

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:2030

ANSWERED ON:02.12.2011

RATING OF BANKING INDUSTRY

Nagorao Shri Dudhgaonkar Ganeshrao;Shanavas Shri M. I.

Will the Minister of FINANCE be pleased to state:

- (a) whether the Government has set up any committee for the regulation of credit rating agencies in the recent past;
- (b) if so, the details thereof;
- (c) whether the said Committee has submitted its report;
- (d) if so, the details of the main recommendations of the report; and
- (e) the other corrective steps taken / being taken by the Government to make such credit rating agencies more disciplined and responsible?

Answer

The Minister of State in the Ministry of Finance (Shri Namo Narain Meena)

(a) & (b): At the instance of the High Level Coordination Committee on Financial Markets (HLCCFM) Government had set up a committee headed by Dr. K. P. Krishnan, then Joint Secretary, Department of Economic Affairs, Ministry of Finance, to revisit the legal and policy framework for regulating the activities of Credit Rating Agencies (CRAs). The Committee had representations from all the financial sector regulators and had extensive consultation with the industry.

(c) & (d): Yes, Sir. The recommendations include various transparency and disclosure requirements for credit rating agencies. These pertain to disclosures regarding rating procedure, default and transition studies, income, measures to deal with conflict of interest, obligations in respect of rating of structured products, unsolicited credit ratings, etc. The recommendations have been implemented by issuance of Guidelines.

(e): Vide circular dated January 6, 2010, SEBI has mandated a half yearly internal audit for credit rating agencies (CRA) to be conducted 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 shall cover all aspects of CRA operations and procedures, including investor grievance redressal mechanism and compliance with the provisions of the securities laws. The Board of Directors of the CRA shall consider the report and take steps to rectify the deficiencies, if any, and the CRA shall send an Action Taken Report to SEBI. For easy understanding of the rating symbols and their meanings by the investors, and to achieve high standards of integrity and fairness in ratings, SEBI has prescribed, vide circular dated June 15, 2011 standardised symbols and their definitions. SEBI also carries out inspection of CRAs on a periodical basis.