

FIDC

Finance Industry Development Council

(A Representative Body of NBFCs in India)

CIN: U91990MH2004NPL146931

101/103, Sunflower, 1st Floor, Rajawadi Road No.2, Ghatkopar (East), Mumbai – 400 077

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July 30, 2025

To

The DEPARTMENT OF DEBT AND HYBRID SECURITIES – POD II

Securities and Exchange Board of India (SEBI)

SEBI Bhavan,

Plot No. C4-A, G Block,

Bandra Kurla Complex, Bandra (East),

Mumbai – 400051

Subject: Comments on SEBI's Consultation Paper – Measures for Regulation of Activities of Credit Rating Agencies (CRAs) – July 2025

Respected Madam/Sir,

On behalf of the Finance Industry Development Council (FIDC), we extend our gratitude to SEBI for its continued efforts to enhance transparency, investor protection, and orderly development of the capital markets.

We recognize and appreciate SEBI's continuous efforts to build a robust, transparent, and well-regulated capital market framework. The present consultation paper's intent to provide CRAs the flexibility to rate instruments governed by other Financial Sector Regulators [FSRs], in the absence of dedicated guidelines, is a welcome and progressive step.

We hereby submit our consolidated response to SEBI's Consultation Paper on the regulation of CRAs. This submission reflects the collective views of our member

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companies and has been structured in line with the questions and pointers indicated by SEBI.

The detailed response is enclosed below for your kind consideration.

Question (as per SEBI Pointers)	FIDC Response (Industry Perspective)
1. Do you agree with the proposal to permit CRAs to undertake rating of financial instruments which fall under the purview of other Financial Sector Regulators (FSRs), where no rating related guidelines may have been issued by the relevant FSR?	Yes. We support the proposal as it will enable: <ul style="list-style-type: none">• wider credit rating coverage for unlisted, privately placed, debt and hybrid instruments issued by NBFCs and HFCs,• aligns with international best practices where principle-based oversight allows broader rating coverage• strengthen investor confidence, improve transparency, thereby improving market dept
2. If yes, whether the proposed conditions (Para 2.3.1 to 2.3.12) are appropriate and adequate?	While we agree with the intent of better governance, transparency, a wider coverage for all types of securities; some of the proposed conditions need further evaluation to ensure that these do not result in operational / logistical challenges, increase in cost of governance and cost of doing business.
Conditions Supported	2.3.1, 2.3.2: <ul style="list-style-type: none">• Brings greater transparency to investors and markets, ensuring that ratings for

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	<p>instruments regulated by RBI, IRDAI, PFRDA, etc., are properly done in compliance with the respective Regulator's guidance regarding the same.</p> <p>2.3.5 (only grievance mechanism):</p> <ul style="list-style-type: none">• Separate grievance redressal mechanism for non-SEBI ratings. <p>2.3.7, 2.3.9:</p> <ul style="list-style-type: none">• Disclaimers in agreements and rating rationales.
Concerns with Certain Proposed Conditions	<p>2.3.3, 2.3.4, 2.3.6:</p> <ul style="list-style-type: none">• Separate Business Units (SBU):<ul style="list-style-type: none">○ Multiple SBUs within a CRA will lead to duplication of due diligence and interactions for issuers who have both listed and unlisted instruments.○ Increased operational cost and time will eventually be borne by issuers (NBFCs/HFCs).○ Risk of inconsistent ratings from different SBUs for the same issuer, causing market confusion.• Staff Segregation:

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	<ul style="list-style-type: none">○ Segregating teams and restricting resource movement across SBUs could reduce rating quality and elongate timelines. <p>2.3.10, 2.3.11:</p> <ul style="list-style-type: none">● Operational Complexity:<ul style="list-style-type: none">○ Requirement for acknowledgments for existing agreements adds administrative work without much value○ Proposals like maintaining distinct marketing materials/websites will fragment credit information and reduce transparency for investors. <p>2.3.8 and 2.3.12:</p> <ul style="list-style-type: none">● Execution/Cost related Implications:<ul style="list-style-type: none">○ No immediate issuer-facing implications, but these need clear operational guidelines and in the event these increase the CRAs compliance burden then the same will be passed back to the Issuers
Material Concerns for NBFCs/HFCs	<ul style="list-style-type: none">● Higher costs:<ul style="list-style-type: none">○ The SBU model will raise rating fees and discourage smaller issuers from seeking ratings.● Possible withdrawal by CRAs:

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	<ul style="list-style-type: none">○ Some CRAs may avoid rating certain non-SEBI instruments due to increased compliance.● Duplication of efforts:<ul style="list-style-type: none">○ Issuers will need to repeatedly submit the same data to different SBUs within the same CRA.
Alignment with Global Practice	Global, CRAs such as S&P, Moody's, Fitch operate under one structure with internal governance and ring-fencing rather than full structural separation. SEBI may adopt a similar model.
Key Recommendations	<ul style="list-style-type: none">● Replace mandatory SBUs with ring-fencing and internal controls: Use disclosure-based governance rather than structural separation.● Ensure single-point data submission: Allow CRAs to reuse information across all instruments to avoid duplication.● Strengthen grievance redressal: Independent panel as noted above.● Increase transparency: Include rating committee date/time and attendance in published ratings.● Phased implementation: Provide a transition timeline (longer than six months).

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Suggestions for Strengthening Governance

- **Independent Grievance Redressal:**
 - An independent grievance redressal mechanism should be created comprising only SEBI/RBI officials, ex-bankers, and government nominees to promote principle of natural justice and avoids conflicts of interest.
- **Transparency in Rating Committees:**
 - All rating reports should include the **date and time of the rating committee meeting and the number of members present** when a rating was assigned to enhance transparency and governance.
- **Disclosures & Reporting Improvements:**
 - Unified disclosures for all instruments of an issuer, rather than fragmented by SBU.
 - Avoid duplicate requirements such as acknowledgements from existing stakeholders

FIDC welcomes SEBI's intent to expand CRA activity to unregulated FSR instruments but urges that the framework should **focus on governance, transparency, widening of the debt market, investor protection without adding duplication and operational silos**, which could increase costs and reduce efficiency for issuers such as NBFCs and HFCs.

We remain committed to working closely with SEBI on this important initiative and would be happy to provide any further clarifications or participate in detailed

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discussions on behalf of the NBFC and HFC sector.

Warm Regards,

Thanking you,

Yours sincerely,

For **FINANCE INDUSTRY DEVELOPMENT COUNCIL**

MR. MAHESH THAKKAR

CHAIRMAN

9820035553

Enclosed: PDF of FIDC's Submission on SEBI web portal