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**STANDING COMMITTEE ON FINANCE
(2018-19)**

SIXTEENTH LOK SABHA

**MINISTRY OF FINANCE
(DEPARTMENTS OF ECONOMIC AFFAIRS AND FINANCIAL SERVICES)
AND
MINISTRY OF CORPORATE AFFAIRS**

**STRENGTHENING OF THE CREDIT RATING
FRAMEWORK IN THE COUNTRY**

SEVENTY-SECOND REPORT



**LOK SABHA SECRETARIAT
NEW DELHI**

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FRAMEWORK IN THE COUNTRY**

Presented to Lok Sabha on _____

Laid in Rajya Sabha on _____

**LOK SABHA SECRETARIAT
NEW DELHI**

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COMPOSITION OF STANDING COMMITTEE ON FINANCE – 2018-19

Dr. M. Veerappa Moily - Chairperson

MEMBERS

LOK SABHA

2. Shri T.G. Venkatesh Babu
3. Kunwar Pushpendra Singh Chandel
4. Shri Bandaru Dattatreya
5. Shri Nishikant Dubey
6. Shri Harish Dwivedi
7. Shri Gopalakrishnan Chinnaraj
8. Shri Rattan Lal Kataria
9. Shri Chandrakant Bhauraao Khaire
10. Shri Bhartruhari Mahtab
11. Shri Prem Das Rai
12. Shri Rayapati Sambasiva Rao
13. Prof. Saugata Roy
14. Shri Rajiv Pratap Rudy
15. Shri Jyotiraditya Madhavrao Scindia
16. Shri Gopal Chinayya Shetty
17. Shri Prathap Simha
18. Dr. (Prof.) Kiritbhai Premjibhai Solanki
19. Dr. Kirit Somaiya
20. Shri Dinesh Trivedi
21. Shri Shivkumar Chanabasappa Udasi

RAJYA SABHA

22. Shri Rajeev Chandrasekhar
23. Shri Anil Desai
24. Dr. Narendra Jadhav
25. Shri A. Navaneethakrishnan
26. Shri Mahesh Poddar
27. Dr. Mahendra Prasad
28. Shri C.M. Ramesh
29. Shri T.K. Rangarajan
30. Shri Digvijaya Singh
31. Dr. Manmohan Singh

SECRETARIAT

| | | |
|---------------------------------|---|-----------------|
| 1. Shri N.C. Gupta | - | Joint Secretary |
| 2. Shri Ramkumar Suryanarayanan | - | Director |
| 3. Shri Kulmohan Singh Arora | - | Addl. Director |

INTRODUCTION

I, the Chairperson of the Parliamentary Standing Committee on Finance, having been authorized by the Committee, present this Seventy-second Report on the subject 'Strengthening of the Credit Rating Framework in the country'.

2. During the study visit to Mumbai on 3rd December, 2018, the Committee held discussions with the representatives of IL&FS, CRISIL, CARE and ICRA.

3. At their sittings held on 05 February, 2019, the Committee took evidence of the representatives of the Ministry of Finance (Departments of Economic Affairs and Financial Services), Ministry of Road Transport and Highways, the Ministry of Power, Power Finance Corporation Ltd. and Infomerics Ratings.

4. The Committee at their sitting held on 11 February, 2019 considered and adopted the draft report and authorised the Chairperson to finalise the same and present it to the Parliament.

5. The Committee wish to express their thanks to the officials of the Ministry of Finance (Department of Economic Affairs and Financial Services), Ministry of Road Transport and Highways, the Ministry of Power, Power Finance Corporation Ltd., Infomerics Ratings, IL&FS, CRISIL, CARE and ICRA for appearing before the Committee and furnishing the requisite material and information which were desired in connection with the examination of the subject.

6. For facility of reference, the observations/recommendations of the Committee have been printed in bold in the body of the Report.

NEW DELHI
11 February, 2019
22 Magha, 1941 (Saka)

DR. M. VEERAPPA MOILY
Chairperson
Standing Committee on Finance

PART I

A. Credit Rating Framework - An Overview

The history of systematic credit rating is a century old beginning with rating of US railroads bonds by John Moody in 1909. Credit Rating Agencies (CRAs) have progressed from rating simple debt products to complex debt structures, thus covering wide range of products/services. Though credit rating agencies are just over three decades old in India, still the introduction of the CRAs has help in facilitating the economic growth, bringing in fresh investments, widening the loan book, mobilizing of the resources and overall help bridge information asymmetry.

2. The objective of credit rating is to guide investors for taking informed decisions and to act as indication for investors protection. The Securities and Exchange Board of India (Credit Rating Agencies) Regulations, 1999 issued under section 11 of Securities and Exchange Board of India Act, 1992 empower SEBI to regulated credit rating agencies operating in India.
3. As per the CRA Regulations, a “*credit rating agency*” is defined as “*a body corporate which is engaged in, or proposes to be engaged in, the business of rating of securities offered by way of public or rights issue*”. However, CRAs also undertake other rating activities, such as rating of bank loans, commercial papers, fixed deposits, etc., based on mandates provided by other Regulators/ government agencies and are regulated by the concerned Regulators for the respective activities.
4. SEBI Regulations provide for a disclosure-based regulatory regime for CRAs, wherein CRAs are required to disclose their rating criteria, methodology, default recognition policy, guidelines on dealing with conflict of interest, etc. on their respective

websites. SEBI is among the few regulators globally to mandate public disclosure of rating criteria and methodology by CRAs.

5. The ratings assigned by credit rating agencies in general, represent their opinion about the credit risk associated with repayment of the credit facility based on individual proprietary rating framework/s of CRAs which take/s into account various drivers viz., business risk, industry risk, financial aspects, management capability etc. These frameworks are generally a combination of objective assessments through model outputs as well as subjective assessments through expert opinion of the analysts and rating committee members.

6. Currently, there are 7 CRAs registered with SEBI out of which 3 are listed. The same are as under:

| S. No. | CRA | Year of Registration | Promoters | Listing status |
|---------------|---|-----------------------------|-----------------------------|-----------------------|
| 1 | CRISIL Limited | 1999 | Standard & Poor | Listed |
| 2 | CARE Ratings Limited | 1999 | - | Listed |
| 3 | ICRA Limited | 1999 | Moody's Investor Services | Listed |
| 4 | India Ratings and Research Private Limited | 1999 | Fitch | Unlisted |
| 5 | Brickwork Ratings India Private Limited | 2008 | Canara Bank and Individuals | Unlisted |
| 6 | Acuite Ratings & Research Limited | 2011 | SIDBI, Dun & Bradstreet | Unlisted |
| 7 | Infomerics Valuation and Rating Private Limited | 2015 | M/s. Coment (Mauritius) Ltd | Unlisted |

7. The above CRAs are also accredited by RBI as External Credit Assessment Institutions (ECAs) for rating bank loan/ facilities that are used by banks for capital provisioning under Basel norms and for rating of CPs.

8. The bank loan ratings are generally issued by CRAs upon solicitation .i.e., based on the request received from the borrowers. CRAs do not issue unsolicited ratings. Further, there is no specific regulatory prescription of compulsory external rating requirement of borrowers. Borrowers can choose to remain unrated and bank's exposure to unrated borrowers will be assigned a risk weight applicable to unrated corporates and capital will be maintained by the banks accordingly.

9. The ratings of instruments/ securities is done as per the guidelines of the respective regulator/agencies. For example, as per Reserve Bank Commercial Paper Directions, 2017, issued on Aug 10, 2017 issuers having CP issuances during a calendar year amounting to more than Rs 1000 crore are required to obtain credit rating from atleast 2 CRAs and lower of the ratings is to be adopted. It further restricts the issuers who have defaulted on CPs to access the CP market for 6 months. Further, as per Resolution of Stressed Assets framework issued by RBI on Feb 12, 2018, the resolution plans involving restructuring of accounts having aggregate exposure of lenders of Rs 100 crore and above, require independent credit evaluation (ICE) of the residual debt by 1CRA, specifically authorised by RBI for this purpose and for accounts with aggregate exposure of Rs 500 crore and above, ICE from 2 such CRAs is required.

10. In order to address the concern of regulatory overlap, SEBI has formed a working Group on CRAs with RBI to discuss inter-regulatory issues. Pursuant to deliberations in this Working Group, SEBI and RBI have started taking up joint inspection of CRAs, where SEBI looks into the rating assigned to listed debt securities and RBI looks into rating of bank loans and CPs.

11. CRA has to follow its rating criteria/ methodology framed and disclosed by the CRA on its website, so that investors read the rating assigned by a CRA in conjunction

with the methodology used by the CRA for arriving at such rating. Further, SEBI has also prescribed that mutual funds, while investing in securities, shall undertake their own due diligence and not merely rely on the ratings assigned by CRAs.

12. In so far as MCA is concerned the requirement with respect to credit rating has been provided in respect of eligible companies which accept deposits under section 76 of the Companies Act, 2013 and Rules made thereunder.

Requirement of Credit Rating for acceptance of Public Deposits under Companies Act, 2013

13. Rule 3 of Companies (Acceptance of Deposit) Rules, 2014

(a) Every eligible company shall obtain, at least once in a year, credit rating for deposits accepted by it and a copy of the ratings shall be sent to the Registrar of Companies along with the return of deposits in Form DPT-3

(b) The credit rating referred to in clause (a) shall not be below the minimum investment grade rating or other specified credit rating for fixed deposits, from any one of the approved credit rating agencies as specified for Non-Banking Financial Companies in the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998, issued by the Reserve Bank of India, as amended from time to time.

B. Salient features of the CRA Regulations

14. A credit rating agency is a body corporate which is engaged in the business of rating of securities offered by way of public or rights issue.

15. **Registration requirements:** Broadly following requirements are needed to be fulfilled for registration as a CRA:

- a. Minimum net worth of rupees twenty five crore.
- b. The CRA, its promoter and directors to be 'fit and proper' persons.
- c. The promoter of the CRA to have a minimum shareholding of 26% in the CRA for a minimum period of 3 years.
- d. The promoter of a CRA shall be a public financial institution or a scheduled commercial bank, or a foreign bank operating in India, or a foreign credit rating agency with a minimum of five years' experience in rating securities

or a company/ body corporate, having continuous net worth of minimum rupees hundred crore for the previous five years.

16. General Obligations of CRAs: CRA to enter into a written agreement with each issuer whose securities it proposes to rate, which shall, inter alia, include provisions on the rights and liabilities of the CRA and issuer, fee to be charged by the CRA, cooperating with the CRA for periodic review of ratings by the CRA and, disclosure of rating assigned in the offer document, etc.

17. Rating process:

- a. Every CRA shall disclose the rating process.
- b. CRA to continuously monitor the rating till the lifetime of the securities
- c. CRA to continue rating based on best available information in case of non-cooperation from the issuer.
- d. CRA to disseminate information regarding newly assigned ratings, and changes in earlier rating promptly through press releases on its website and to inform the same to the exchange where that security is listed.
- e. CRA to disclose the definitions of the concerned rating, along with the symbol and not to give any recommendation to buy, hold or sell securities.
- f. CRA to disclose information relating to the rationale of the ratings, which shall cover an analysis of the various factors justifying a favourable assessment, as well as factors constituting a risk
- g. CRA to have professional rating committees, comprising members who are adequately qualified and knowledgeable to assign a rating.
- h. All rating decisions to be taken by the rating committee.
- i. CRA to exercise due diligence in order to ensure that the rating given by the credit rating agency is fair and appropriate.

18. Restriction on CRAs:

- a. CRA to not rate securities issued by it or its promoter.
- b. CRA to not rate a security issued by its borrower/ subsidiary/ associate or that of its promoter, if there are common Chairman, Directors or employees between the CRA and such entities.
- c. No CRA to directly or indirectly, hold 10% or more of shareholding and/ or voting rights in any other CRA or have representation on the Board of any other CRA.

- d. CRAs to segregate to a separate entity, the activities, other than the activity of rating of financial instruments carried under the respective guidelines of a financial sector regulator or any authority as may be specified by the Board

19. **Code of Conduct for CRAs:** CRAs shall abide by the Code of Conduct which, inter-alia, requires the CRAs to observe high standards of integrity and fairness and fulfil its obligations in a prompt, ethical and professional manner, to have in place a rating process that reflects consistent and international rating standards, etc.

C. Provisions in SEBI Regulations and Circulars for Strengthening the Credit Rating Framework:

i. To address Conflict of interest:

- Prohibition on rating of security issued by its promoter and borrower/ subsidiary/ associate of its promoter, if there are common Chairman, Directors or employees between the CRA and such entities.
- If promoter is a lending institution, its Chairman, director or employee shall not be a Chairman, director or employee of CRA or its rating committee.
- Not to hold 10% (directly or indirectly) or more of shareholding and/ or voting rights in any other CRA or have representation on the Board of any other CRA.
- CRAs shall segregate the activity other than the rating of financial instruments under the respective guidelines of a financial sector regulator or any authority as may be specified by the Board.
- A CRA shall not offer fee-based services to the rated entities, beyond credit ratings and research.
- A CRA or any of its employees shall not render any investment advice about any security in the publicly accessible media.
- A CRA shall formulate the policies and internal codes for dealing with conflict of interest.
- A CRA shall ensure:
 - a. that its analysts do not participate in any kind of marketing and business development including negotiations of fees with the issuer whose securities are being rated,
 - b. that the employees involved in the credit rating process and their dependants do not have ownership of the shares of the issuer.
 - c. prompt review of the credit ratings of the securities as and when any of its employees joins the respective issuer.
- CRA/ its subsidiaries shall not provide consultancy or advisory services regarding the design of structured finance instrument.

ii. Provisions in SEBI Regulations and Circulars to address “rating shopping”:

- Disclosure of non-accepted ratings on the website of the CRAs.
- Disclosure of all ratings in the offer document, including unaccepted ratings.
- Continuous disclosure of change in ratings on the Exchange website and on CRA's website.
- CRAs to refrain from giving Indicative ratings, without a written agreement with the issuer.
- CRAs to not indulge in any unfair competition or wean away the clients of any other CRA on assurance of higher rating.
- Suspension of ratings disallowed and CRAs mandated to continue rating based on best available information in case of non-cooperation from the issuer, with the suffix “issuer not cooperating”.
- Issuer required to disclose the history and status (non-cooperation) of previous rating relation with the earlier CRA to the new CRA it approaches, along with reasons for non-cooperation.
- The new CRA to disclose in its press release regarding the non-cooperation of the issuer with the previous CRA.

iii. Disclosures to be made by CRAs on their website:

a. Periodic Disclosures

- Rating policies, methodology and procedures
- Details of new credit ratings assigned during last six-months*
- Movement of credit rating of all outstanding securities during the last six-months*
- History of credit rating of all outstanding securities[#]
- List of defaults separately for each rating category[#]
- Average one-year and three-year cumulative default rates for the last 5 years[#]
- General nature of compensation arrangements with the issuers.
- Total receipt from rating services and non-rating services[#]
- Issuer wise percentage share of non-rating income of the CRA and its subsidiary to the total revenue of the CRA and its subsidiary from that issuer[#]
- Names of the rated issuers who along with their associates contribute 10% or more of total revenue of the CRA and its subsidiaries[#]
- For Structured Finance Products - Performance of the rated pool, i.e., collection efficiency, delinquencies*
- Unsolicited ratings carried out in the last three financial years and names of issuers, out of these, which were given solicited rating in the last financial year[#]
- Shareholding pattern of the CRA
- Compliance status of each provision of IOSCO code of conduct

- Summary Sheet containing number of new ratings, upgrades, downgrades, defaults, change in ratings post appeal, ratings withdrawn and rating distribution for outstanding ratings*
- Average one-year rating transition rates for long-term instruments for the last 5-financial year period#
- Sharp rating actions in investment grade rating category on Stock Exchange and Depository website*

*Half-yearly disclosure

#Annual disclosure

b. Continuous Disclosures and Reporting

- Rating history, Press Releases and Rating Reports, for all ratings
- Names of issuers where no confirmation of servicing of debt obligation is received
- Press release regarding the rating action (including reiteration of existing rating) within 7 days of occurrence of a material event
- Details of ratings not accepted by the issuer
- Details of cases where there is delay in periodic review
- Guidelines for dealing with conflict of interest
- Rating Criteria, Rating Process and their Disclosure

D. Major Amendments to the CRA Regulations:

The CRA Regulations have been amended from time to time, keeping in mind the dynamic nature of the market, so as to meet the market requirements. The major amendments made to the CRA Regulations, since 1999, are as under:

i. Amendment in the year 2003:

The CRA Regulations were amended to provide that a CRA may rate a security issued by its associate having a common independent director only if such independent director does not participate in the rating decisions, and the CRA makes a disclosure to this effect in the rating announcement.

ii. Amendments in the year 2018:

The following provisions were incorporated in the CRA Regulations:

- a. Minimum net worth requirement of CRA increased from existing ₹ 5 Crore to ₹ 25 Crore

- b. The promoter of a CRA to maintain a minimum shareholding of 26% in the CRA for a minimum period of 3 years from the date of grant of registration by the Board.
- c. The foreign CRA eligible to promote a CRA, shall be incorporated in a Financial Action Task Force (FATF) member jurisdiction and registered under their law.
- d. A CRA shall not, directly or indirectly, have 10% or more shareholding and/ or voting rights in another CRA and a CRA shall not have representation on the Board of any other CRA.
- e. A CRA may withdraw a rating only after having rated the instrument continuously for 5 years or 50 per cent of the tenure of the instrument, whichever is higher.
- f. CRA to segregate the activity other than the rating of financial instruments under the respective guidelines of a financial sector regulator or any authority as may be specified by SEBI.

E. Accreditation of CRAs by RBI

Under the Basel II Framework, exposure of banks are assigned risk weights based on their credit rating and the capital required to be maintained is linked to the total risk weighted assets of a bank. As such, a higher rated exposure will have a lower risk weight and consequently lower capital is required to be maintained. Thus credit rating will have a bearing on the capital required to be maintained by a bank for a given loan portfolio. To ensure that the ratings assigned by a rating agency can be relied upon to determine the risk weights and consequently the Capital to Risk weighted Assets Ratio (CRAR), based on the recommendations of the Internal Working Group (IWG) set up in 2006, four domestic credit rating agencies (CRAs) viz. CARE, CRISIL, ICRA and India Ratings (earlier known as FITCH India) were accredited as eligible External Credit Assessment Institutions (ECAI). Subsequently, two CRAs viz. Brickwork (Brickwork Ratings India Private Limited) and SMERA (SMERA Ratings Limited – now renamed as Acuite Ratings and Research) were granted accreditation on April 13, 2012 and September 13, 2012, respectively, based on the recommendations of an RBI internal group. Further, accreditation was granted to one more CRA viz. INFOMERICS

(INFOMERICS Valuation and Rating Pvt. Ltd) on June 13, 2017. As a result, seven domestic credit rating agencies have been accredited by RBI as on date.

F. Annual Review of Accreditation

RBI undertakes an Annual Review of the accreditation of the rating agencies since 2009-10 with the latest review done for the FY 2017-18. During the course of accreditation and subsequent reviews, various broad aspects laid down in the Basel norms are examined for each CRA as given below:

I. Objectivity

The methodology for assigning credit assessments must be rigorous, systematic, and subject to some form of validation based on historical experience. Moreover, assessments must be subject to on-going review and responsive to changes in financial condition. Before being recognised by supervisors, an assessment methodology for each market segment, including rigorous back testing, must have been established for at least one year and preferably three years.

II. Independence

An ECAI should be independent and should not be subject to political or economic pressures that may influence the rating. The assessment process should be as free as possible from any constraints that could arise in situations where the composition of the board of directors or the shareholder structure of the assessment institution may be seen as creating a conflict of interest.

III. International Access / Transparency

The individual assessments should be available to both domestic and foreign institutions with legitimate interests and at equivalent terms. In addition, the general methodology used by the ECAI should be publicly available.

IV. Disclosure

An ECAI should disclose the following information: its assessment methodologies, including the definition of default, the time horizon, and the meaning of each rating; the actual default rates experienced in each assessment category; and the transitions of the assessments, e.g. the likelihood of AA ratings becoming A over time.

V. Resources

An ECAI should have sufficient resources to carry out high quality credit assessments. These resources should allow for substantial ongoing contact with senior and operational levels within the entities assessed in order to add value to the credit assessments. Such assessments should be based on methodologies combining qualitative and quantitative approaches.

VI. Credibility

To some extent, credibility is derived from the criteria above. In addition, the reliance on an ECAI's external credit assessments by independent parties (investors, insurers, trading partners) is evidence of the credibility of the assessments of an ECAI. The credibility of an ECAI is also underpinned by the existence of internal procedures to prevent the misuse of confidential information. In order to be eligible for recognition, an ECAI does not have to assess firms in more than one country.

In addition to the above, quantitative assessment of the cumulative default rate (CDR) associated with each rating scale of a rating agency is also undertaken through the above exercise.

On the query of strengthening the credit rating framework in the country, the Secretary, Department of Economic Affairs, during the course of oral evidence deposed as under:

"SEBI is the regulator for securities issued in the country for public rights issue. The credit rating agencies are also regulated by the Reserve Bank of India for the instruments which are controlled by the Reserve Bank, for example, the commercial papers and all and fixed deposits. But, basically, the credit rating agencies are registered by the SEBI. SEBI has the regulations in place called the Securities and Exchange Board of India (Credit Rating Agencies) Regulations, 1999. Through these regulations, the SEBI regulates and registers them. SEBI has put in place a framework in the country which is fairly well-advanced. One of the best in the world and it is based on a certain kind of regime where disclosure and other things are required to be maintained. So, the rating agencies have to disclose their rating criteria; they have to disclose the methodology; default recognition policies; and guidelines on dealing with the conflict of interest and all. SEBI reviews from time to time the regulations. The last such regulations review took place in 2018 when four important changes were brought about. One was the minimum net worth criterion was increased from Rs. 5 crore to Rs. 25 crore to weed out if there are smaller net worth credit rating agencies. It was also decided that the promoters of the credit rating agencies will maintain a minimum shareholding of 26 per cent in the CRA for a

minimum period of three years. So, the parentage of the credit rating agencies has to be of good pedigree."

Regarding the pay model followed by CRAs in the country, the Secretary, DEA stated as under:

"There are some models which are very infrequently used where either the investor pays or the regulator pays. But by and large, globally all over the world, it is the issuer who pays. The earlier discussion on this is also relevant in this context because if the rating agencies compete for fees so much, then that may compromise the quality of rating. However, there is no better model or less worse model than the 'issuer pays model' which is there. The SEBI tries to safeguard as much as possible but this is adopted in the country also. There are several restrictions which have been placed on the CRAs so that they avoid the conflict. I will quote some of them. The CRAs cannot issue securities which are issued by itself or by its promoters so these are rated by the agencies which are not in conflict. CRA cannot also rate securities issued by its borrowers or subsidiaries or associate or that of its promoter. If there are common chairman, directors and employees between the CRA and such entities, then that kind of conflict is also avoided.

The CRAs are also required not to mix up the rating business and the other businesses and therefore, they require to segregate to a separate entity. The activities other than the activities of the rating of the financial instruments carried under respective guidelines for the financial sector regulator. This is where the conflict of interest is also avoided.

There are certain requirements which the CRAs have to observe. They have to make periodic disclosures on the website. There are also provisions which are intended to avoid the rating so that you cannot chose the CRA as to which rates better suits you."

On the above issue and also on the 'issue of conflict of interest', the Department of Economic Affairs in their post evidence reply have stated as under:

"In India and globally issuer payment revenue model is used by the CRAs. Conflict of interest is inherent in all the revenue models. The advantages and challenges posed by various alternative models have also been examined globally. The issuer pays model has been adopted taking into consideration widespread availability of ratings, cost of ratings for investors and access of information from the issuer to the CRA.

The feasibility of alternative revenue models has also been discussed in the past, most notably by the Krishnan Committee on Comprehensive Regulation for Credit Rating Agencies (2009), constituted by Capital Markets Division, Ministry of Finance. The Committee, in its Report, recommended as under:

"Globally, the 'issuer pays model' is followed by CRAs. The other alternatives are "investor pays model" and "regulator pays model". Considering that other models are not desirable/ feasible, as they lead to greater problems it is recommended to continue with the "issuer pays" model. However, greater transparency to the public regarding disclosure of conflict of interest, disclosure of fees received as described above would go some way to address these concerns."

The above recommendation was effected by way of SEBI Circular dated May 03, 2010, by mandating various disclosure requirements for enhancing transparency and mitigating the conflict of interest

SEBI has also various provisions in SEBI (CRA) Regulations and Circulars to address Conflict of interest which are as under:

- No rating of security issued by its promoter and borrower/ subsidiary/ associate of its promoter, if there are common Chairman, Directors or employees between the CRA and such entities.
- If promoter is a lending institution, its Chairman, director or employee shall not be a Chairman, director or employee of CRA or its rating committee.
- CRAs shall segregate the activity other than the rating of financial instruments under the respective guidelines of a financial sector regulator or any authority as may be specified by the Board.
- A CRA shall not offer fee-based services to the rated entities, beyond credit ratings and research.
- A CRA or any of its employees shall not render any investment advice about any security in the publicly accessible media.
- A CRA shall formulate the policies and internal codes for dealing with conflict of interest.
- A CRA shall ensure:
 - a) that its analysts do not participate in any kind of marketing and business development including negotiations of fees with the issuer whose securities are being rated,
 - b) that the employees' involved in the credit rating process and their dependants do not have ownership of the shares of the issuer.
 - c) prompt review of the credit ratings of the securities as and when any of its employees joins the respective issuer.
- While undertaking rating of structured finance products, a CRA or its subsidiaries shall not provide consultancy or advisory services regarding the design of structured finance instrument."

When asked about the feasibility of rotation of rating agencies on the lines of statutory auditors by the Regulator, the Department of Economic Affairs in the post evidence reply have stated as under:

"CRA Regulations provide for objectivity and credibility in the rating process to be followed by the CRAs. There is no provision for rotation of employees, analysts and CRAs in SEBI Regulations/ Guidelines. The same is consistent with the global practice, wherein decisions regarding rotation of employees/ analysts have been left to the CRAs. Further, each rating by a CRA passes through a multi-layer process and there is a team approach to avoid individual bias. The final rating is assigned by a rating committee which, as per SEBI requirements, may not include members who have business

responsibility. The MD/ CEO may be a member of the rating committee only if the majority of the rating committee members are independent, that is, not having any pecuniary relationship with the CRA or any of its employees. Further, any request for review of ratings by an issuer must be considered by a rating committee with a majority of members different from the rating committee that assigned the earlier rating and one-third of independent members.

In our view, the rotation of CRAs after a fixed period may have following implications:

- i. Rotation of CRAs may result in each CRA taking a short-term view (till the time that CRA is required to rate the instrument) on the creditworthiness of the issuer, instead of a longer-term perspective spanning the entire tenure of an instrument.
- ii. While there are stringent conditions for withdrawal of rating from a CRA at present, mandatory rotation of CRAs, may pose the problem of rating shopping as the issuer on rotation may approach a CRA promising a higher rating.
- iii. Since CRAs would assign ratings for a fixed period, the rating transition/ default statistics of each CRA, as required to be disclosed by each CRA on its website, shall not be reliable indicators of the performance of the CRA and rating transition of any instrument through its complete tenure would not be captured.

The issue has been examined in other jurisdictions, viz. by US, EU, etc. There is, globally, no practice of mandatory rotation of CRAs in any major jurisdiction. It is understood that in the recent past, Argentina discontinued the practice of rotation of CRAs."

G. CRAs and Infrastructure Leasing and Financial Services Ltd (IL&FS) Crisis

1. There are challenges and certain adverse developments in the domestic arena as well in the past few years and more recently in IL&FS leading to surge in the Non-Performing Assets. Credit rating agencies ignored the rising debt levels at IL&FS group, while assessing its creditworthiness. Rating agencies had rated it AAA, indicating the highest level of creditworthiness and these ratings were in place till June

2018. This, despite the fact that as early as September, 2016, one of the listed IL&FS group companies, IL&FS Engineering and Construction Company, having defaulted on the redemption of optionally convertible cumulative redeemable preference shares. It was only in July 2018, after group company IL&FS Transportation Networks (ITNL) defaulted on its repayment/redemption obligations under a commercial paper tranche that CRA downgraded ITNLs long-term borrowings to sub-investment grade. But it continued to accord good risk grades to ITNL's short-term paper and also affirmed its excellent long-term credit rating for IL&FS, the parent company.

2. Even in August 2018, CRA downgraded IL&FS just by one notch, from AAA to AA+. Only after the IL&FS defaulted on a series of loan payments in September 2018, the rating agencies downgraded IL&FS multiple notches. For example, CRA downgraded IL&FS by nine notches at one go, from AA+ to BB on September 8, 2018. This was a major failure on the part of the rating agencies. These have drawn the attention of the thinkers, regulators, investors/lenders and media and even the CRAs as well compelling all to introspect the underlying methodology for credit assessment for lending/investment by the financial institutions/banks/mutual funds and credit ratings assigned by CRAs and scrutiny by government agencies.

3. Significance of the IL&FS Group to the Economy and Financial Stability

a. The systematic importance of the IL&FS Group was highlighted in the Company Petition No. 3638 of 2018 before the NCLT, filed by the Union of India (through the MCA) ("Original Petition"). It was stated that the IL&FS Group is significant to financial markets because the majority of the debt obligation of IL&FS, an amount of Rs.57,000 crores out of the Rs.91,000 crores (estimated at the time of the petition), is from the public sector banks and institutions and that the majority of the capital invested in IL&FS

is by public financial institutions like the Life Insurance Corporation of India, State Bank of India, Central bank of India besides UTI, AMC etc.

b. Furthermore, it also stated that the IL&FS Group is involved in many infrastructure projects by way of project financing and also equity and debt financing. Any sudden impairment in its ability to finance and support the infrastructure projects would be quite damaging to the overall infrastructure sector, financial markets and the economy, considering its systematically important nature and its borrowing level of Rs.91,000 crores. Therefore, the timely intervention by the Union of India was required to prevent collapse of the IL&FS Group and to limit the contagion effect on the markets.

c. The Union of India (through the MCA) had filed Company Petition No. 3638 before the NCLT, under Sections 242(1) and 242 (2) of the Companies Act, 2013 ("Companies Act"), seeking immediate suspension of the board of directors of Infrastructure Leasing & Financial Services Limited ("IL&FS") and appointment of specified new directors, on the grounds of massive mismanagement of public funds by the erstwhile board of IL&FS Group and the affairs of IL&FS being conducted in a manner prejudicial to the public interest.

d. By way of an order dated October 1, 2018 passed by the NCLT ("NCLT - October 1 Order"), the NCLT invoked its powers under Sections 242(1) and 242(2) of the Companies Act and granted the interim prayer of suspending the existing board of directors of IL&FS as on October 1, 2018 and reconstituting the same with the six persons proposed by the Union of India. By way of a subsequent order of the NCLT dated October 3, 2018, based on the proposal by the Union of India, the NCLT allowed the appointment of one additional person to the Board of Directors of IL&FS.

Accordingly, by way of the aforementioned orders of the NCLT, the Board of Directors of IL&FS was reconstituted.

When asked as to whether the regulatory guidelines have been reviewed since the IL&FS episode, the Department of Economic Affairs in their post evidence reply have stated as under:

" SEBI vide circular dated November 13, 2018 further standardised the template of the Press Release used by CRAs while communicating rating actions. The said template specifies the minimum information to be disclosed in the Press Release, viz. the rating action and rating outlook, details of the instrument, key rating drivers, rating history, Hyperlink/reference to applicable criteria, contact details of rating analyst, disclosure on support from the Parent/ Group/ Government, if factored into a rating, list of all subsidiary/ group companies consolidated to arrive at a rating, along with the extent (e.g. full, proportionate or moderate) and rationale of consolidation, specific section on "Liquidity", highlighting parameters like liquid investments or cash balances, access to unutilised credit lines, liquidity coverage ratio, adequacy of cash flows for servicing maturing debt obligation, etc.

SEBI has initiated Adjudication proceedings against 3 CRAs under section 15HB of SEBI Act, 1992 for imposition of monetary penalty for violation of Regulation 24(7) and Clauses 4 and 8 of Code of Conduct for CRAs, read with Regulation 13 of SEBI (Credit Rating Agencies) Regulations, 1999".

H. Suggestions on strengthening of the Credit Rating Framework

The CRAs submitted the following suggestions to the Committee:

1. MANDATORY ROTATION OF CRAS AFTER EVERY THREE YEARS

Debt instruments and/or facilities rated by CRAs majorly have tenure longer than three years and this is more so in case of certain bank facilities (like Cash Credit, Bills Discounting, Letter of Credit, Bank Guarantee, etc.) which are virtually perpetual in nature. In order to have more vibrant functioning of domestic capital and money markets and enhancing credibility in the credit rating industry, we feel the mandatory rotation of CRAs may be implemented (as has been in place in case of statutory auditors for corporates and internal auditors for CRAs). Rotation of CRAs per se will have many benefits for the investors/lenders and can go a long way to avoid/minimise rating failure (due to nexus between CRA and the rated entity, if any, or otherwise) so as to help maintaining stability in the financial system of the country. Further, rotation is likely to bring more accountability among the CRAs as they will be wary of committing negligence.

2. RATING OF DEBT/LOAN FACILITY MAY BE CARRIED OUT BY MORE THAN ONE AGENCIES (DUAL RATINGS/MULTIPLE RATINGS FOR DEBT FACILITY OF RS.100 CRORE AND ABOVE).

All debt instruments/bank facilities, for Rs.100 crore and above, may be brought under the compulsory requirement of dual/multiple ratings and the lower/lowest rating may be accepted. This initiative is likely to bring more transparency in the capital market and money market and help to curb rating shopping.

As the entire credit rating process involves evaluation of various qualitative aspects and even the evaluation of quantitative parameters has multi-dimensional perspectives beyond numbers involving qualitative perception, rating of each debt

instrument/facility by two/multiple rating agencies can provide more meaningful and unbiased input to the investors/lenders. From this perspective perhaps, dual rating has been made compulsory by RBI in 2017 for annual CP issuances of Rs.1000 crore or above.

3. LEVEL PLAYING FIELD MAY BE ALLOWED IN TERMS OF REGULATORY LANDSCAPE TO ALL THE CRAS IRRESPECTIVE OF THEIR YEARS OF OPERATION AND REVENUE TO PROMOTE HEALTHY COMPETITIVE ECO-SYSTEM.

It is observed that during our over the years of operation that in case of large debt issues, majorly in case of central/state government undertakings, there are exclusive eligibility criteria being stipulated by the issuers/borrowers mainly with reference to the following:

- Length of operation;
- Revenue earned in the past;
- Total number of assignments completed;
- Total number of assignments completed pertaining to the particular industry segment.

This does not appear to be a healthy approach as the number of CRAs are only seven (7). Resultantly, the new-age CRAs (including Infomerics) get eliminated from the bidding process. Further, this does not appear to be tenable under any stretch of imagination as all the CRAs are registered with SEBI and accredited by RBI after both SEBI and RBI having examined and approved the rating methodologies & rating process of all CRAs. This also, in a way, demeans the regulators (like SEBI and RBI) which have accorded the registration/accreditation to the CRAs after rigorous scrutiny.

4. CHANGES IN REGULATORY FRAMEWORK OVER CONSULTANCY/ADVISORY WORKS SHOULD NOT BE ALLOWED TO CRAS AND ITS SUBSIDIARIES AND/OR ASSOCIATES

SEBI has put in place a Circular dated September 19, 2018 allowing CRAs to carry out rating of financial instruments/facilities under the respective guidelines of certain financial sector regulators/authorities and research activities, incidental to rating, such as research for Economy, Industries and Companies. However, it is most appropriate to refrain the subsidiaries and associates of CRAs as well from carrying out any advisory/consultancy work to ensure the avoidance of desired conflict of interest. This will enable the functioning of CRA industry more independent.

5. REORIENTATION OF ISSUER PAYING MODEL FOR CRAS TO ADDRESS THE CONFLICT OF INTEREST

As the major beneficiary of the issue/borrowing programme is issuer/borrower and then investor/lender, the cost of such exercise (precisely the rating fee) needs to be logically borne by the beneficiaries. However, since there are retail investors as well, Investor Paying model may not be workable in totality. Some of our peer CRAs have opined in various forums that the Issuer Paying model has been highly time tested globally and 75% of the rated population in India being below investment grade ab initio indicating that the Issuer Paying model has not materially impacted the rating decisions. Reorientation the Issuer Paying model to avoid the conflict of interest so as to improve the standards of the Indian credit rating industry.

6. UNHEALTHY COMPETITION BY WAY OF UNDER-CUTTING OF RATES OR RATING SHOPPING RESORTED TO BY SOME CUSTOMERS SHOULD BE AVOIDED. THEREFORE, MINIMUM FLOOR LIMIT FOR CHARGES PAYABLE SHOULD BE STIPULATED.

On the question of strengthening the credit rating framework in the country, the Ministry of Power in their note submitted as under:

Credit rating is the opinion of the rating agency on the relative ability and willingness of the issuer of a debt instrument to meet the debt service obligations as and when they arise. A credit rating evaluates the credit worthiness of an issuer of specific types of debt, specifically, debt issued by a business enterprise such as a corporation or a government. It is an evaluation made by a credit rating agency of the debt issuers' likelihood of default. Credit ratings are determined by credit ratings agencies. The credit rating represents the credit rating agency, evaluation of qualitative and quantitative information for a company. Credit rating framework must give weightage on the individual company's;

- Business framework
- Asset classification
- Asset quality of the company and future outlook of the same
- Financial ratios of the company
- Financial strength of the company
- Its capitalization, adequacy norms, its capability to maintain the same, ability to raise incremental capital etc.

Though weightage may be given to parent support to an extent on the basis of support that may be required by the individual company but more reliance should be on the intrinsic financial and operational strength of the company per se.

PART II

OBSERVATIONS/RECOMMENDATIONS

The Committee note that Credit rating agencies (CRAs) in India since their inception in 1987, have progressed from rating simple debt products to complex debt structures, covering a wide range of products/services like securities, bank loans, commercial papers, fixed deposits etc. The CRAs in our country are governed by the Securities and Exchange Board of India (SEBI) (Credit Rating Agencies) Regulations, 1999, which provide detailed requirements that a CRA needs to follow/fulfill to be registered with SEBI. These regulations have been amended from time to time, keeping in mind the dynamics of the market. Section 11 of the SEBI Act, 1992 empowers SEBI, as the primary regulator, to regulate the CRAs operating in India and enforce its regulations for their proper functioning. Certain other regulatory agencies, namely, Ministry of Corporate Affairs (MCA), Reserve Bank of India (RBI), Insurance Regulatory and Development Authority (IRDA) and Pension Fund Regulatory and Development Authority (PFRDA) also recognised the requirements for obtaining and disclosing credit rating by various entities under their respective sectoral jurisdiction. The Committee further note that the SEBI Regulations provide for a disclosure-based regulatory regime for CRAs, wherein they are required to disclose on their websites, their rating criteria, methodology, default recognition policy, guidelines on dealing with conflict of interest etc., The Committee understand that SEBI is among the few regulators globally to mandate public disclosure of rating criteria and methodology by CRAs.

2. The Ministry of Finance (Department of Economic Affairs) have submitted to the Committee that the ratings assigned by CRAs in general, represent their opinion about the credit risk associated with repayment of the credit facilities based on individual proprietary rating framework of CRAs, which takes into account various drivers, namely business risk, industry risk, financial aspects, management capability etc. These frameworks are generally a combination of objective assessments through model outputs as well as subjective assessments through expert opinion of the analysts and rating committee members. The Committee note that there are currently seven CRAs registered with SEBI, out of which three are listed. Under the Basel II Framework, exposure of banks are assigned risk weights based on their credit rating and the capital required to be maintained is linked to the total risk weighted assets of a bank. Accordingly, accreditation of CRAs is granted by RBI, which also undertakes an annual review of accreditation.

3. The Committee observe that in the international context, a few years back certain CRAs were stated to have been forced to downgrade their own prior credit ratings on complex mortgage backed securities in the USA, when doyens of the financial markets like Lehman Bros. collapsed and many others were in serious threat of liquidation, which also raised questions on the level of due diligence on the part of the CRAs. More recently, in the Indian context, the credibility of credit rating action has come into sharp question in the crisis involving the Infrastructure Leasing and Financial Services Limited (IL&FS), a major infrastructure development and finance company of systemic importance, which functioned as a holding company involved in investing and lending to its subsidiaries, associates and group entities. As 'rating' of an instrument or entity

is being increasingly relied upon by capital markets, bankers and investors and since it constitutes a key input for financial decision-making of far-reaching magnitude, the Committee desire that it should be ensured that the credit rating process becomes absolutely professional, objective and credible. The Committee would therefore expect the key regulator, namely SEBI as well as the RBI to review their Regulations comprehensively, particularly in the face of the serious IL&FS default crisis mentioned above. The regulators should also remain alert and pro-active when it comes to strict enforcement of the Regulations, particularly the punitive provisions, as otherwise, the entire object and process of regulation will be rendered meaningless. The Committee, therefore, desire that the Ministry of Finance (Department of Economic Affairs and Department of Financial Services) should seek a factual report from the concerned regulators regarding the enforcement of the CRA Regulations, particularly the action taken by them against the CRAs who had been giving "stable" ratings to IL&FS prior to the default crisis. The Committee believe that the Regulations should be suitably modified/tightened, benchmarking them on greater objectivity, transparency and credibility in the whole credit rating framework and process. In the view of the Committee, time has now thus come for a fresh evaluation of the credit rating framework in the country with a view to restoring public confidence and ensuring the accountability of the CRAs to the various stakeholders and the financial system as a whole. The Committee would recommend that the disclosures being made by the CRAs should henceforth include important determinants such as, extent of promoter support, linkages with subsidiaries, liquidity position for meeting near-term payment obligations etc. The Committee desire that the

general investors should also be able to get a coherent "big picture" about the entity and its associates/subsidiaries from credit rating.

4. The Committee note that under the 'issuer pays model', the entity issuing the financial instrument pays the CRAs upfront to rate the underlying securities. There is a strong view that such a payment arrangement may lead to a 'conflict of interest' and could result in compromising the quality of analysis or the objectivity of the ratings assigned by the agencies. The Committee would therefore suggest that the Ministry/Regulator may consider other options as well, such as "investor pays model" or "regulator pays model" after weighing the relevant pros and cons. Alternately, within the existing framework, the appropriate rating fee structure, payable by the issuer may be decided by the Regulator - SEBI - in consultation with RBI and the CRAs.

5. Similarly, the Committee would also suggest to the Ministry/Regulator to explore the mandatory rotation of rating agencies along the lines of statutory auditors to avoid the pitfalls of long association between the issuer and the CRA and particularly considering the recent instances of failure of CRAs in sensing simmering 'trouble' in their client-entities. This may also help eliminate element of complacency in the credit rating industry and bring fresh perspectives on table. In the same vein, the Ministry may also evaluate the suggestion to have rating compulsorily carried out by more than one agency (dual or multiple), particularly in respect of debt instruments/bank credit involving large amounts say, more than Rs.100 crore. This will help the investors to access different positions/viewpoints for an informed decision. On the same premise, the Committee would also suggest that the existing threshold for registration of CRAs may also be suitably lowered/modified with a view to encouraging more

entities, particularly start-ups with the requisite capability and expertise to become part of the industry.

6. The Committee would also recommend changes in the regulatory framework to avoid situations of 'conflict of interest', such as when the CRA or its subsidiaries are also allowed to do advisory/consultancy work besides rating. Further, with a view to provide a level playing field and healthy competition among CRAs, all the SEBI registered CRAs may be considered for eligibility to participate in the bidding process for large debt issues.

7. As regards the matter of IL&FS crisis, wherein the Government has since intervened and re-constituted the Board (the matter being under National Company Law Tribunal), the Committee would recommend a comprehensive commission of enquiry into the whole gamut of the episode, which will inter-alia probe the role of CRAs that had over-rated the entities sometime before the crisis and the role of the largest institutional stakeholder in IL&FS, namely the LIC of India as well as other institutional stakeholders. The governance failures and indecision/indiscretion on the part of the IL&FS Board should also be thoroughly probed. The Committee desire that urgent measures should be initiated to resurrect IL&FS, as it is the only major institution funding the infrastructure projects in the country.

NEW DELHI
11 February, 2019
22 Magha, 1941 (Saka)

DR. M. VEERAPPA MOILY
Chairperson
Standing Committee on Finance

Minutes of the Twelfth sitting of the Standing Committee on Finance (2018-19). The Committee sat on Tuesday, the 05 February, 2019 from 1500hrs. to 1700hrs. in Committee Room 'D', Parliament House Annexe, New Delhi.

PRESENT

Dr. M. Veerappa Moily - Chairperson

LOK SABHA

2. Shri Nishikant Dubey
3. Shri Rayapati Sambasiva Rao
4. Prof. Saugata Roy
5. Shri Rajiv Pratap Rudy
6. Shri Gopal Chinnaya Shetty
7. Dr. Kiritbhai Premjibhai Solanki
8. Dr. Kirit Somaiya
9. Shri Shivkumar Chanabasappa Udasi

RAJYA SABHA

10. Shri Rajeev Chandrasekhar
11. Dr. Narendra Jadhav
12. Shri A. Navaneethakrishnan
13. Shri Mahesh Poddar
14. Dr. Mahendra Prasad
15. Dr. Manmohan Singh

SECRETARIAT

| | | |
|---------------------------------|---|---------------------|
| 1. Shri N.C. Gupta | - | Joint Secretary |
| 2. Shri Ramkumar Suryanarayanan | - | Director |
| 3. Shri Kulmohan Singh Arora | - | Additional Director |
| 4. Shri Kh. Ginal Chung | - | Under Secretary |

PART-I

(1500-1545 hrs)

WITNESSES

INFOMERICS VALUATION AND RATINGS PVT. LTD.

1. Shri Vipin Malik, Chairman
2. Shri Suraj Pratap Malik, Whole Time Director
3. Shri Alok Mishra, Director
4. Shri Sukhanta Nag, Chief Executive Officer
5. Mr. B.K. Bajaj, Chief Rating Officer

2. At the outset, the Chairperson welcomed the Members and the witnesses to the sitting of the Committee. After the customary introduction of the witnesses, the Chairperson initiated the discussion on the subject 'Strengthening of the Credit rating framework in the country'. The major issues discussed include, legal provisions governing the functioning of Credit rating agencies (CRA), merits and demerits of mandating rotation of Credit rating agencies (CRA), rating of the rating agencies themselves, measures to enhance accountability and credibility on the Credit Rating agencies(CRA),feasibility of alternate models like the 'investor pays' or 'regulator pays' model, SEBI's role as a regulator for CRA, subsequent action taken by CRA regulator after IL&FS crisis etc. The witnesses responded to the queries raised by the Members on the subject. The Committee directed the witnesses to furnish written replies to the queries which could not be readily replied by them during the sitting within a couple of days.

The witnesses then withdrew.

PART-II

(1545-1700 hrs)

WITNESSES

MINISTRY OF FINANCE (DEPARTMENT OF ECONOMIC AFFAIRS)

1. Shri Subhash Chandra Garg, Secretary
2. Shri Anand Mohan Bajaj, Joint Secretary (Financial Markets)
3. Shri Ananta Barua, WTM, Securities and Exchange Board of India
4. Shri Nagendraa Parakh, ED, Securities and Exchange Board of India
5. Shri Prakash Balyan Singh, CGM, Reserve Bank of India

MINISTRY OF FINANCE (DEPARTMENT OF FINANCIAL SERVICES)

1. Shri Amit Agrawal, Joint Secretary

MINISTRY OF POWER

1. Shri Ajay Kumar Bhalla, Secretary
2. Shri Sanjiv Nandan Sahai, Additional Secretary
3. Shri Arun Kumar Verma, Joint Secretary
3. Shri Vivek Kumar Dewangan, Joint Secretary & Financial Advisor

MINISTRY OF ROAD TRANSPORT AND HIGHWAYS

1. Smt. Leena Nandan, Additional Secretary
2. Shri Amit Kumar Ghosh, Joint Secretary
3. Shri Asheesh Sharma, Member (Finance), NHAI

POWER FINANCE CORPORATION

1. Shri Rajeev Sharma, Chairman and Managing Director
2. Shri N.B. Gupta, Director
3. Smt. Parminder Chopra, General Manager

RURAL ELECTRIFICATION CORPORATION LTD.

1. Shri P.V. Ramesh Babu, Chairman and Managing Director
2. Shri Ajeet Agarwal, Director
2. At the outset, the Chairperson welcomed the Members and the witnesses to the sitting of the Committee. After the customary introduction of the witnesses, the Chairperson initiated the discussion on the subject 'Strengthening of the Credit rating framework in the country'. The major issues discussed include, impact of raising the

minimum net worth threshold for the rating agencies to Rs 25 crore from the current level of Rs 5 crore on Government schemes like Start-Up & Stand-Up India, legal provisions governing the functioning of Credit rating agencies (CRA) in the country, mandating rotation of Credit rating agencies (CRA) on the lines of rotation of Chartered Accountants as mandated under the Companies Act, rating of the rating agencies themselves, addressing the issue of conflict of interest when the same rating agency provides rating and research services, feasibility of alternate models like the 'investor pays' or 'regulator pays' model, need to revise and update the regulations governing the Credit Rating agencies (CRA) *vis-a-vis* global best practices like the European Union(EU) Regulations and the model of 'dynamic rating' as adopted by HDFC Bank, whether the regulatory guidelines have been reviewed since the IL&FS episode, bonding between CRA's and institutions, penal actions taken against CRA's by regulator due to faulty ratings, appointment of a commission by Ministry of Finance to look into the IL&FS crisis etc. The witnesses responded to the queries raised by the Members on the subject. The Committee directed the witnesses to furnish written replies to the queries which could not be readily replied by them during the sitting within a couple of days.

The witnesses then withdrew.

(A verbatim record of the proceedings has been kept)

The Committee then adjourned.

**Minutes of the Thirteenth sitting of the Standing Committee on Finance
(2018-19)The Committee sat on Monday, the 11th February, 2019 from 1500hrs. to
1600 hrs in Committee Room 'D', Parliament House Annexe, New Delhi.**

PRESENT

Dr. M. Veerappa Moily - Chairperson

LOK SABHA

2. Shri Nishikant Dubey
3. Shri Rattan Lal Kataria
4. Shri Chandrakant Bhaurao Khaire
5. Shri Bhartruhari Mahtab
6. Prof. Saugata Roy
7. Shri Gopal Chinnaya Shetty
8. Dr. Kirit Somaiya
9. Shri Dinesh Trivedi
10. Shri Shivkumar Chanabasappa Udasi

RAJYA SABHA

11. Dr. Narendra Jadhav
12. Shri A. Navaneethakrishnan
13. Shri Mahesh Poddar
14. Dr. Mahendra Prasad
15. Shri C.M. Ramesh
16. Shri Digvijaya Singh
17. Dr. Manmohan Singh

SECRETARIAT

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|---------------------------------|---|---------------------|
| 1. Shri N.C. Gupta | - | Joint Secretary |
| 2. Shri Ramkumar Suryanarayanan | - | Director |
| 3. Shri Kulmohan Singh Arora | - | Additional Director |
| 4. Shri TenzIn Gyaltsen | - | Under Secretary |
| 5. Kh. Ginlal Chung | - | Under Secretary |

2. At the outset, the Chairperson welcomed the Members to the sitting of the Committee. The Committee, thereafter, took up the following draft Reports for consideration and adoption :

- (i) Draft Report on the subject 'Central assistance for Disaster Management and Relief'.
- (ii) Draft Report on the subject 'Strengthening of the Credit Rating Framework in the country'.

After some deliberations, the Committee adopted the above draft Reports with minor modifications and authorised the Chairperson to finalise them and present the Reports to Parliament.

The Committee then adjourned.