

Information on regulation of Credit Rating Agencies and Investor Education in India may be derived from the following:

**1. Securities & Exchange Board of India (Credit Rating Agencies) Regulations, 1999.**

This covers registration of CRAs, their obligations, restriction on rating of Securities, procedure for inspection and investigation, procedure for action in case of default, and the Code of Conduct. Full text of the regulations may be seen at:

<http://www.sebi.gov.in/acts/CreditRatingAgencies.pdf>

**2. Report of the Committee on Comprehensive Regulation for CRAs, December 2009**

This committee was set up to reflect on inter regulatory issues emanating from the activities of CRAs.

The report of the committee covers the following: Function and Approaches of CRAs; Regulatory Framework for CRAs (SEBI regulations, SEBI code of conduct, provisions relating to conflict of interest, multiplicity of regulators, international regulations); Regulatory Concern About CRA business Model; and, Recommendations.

In its report the Committee notes:

India has been proactive in introducing effective and comprehensive regulations for CRAs as early as 1999. In contrast, the US market saw substantial regulations only recently in 2007, and the European Union is still in the process at the time of writing this report) of framing its regulations. SEBI's CRA regulations have been used as a model by other regulators in emerging economies. SEBI's code of conduct for CRAs addresses some of the basic issues relating to conflicts of interest. The code of Conduct is designed to ensure transparent and independent functioning of CRAs. These regulations have been reasonably effective in ensuring that credible players operate in the industry and there is widespread investor access to ratings. Nevertheless, given the recent global experiences and emerging trends in regulation there is undoubtedly a case for a re-look at the CRA business models and strengthening of regulations.

The recommendations are summarized as follows:

The committee feels that prima facie there is no immediate concern about operations and activities of CRAs in India even in the context of the recent financial crisis. However there is a need to strengthen the existing regulations by learning the appropriate lessons from the current crisis. The committee has taken note of international action in this regard and inter alia recommends that there may be greater disclosures regarding materially significant revenues received from a particular issuer / non rating business like advisory services. A lead regulator model for CRAs may also be explored. The committee has also strongly recommended voluntary compliance with existing and emerging regulations like IOSCO Code.

Full report of the committee may be seen at:

[http://www.irdaindia.org/annual\\_report/Report\\_CCRCA.pdf](http://www.irdaindia.org/annual_report/Report_CCRCA.pdf)

**3. Assessment of Long term Performance of CRAs in India by NISM, July 2009**

The Committee on Comprehensive Regulation for CRAs had commissioned National Institute of Securities Market (NISM) for a study on historical analysis of soundness and robustness of CRA predictions in India. The study brings out the relative fragility of the rating methodology as reflected in the transition data which shows high degree of rating migrations. Full text of the study report may be seen at: <http://www.sebi.gov.in/commreport/nismreport.pdf>

**4. Investor Education and Protection Fund**

This relates to providing financial assistance from the Government for activities relating to education and protection of investors. The rules provide for registration of voluntary associations or other organizations involved in such activities and guidelines for funding their activities. The IEPF activities include education programs through the mass media, organizing seminars and symposia, registration of organizations conducting such activity and funding them, and coordinating institutions engaged in such activities. Guidelines have also been established for funding research proposals and class-action suits. Full details are available on the website:

[http://www.mca.gov.in/Ministry/iepf\\_info.html](http://www.mca.gov.in/Ministry/iepf_info.html)

**5. Investor Grievance Management Cell set up in 1993**

The Investor Grievance Management Cell (earlier known as Investor Protection Cell) in the Ministry of Corporate Affairs was set up in 1993. Its function is to take up the grievances of investors' through the jurisdictional Registrars of Companies. It also coordinates with the Reserve Bank of India, the Department of Economic Affairs and the Securities and Exchange Board of India for redress of complaints received in the Ministry of Corporate Affairs but pertaining to those agencies. Broadly, the complaints relate to the following issues: Non receipt of annual report, non receipt of dividend amount, non refund of application money, non payment of matured deposits and interest thereon, non receipt of duplicate shares, non registration of transfer of shares, non issue of share certificates, non receipt of debenture certificates, non issue of rights bonus shares, non issue of interest on late payment, non redemption of debentures and interest thereon, non receipt of share certificates on conversion. Reference to the activities of the cell may be seen at paragraph 5.9 of the 53<sup>rd</sup> Annual Report of the Ministry of Corporate Affairs, Government of India at:

[http://www.mca.gov.in/Ministry/pdf/53AR\\_English.pdf](http://www.mca.gov.in/Ministry/pdf/53AR_English.pdf)

**6. Coordination and Monitoring Committee on Vanishing Companies**

A central Coordination and Monitoring Committee (CMC) on Vanishing Companies has been set up to look into issues relating to companies that had come out with public issue and vanished and to monitor the progress of action taken against them. The CMC is co-chaired by the Secretary, Ministry of Corporate Affairs and the Chairman, Securities & Exchange Board of India. Specific criteria have been adopted by CMC for

identification of vanishing companies. Among the companies that came out with the IPOs during 1992-2005, a total of 238 companies were identified as vanishing companies out of which 117 have been traced back till the end of March 2009. Reference to the activities of the cell may be seen at paragraph 5.10 of the 53<sup>rd</sup> Annual Report of the Ministry of Corporate Affairs, Government of India at:

[http://www.mca.gov.in/Ministry/pdf/53AR\\_English.pdf](http://www.mca.gov.in/Ministry/pdf/53AR_English.pdf)