained from one or more credit rating agencies as against earlier requirement of obtaining ratings from at least two CRAs and also requires the issuer to obtain credit rating from credit rating agencies for their issue and disclose the same in the offer document. Since Indian Primary Market ushered into a disclosure based regime under SEBI, the	Not applicable/ Implemented

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
		various SEBI regulations on issues and listing stresses on comprehensive disclosure requirements to enable investor to make a well informed decision with regard to their investment. Similarly in the case of issuance of Securitized Debt Instruments, comprehensive disclosure requirements are specified. These comprehensive disclosure requirements are in line with the IOSCO Disclosure Principles for Public Offerings and Listings of Asset-Backed Securities. Guidelines issued by the Reserve Bank for Commercial Papers (CPs) and Non-Convertible Debentures (NCDs) contain generic reference to ratings. It is mandatory for eligible entities to obtain rating from SEBI registered CRAs for issuance of short term NCDs and CPs. However, the ratings are not the sole criterion employed as in addition to minimum rating for issuance of CPs and short term NCDs, the Reserve Bank has prescribed minimum eligibility criteria in terms of net worth and credit quality of borrower account with the bank for	

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
		issuance of such instruments. The margin requirements for repo transactions in corporate bonds are based on the CRA ratings. Reserve Bank is not conducting any separate review of CRAs and they have to follow the Code of Conduct prescribed by the SEBI. In the absence of a credible alternative to external credit rating, it may not be possible to fully remove all references external credit rating. Once a credible alternative methodology of credit risk measurement is developed, Reserve Bank would review the existing guidelines.	
b) Develop alternative standards of credit assessment, where necessary, for the purpose of replacing references to CRA ratings in laws and regulations relating to securities issuance.	SEBI/ RBI	SEBI Credit Rating Agencies Regulations, 1999, Issue of Capital and other regulations stipulate that credit rating may be obtained from one or more credit rating agencies as against earlier requirement of obtaining ratings from at least two CRAs and also requires the issuer to obtain credit rating from credit rating agencies for their issue and disclose the same in the offer document. Since Indian Primary Market ushered into	Not applicable/ Implemented

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
		a disclosure based regime under SEBI, the various SEBI regulations on issues and listing stresses on comprehensive disclosure requirements to enable investor to make a well informed decision with regard to their investment. Similarly in the case of issuance of Securitized Debt Instruments, comprehensive disclosure requirements are specified. These comprehensive disclosure requirements are in line with the IOSCO Disclosure Principles for Public Offerings and Listings of Asset-Backed Securities. Guidelines issued by the Reserve Bank for Commercial Papers (CPs) and Non-Convertible Debentures (NCDs) contain generic reference to ratings. It is mandatory for eligible entities to obtain rating from SEBI registered CRAs for issuance of short term NCDs and CPs. However, the ratings are not the sole criterion employed as in addition to minimum rating for issuance of CPs and short term NCDs, the Reserve Bank has prescribed minimum eligibility criteria in terms of net worth and credit quality of	

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
		borrower account with the bank for issuance of such instruments. The margin requirements for repo transactions in corporate bonds are based on the CRA ratings. Reserve Bank is not conducting any separate review of CRAs and they have to follow the Code of Conduct prescribed by the SEBI. In the absence of a credible alternative to external credit rating, it may not be possible to fully remove all references external credit rating. Once a credible alternative methodology of credit risk measurement is developed, Reserve Bank would review the existing guidelines.	
2. Reducing market reliance on CRA ratings (Principle II)			
a) Enhance supervisory processes and procedures to assess the adequacy of market participants own credit assessment processes.	SEBI/RBI	The disclosure requirements as mandated in various SEBI regulations enable the investors to analyze the facts independently and to take a well informed decision with regard to their investment, irrespective of the rating given the credit rating agency. The instant references to credit ratings and disclosure requirements in the various SEBI Regulations are only intended to serve as an additional input for	SEBI is in process of amending the same in its ICDR Regulations in the next six months;

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
		the decision making process of an investor and the investor is required to make his own independent and objective analysis before arriving at an investment decision. Issuers need to get their IPOs graded by CRAs to make additional information available for the investors in order to facilitate their assessment of equity issues offered through an IPO. The IPO grading process is expected to take into account the prospects of the industry in which the company operates, the competitive strengths of the company that would allow it to address the risks inherent in the business and capitalize on the opportunities available, as well as the company's financial position. SEBI approved the proposal to make the IPO grading mechanism "voluntary" as against the current provision of the same being "mandatory". Disclosures regarding credit rating of the instruments are not meant as recommendation to buy, sell or hold the instrument. Disclosure norms have been made stringent by requiring the issuers/	

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
		registered intermediaries to furnish periodic reports to SEBI and also disseminate various data and information to the public at large through their respective websites, so as to enable the investors to carry out their own due diligence. These disclosure requirements will enable the investors to analyse the facts independently and to take a well informed decision with regard to his investment, irrespective of the rating given the credit rating agency. Credit Rating is only an additional tool. Since the bond market in India is in its nascent stage, it was felt that, to start with, it would be prudent to permit rated bonds above a certain threshold to be given as collateral. Presently no forthcoming measures are envisaged. Guidelines issued by the Reserve Bank for Commercial Papers (CPs) and Non-Convertible Debentures (NCDs) contain generic reference to ratings. It is mandatory for eligible entities to obtain rating from SEBI registered CRAs for	

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
		issuance of short term NCDs and CPs. However, the ratings are not the sole criterion employed as in addition to minimum rating for issuance of CPs and short term NCDs, the Reserve Bank has prescribed minimum eligibility criteria in terms of net worth and credit quality of borrower account with the bank for issuance of such instruments. The margin requirements for repo transactions in corporate bonds are based on the CRA ratings. Reserve Bank is not conducting any separate review of CRAs and they have to follow the Code of Conduct prescribed by the SEBI. In the absence of a credible alternative to external credit rating, it may not be possible to fully remove all references external credit rating. Once a credible alternative methodology of credit risk measurement is developed, Reserve Bank would review the existing guidelines.	

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
3. Application of the basic principles to particular financial market activities (Principle III)			
3.1 Central counterparties and private sector margin agreements (Principle III.5a)			
a) Review the role of credit rating in disclosures by issuers of securities.	SEBI / RBI	The disclosure requirements as mandated in various SEBI regulations enable the investors to analyze the facts independently and to take a well informed decision with regard to their investment, irrespective of the rating given the credit rating agency. The instant references to credit ratings and disclosure requirements in the various SEBI Regulations are only intended to serve as an additional input for the decision making process of an investor and the investor is required to make his own independent and objective analysis before arriving at an investment decision. Issuers need to get their IPOs graded by CRAs to make additional information available for the investors in order to facilitate their assessment of equity issues offered through an IPO. The IPO grading process is expected to take into account the prospects of the industry in which the company operates, the competitive strengths of the company that would allow	SEBI is in process of amending the same in its ICDR Regulations in the next six months;

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
		it to address the risks inherent in the business and capitalize on the opportunities available, as well as the company's financial position. SEBI approved the proposal to make the IPO grading mechanism "voluntary" as against the current provision of the same being "mandatory". Disclosures regarding credit rating of the instruments are not meant as recommendation to buy, sell or hold the instrument. Disclosure norms have been made stringent by requiring the issuers/ registered intermediaries to furnish periodic reports to SEBI and also disseminate various data and information to the public at large through their respective websites, so as to enable the investors to carry out their own due diligence. These disclosure requirements will enable the investors to analyse the facts independently and to take a well informed decision with regard to his investment, irrespective of the rating given the credit rating agency. Credit Rating is only an	

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
		additional tool. Since the bond market in India is in its nascent stage, it was felt that, to start with, it would be prudent to permit rated bonds above a certain threshold to be given as collateral. Presently no forthcoming measures are envisaged. Guidelines issued by the Reserve Bank for Commercial Papers (CPs) and Non-Convertible Debentures (NCDs) contain generic reference to ratings. It is mandatory for eligible entities to obtain rating from SEBI registered CRAs for issuance of short term NCDs and CPs. However, the ratings are not the sole criterion employed as in addition to minimum rating for issuance of CPs and short term NCDs, the Reserve Bank has prescribed minimum eligibility criteria in terms of net worth and credit quality of borrower account with the bank for issuance of such instruments. The margin requirements for repo transactions in corporate bonds are based on the CRA ratings. Reserve Bank is not conducting any	

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
		separate review of CRAs and they have to follow the Code of Conduct prescribed by the SEBI. In the absence of a credible alternative to external credit rating, it may not be possible to fully remove all references external credit rating. Once a credible alternative methodology of credit risk measurement is developed, Reserve Bank would review the existing guidelines.	
b) Reduce the role of credit ratings in disclosures by issuers of securities (list the steps to take).	SEBI	The disclosure requirements as mandated in various SEBI regulations enable the investors to analyze the facts independently and to take a well informed decision with regard to their investment, irrespective of the rating given the credit rating agency. The instant references to credit ratings and disclosure requirements in the various SEBI Regulations are only intended to serve as an additional input for the decision making process of an investor and the investor is required to make his own independent and objective analysis before arriving at an investment decision. Issuers need to get their IPOs graded by CRAs to make additional information available for the investors in order to facilitate their assessment of equity issues	SEBI is in process of amending the same in its ICDR Regulations in the next six months; .

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
		offered through an IPO. The IPO grading process is expected to take into account the prospects of the industry in which the company operates, the competitive strengths of the company that would allow it to address the risks inherent in the business and capitalize on the opportunities available, as well as the company's financial position. SEBI approved the proposal to make the IPO grading mechanism "voluntary" as against the current provision of the same being "mandatory". Disclosures regarding credit rating of the instruments are not meant as recommendation to buy, sell or hold the instrument. Disclosure norms have been made stringent by requiring the issuers/ registered intermediaries to furnish periodic reports to SEBI and also disseminate various data and information to the public at large through their respective websites, so as to enable the investors to carry out their own due diligence. These disclosure requirements will enable the investors to analyse the facts	

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
	RBI	independently and to take a well informed decision with regard to his investment, irrespective of the rating given the credit rating agency. Credit Rating is only an additional tool. Since the bond market in India is in its nascent stage, it was felt that, to start with, it would be prudent to permit rated bonds above a certain threshold to be given as collateral. Presently no forthcoming measures are envisaged. Guidelines issued by the Reserve Bank for Commercial Papers (CPs) and Non-Convertible Debentures (NCDs) contain generic reference to ratings. It is mandatory for eligible entities to obtain rating from SEBI registered CRAs for issuance of short term NCDs and CPs. However, the ratings are not the sole criterion employed as in addition to minimum rating for issuance of CPs and short term NCDs, the Reserve Bank has prescribed minimum eligibility criteria in terms of net worth and credit quality of borrowal account with the bank for issuance of such instruments. The margin requirements for repo transactions in corporate bonds are based on the CRA	

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
		ratings. Reserve Bank is not conducting any separate review of CRAs and they have to follow the Code of Conduct prescribed by the SEBI. In the absence of a credible alternative to external credit rating, it may not be possible to fully remove all references external credit rating. Once a credible alternative methodology of credit risk measurement is developed, Reserve Bank would review the existing guidelines.	

Annex VII: Securities Firms (broker-dealers)

Action to be taken	Responsible national authority	Milestones to be met (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
Based on the findings from the stock-taking exercise, please describe the areas identified as needing change and those areas considered priorities, as well as the steps authorities intend to take to reduce reliance on CRA ratings in laws and regulations. In addition, authorities should describe the incentives put in place for market participants to develop their own independent credit assessment processes.			
----------NOT APPLICABLE----------			
1. Reducing reliance on CRA ratings in laws and regulations (Principle I)			
a) Remove references to CRA ratings in laws and regulations relating to securities firms.			
b) Develop alternative standards of credit assessment, where necessary, for the purpose of replacing references to CRA ratings in laws and regulations relating to securities firms.			
2. Reducing market reliance on CRA ratings (Principle II)			
a) Enhance supervisory processes and procedures to assess the adequacy of securities firms' own credit assessment processes.			