



## ACRAA BEST PRACTICES CHECKLIST: ICRA'S POSITION

ACRAA (the Association of Credit Rating Agencies in Asia) is an association formed by Asian credit rating agencies, and assisted by the Asian Development Bank. ACRAA has been set up

- To develop and maintain cooperative efforts that promote among credit rating agencies in Asia to enhance their capabilities and their role of providing reliable market information
- To undertake activities aimed at promoting the adoption of best practices and common standards that ensure high quality and comparability of credit ratings throughout the region
- To undertake activities aimed at promoting the development of Asia's bond markets and cross border investment throughout the region

A significant initiative undertaken by the Best Practices Committee of ACRAA was to create the ACRAA Best Practices Checklist. All Member Agencies are expected to declare their positions on each of the items in the checklist. ICRA's position on these items is set out below.

### ACRAA - BEST PRACTICES CHECKLIST

ICRA's position on the items in the ACRAA Best Practices checklist is set out below.

#### A. QUALITY AND INTEGRITY OF THE RATING PROCESS

##### 1) Specification and description of Rating Process and Criteria

ICRA has made available its detailed Rating Process and Methodology. These are available in the public domain.

##### 2) Published and explicit Ratings Review / Appeal Process

ICRA has a laid down appeal and review process, which is published.

##### 3) Policy on Rating Withdrawals

ICRA has a rating withdrawal policy which is in the public domain.

##### 4) Policy on Disclosure of unaccepted ratings

ICRA does not publish a rating in case it is not accepted by the issuer. However, information on non-accepted ratings is provided to regulatory agencies, if requested for by the agencies.

The issuance of certain categories of debt instruments in India is governed by the capital market regulator. Disclosure of ratings on such instruments is in keeping with the prevailing regulations.

##### 5) Policy on surveillance

ICRA monitors its accepted ratings over the life of the instrument. The ratings are generally reviewed once every year, unless the circumstances of the case warrant an earlier review.

##### 6) Policy on code of ethics of ratings agency and its staff

ICRA has an explicit code of ethics signed and adopted by each member of the agency.

## **7) Validity of ratings**

Once accepted, ICRA ratings are valid over the life of instrument, until they are revised, suspended or withdrawn.

## **8) Publication of the Limitations of**

- Rating Rigour
- Information adequacy
- Currency

ICRA mentions the limitations of its ratings in its communications.

## **9) Assurance or Guarantee of ratings**

ICRA does not, either implicitly or explicitly, give any assurance or guarantee of a particular rating prior to a rating assignment.

## **10) Policy on Compliance Officer**

We have a Compliance Officer whose role is specified in the regulation (s) and/or Code of Conduct. There are certain internal provisions which require employees to report violation etc. to the compliance officer.

## **11) Separation of analyst compensation and revenue from issuer**

The compensation of individual analysts is not based on the amount of revenue that ICRA derives from the issuers that the analysts rate or with whom the analysts regularly interacts

## **B. INDEPENDENCE AND AVOIDANCE OF CONFLICT OF INTEREST**

### **12) Published Policy on dependence on third parties:**

- Auditors
- Bankers and Financing Institutions
- Trustees
- Consultants
- Experts

ICRA relies on third parties work for assigning ratings. While, ICRA does not conduct a re-audit or investigation of the information it uses, it carries out reasonable due diligence, to cross check and verify the reliability of information. ICRA also makes suitable adjustments to the financial statements, where it considers it necessary.

### **13) Disclosure of Interests**

For all rating assignments any conflict of interest that may exist at the organizational level is disclosed to ICRA's rating committee. As per the prevalent regulations ICRA does not rate certain categories of debt instruments which are under the purview of the market regulator, in case the entity is a borrower/subsidiary/associate of ICRA's promoters and there is a director common to ICRA and the entity.

However, ICRA can rate debt instruments which are under the purview of the market regulator, in case there is a common independent director of ICRA and the entity, provided the entity should not be a borrower/subsidiary/associate of ICRA's promoter. Such common independent directors however, do not participate in the rating process or the proceedings of the Rating Committee meeting for assigning the rating to the debt instrument of that entity.

For debt instruments which are not under the purview of the market regulator, in case a ICRA Rating Committee member is on the Board of the entity being rated or has any other relationship, he/she does not participate in the rating process or proceedings of the Rating Committee meeting for assigning the rating to the debt instrument of that entity.

### **14) Separation of businesses**

We have legally and operationally separated our credit rating business and analysts from any other business that may have a potential for conflict of interest.

#### **15) Disclosure of general nature of fee arrangements with rated entities**

We disclose the general nature of fee arrangements with rated entities

#### **16) Disclosure of non-rating revenue from rated entities**

For ICRA, non – rating income from rated entities pertains primarily to income from mutual fund investments, interest on bonds and sale of research. The same is not disclosed separately.

#### **17) Trading Policy for employees**

ICRA maintains a trading policy for all its employees, which amongst other things, prohibit employees from transacting in securities when they possess confidential information concerning the issuer. At the time of joining ICRA, an employee is required to provide a disclosure of all securities held by him/her. Further, ICRA takes from its employees an annual statement of their holding in securities.

#### **18) Policy on employees directly involved in the rating process initiating , or participating in, discussions regarding fees or payments with rated entities**

Rating Analysts directly involved in the rating process are not responsible for rating fee or for engaging in any fee discussion with the rated entities. Employees responsible for business development and fee discussions do not participate in the rating process.

### **C. RESPONSIBILITIES TO THE INVESTING PUBLIC, ISSUERS AND REGULATORS**

#### **19) The Ownership of the agency**

The list of major shareholders has been circulated in the public domain and is updated whenever there are significant changes in the ownership.

#### **20) The agency's Management and Board Structure**

Names of the key Senior Management, and all Board Members, have been published, and are available in the public domain.

#### **21) Constitution of the Rating Committee**

Names of the Rating Committee members have been published, and are available in the public domain.

#### **22) Disclosure of what Ratings issued by the agency mean**

ICRA's credit ratings are based on both the probability of default and the severity of loss. Unless stated otherwise, ICRA's corporate investment grade ratings are typically based on the probability of default, while ICRA's structured obligation ratings primarily focus on the expected loss.

Besides credit rating, ICRA also assigns corporate governance ratings, mutual funds ratings and performance gradings/rankings which are distinct from conventional credit ratings. Users are advised to refer to ICRA's service brochures for details.

#### **23) Policy on time to communicate ratings**

ICRA generally assigns ratings based rating mandate from issuers. As per terms of the mandate, ICRA's initial ratings are made public only after acceptance by the issuers. For all its accepted outstanding ratings, ICRA disseminates all rating revisions with in a reasonable time, generally not exceeding 5 working days.

#### **24) Guidelines on Rating Rationale: timeliness**

A Brief rationale behind assigning/revising/withdrawing a rating is released (in the form of a press release) by ICRA alongwith the rating. A detailed Rating Rationale is also made available on ICRA's web site and

published in ICRA's bi-monthly publication- Rating Profile. These Rationales are also updated when material developments take place.

**25) Guidelines on Rating Rationale: content**

ICRA rating rationales specify all the factors which are taken into account while arriving at the rating. It also includes information on the company background, business risk factors, project risks, financial risk profile, prospects of the entity and key rating issues.

**26) Publication of Default and Transition statistics**

ICRA publishes its ratings default and transition reports. These reports are also available on ICRA's website.

**27) Existence and publication of a Policy on Unsolicited Ratings: whether they will be undertaken, if so based on what information.**

ICRA does not undertake unsolicited ratings for public dissemination. However, ICRA does carry out private ratings on specific requests of investors based on available information. In these cases the limitation of the ratings in terms information is clearly mentioned in our rating communication letters.

**28) Policy on preserving confidentiality of privileged information (and exceptions for regulatory queries)**

ICRA does not disclose confidential information obtained during the rating exercise to anyone under any circumstances, except when required by law to specified authorities.

**D. DISCLOSURE OF THE CODE OF CONDUCT AND COMMUNICATION WITH MARKET PARTICIPANTS**

**29) Publication of Code of Conduct**

ICRA has adopted several codes of conduct, pursuant to requirements of applicable regulations or otherwise, some of which are in the public domain.

**30) Existence of dedicated Function/group within the organisation charged with informing the market participants and public regarding any questions, concerns, or complaints**

ICRA accords top priority to its market communication. All market queries questions or complaints are addressed by the senior management of ICRA.



## ICRA Limited

*An Associate of Moody's Investors Service*

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