



ICRA RATINGS
CODE OF CONDUCT

A. PRELIMINARY

ICRA information products, Ratings, and solutions reflect independent, professional and impartial opinions, which assist businesses enhance the quality of their decisions and help issuers access a broader investor base and even lesser known companies approach the money and capital markets.

We strongly believe that quality and authenticity of information are derivatives of an organisation's research base. We have dedicated teams for Monetary, Fiscal, Industry and Sector research, and a panel of Advisors to enhance our in-house capabilities. Our research base enables us to maintain the highest standards of quality and credibility.

ICRA Ratings Code of Conduct is aligned with the Code of Conduct Fundamentals for Credit Rating Agencies issued by the Technical Committee of the International Organization of Securities Commissions to the extent it is within the applicable Statutes in India. "ICRA Ratings Code of Conduct" is available, free of charge, in the public domain as a separate link on our website, www.icra.in.

The ICRA Code of Conduct, however, shall not form a part of any contract with any entity and no such entity shall have any right to enforce any of this Code's provisions, in any manner. ICRA does not assume any liability arising out of this Code to any entity. ICRA reserves the right to modify this Code, as and when required, either out of legal and regulatory requirements or otherwise.

The Board of Directors has adopted the "ICRA Ratings Code of Conduct". The ICRA Ratings Code of Conduct is designed to apply to ICRA and any person employed by ICRA in either a full-time or part-time capacity. All employees who are associated with the process of ICRA Ratings are expected to comply with ICRA Ratings Code of Conduct and all other Codes, Policies, Regulations and Guidelines issued by the Regulatory Authorities etc.

A Credit Rating is a simple and easy to understand symbolic indicator of the opinion of a credit rating agency about the risk involved in a borrowing programme of an issuer with reference to the capability of the issuer to repay the debt as per terms of the issue. This is neither a general-purpose evaluation of the company nor a recommendation to buy, hold or sell a debt instrument.

B. THE CODE OF CONDUCT FUNDAMENTALS

ICRA should endeavor to issue opinions that help reduce the asymmetry of information that exists between borrowers and debt and debt-like securities issuers, on one side, and lenders and the purchasers of debt and debt-like securities on the other. Rating analyses of low quality or produced through a process of questionable integrity are of little use to market participants. Stale ratings that fail to reflect changes to an issuer's financial condition or prospects may mislead market participants. Likewise, conflicts of interest or other undue factors – internal and external – that might, or even appear to, impinge upon the independence of a rating decision can seriously undermine ICRA's credibility.

ICRA also has responsibilities to the investing public and to issuers themselves, including a responsibility to protect the confidentiality of some types of information issuers share with ICRA.

What ICRA's Ratings Convey

ICRA's credit ratings are symbolic representations of its current opinion on the relative credit risks associated with the rated debt obligations/issues. These ratings are assigned on an Indian (that is, national or local) credit rating scale.. ICRA ratings may be understood as relative rankings of credit risk within India. ICRA ratings are not designed to enable any rating comparison among instruments across countries; rather these address the relative credit risks within India.

Unless stated otherwise, ICRA's ratings (other than Structured Finance Ratings) in the investment grade convey the relative likelihood of default, that is, the possibility of the debt obligation not being met as promised. All other ratings, including Structured Finance Ratings, reflect both the probability of default and the severity of loss on default, that is, the expected loss against the rated debt obligation.

Limitations of ICRA Ratings

ICRA ratings are only an opinion on the relative ranking of credit risk, and they do not reflect other investment risks arising out of changes in market conditions, viz. interest rates or liquidity. Hence, even the debt obligations rated in the highest category carry a certain degree of credit risk, although such risk would be the lowest when compared with the credit risks associated with obligations rated in the lower rating categories. These rating categories group debt obligations with similar but not necessarily identical credit risks.

ICRA's credit ratings reflect the issuers' inherent credit quality, which in many cases may not remain constant at all times. Consequently, ICRA ratings are not always constant and are subject to change. While ICRA in its analysis endeavours to incorporate the factors that impact the issuers' prospective credit quality, there may be situations in which the actual developments would significantly differ from ICRA's expectations. Such changes in turn may warrant an upward or downward revision in the ratings previously assigned. Given this possibility, all ICRA ratings are subjected to regular monitoring or surveillance. Rating and timely updates on live ICRA ratings are available through ICRA's rating releases, publications and/or website (www.icraratings.com, www.icra.in).

For assigning ratings, ICRA relies on all relevant information (such as audited statements) made available to it by the issuer company, as well as on other sources of information (opinions of legal and other experts, for instance) that ICRA considers reliable. While ICRA takes reasonable care to ensure that all such information is reliable, it makes no representation or warranty, express or implied, as to the accuracy, authenticity, timeliness or completeness of any such information. Further, ICRA ratings are not to be construed as recommendation to buy, sell, or deal in the rated instruments.

C. DEFINITIONS

The terms/abbreviations which are used in this Code shall have the following meanings/descriptions:

- (a) **"IOSCO"** – International Organization of Securities Commissions.
- (b) **"ICRA"** – ICRA Limited, a public limited company incorporated under the Companies Act, 1956 and a Credit Rating Agency registered with the Securities and Exchange Board of India.
- (c) **"Client"** means any person whose securities are rated by a credit rating agency.
- (d) **"Securities"** has the meaning assigned to it in clause (h) of section 2 of the Securities Contracts (Regulation) Act, 1956.
- (e) **"Rating"** means an opinion regarding securities, expressed in the form of standard symbols or in any other standardised manner, assigned by a credit rating agency and used by the issuer of such securities.
- (f) **"Issuer"** means a person whose securities are proposed to be rated by a credit rating agency.

1. QUALITY AND INTEGRITY OF THE RATING PROCESS

A. Quality of the Rating Process

- 1.1 ICRA shall adopt, implement and enforce written procedures to ensure that the opinions it disseminates are based on a thorough analysis of all information known to ICRA that is relevant to its analysis according to ICRA's published rating methodology.
- 1.2 ICRA shall use rating methodologies that are rigorous, systematic, and, where possible, result in ratings that can be subjected to some form of objective validation based on historical experience.
- 1.3 In assessing an issuer's creditworthiness, analysts involved in the preparation or review of any rating action shall use methodologies established by ICRA. Analysts shall apply a given methodology in a consistent manner, as determined by ICRA.
- 1.4 Credit ratings shall be assigned by ICRA and not by any individual analyst employed by ICRA; ratings shall reflect all information known, and believed to be relevant, to ICRA, consistent with its published methodology; and ICRA shall use people who, individually or collectively (particularly where rating committees are used) have appropriate knowledge and experience in developing a rating opinion for the type of credit being applied.
- 1.5 ICRA shall maintain internal records to support its credit opinions for a reasonable period of time or in accordance with applicable law.
- 1.6 ICRA and its analysts shall take steps to avoid issuing any credit analyses or reports that contain misrepresentations or are otherwise misleading as to the general creditworthiness of an issuer or obligation.

- 1.7 ICRA shall ensure that it has and devotes sufficient resources to carry out high-quality credit assessments of all obligations and issuers it rates. When deciding whether to rate or continue rating an obligation or issuer, it shall assess whether it is able to devote sufficient personnel with sufficient skill sets to make a proper rating assessment, and whether its personnel likely will have access to sufficient information needed in order make such an assessment. ICRA shall adopt reasonable measures so that the information it uses in assigning a rating is of sufficient quality to support a credible rating. If the rating involves a type of financial product presenting limited historical data (such as an innovative financial vehicle), ICRA shall make clear, in a prominent place, the limitations of the rating.
- 1.7-1 ICRA shall establish a review function made up of one or more senior managers with appropriate experience to review the feasibility of providing a credit rating for a type of structure that is materially different from the structures ICRA currently rates.
- 1.7-2 ICRA shall establish and implement a rigorous and formal review function responsible for periodically reviewing the methodologies and models and significant changes to the methodologies and models it uses. Where feasible and appropriate for the size and scope of its credit rating services, this function shall be independent of the business lines that are principally responsible for rating various classes of issuers and obligations.
- 1.7-3 ICRA shall assess whether existing methodologies and models for determining credit ratings of structured products are appropriate when the risk characteristics of the assets underlying a structured product change materially. In cases where the complexity or structure of a new type of structured product or the lack of robust data about the assets underlying the structured product raise serious questions as to whether ICRA can determine a credible credit rating for the security, ICRA shall refrain from issuing a credit rating.

- 1.8 ICRA shall structure its rating teams to promote continuity and avoid bias in the rating process.

B. Monitoring and Updating

- 1.9 ICRA shall ensure that adequate personnel and financial resources are allocated to monitoring and updating its ratings. Except for ratings that clearly indicate they do not entail ongoing surveillance, once a rating is published ICRA shall monitor on an ongoing basis and update the rating by:

- a. regularly reviewing the issuer's creditworthiness;
- b. initiating a review of the status of the rating upon becoming aware of any information that might reasonably be expected to result in a rating action (including termination of a rating), consistent with the applicable rating methodology; and,
- c. updating on a timely basis the rating, as appropriate, based on the results of such review.

Subsequent monitoring shall incorporate all cumulative experience obtained. Changes in ratings criteria and assumptions shall be applied where appropriate to both initial ratings and subsequent ratings.

- 1.9-1 If ICRA uses separate analytical teams for determining initial ratings and for subsequent monitoring of structured finance products, each team shall have the requisite level of expertise and resources to perform their respective functions in a timely manner.

- 1.10 Where ICRA makes its ratings available to the public, ICRA shall publicly announce if it discontinues rating an issuer or obligation. Where ICRA's ratings are provided only to its subscribers, ICRA shall announce to its subscribers if it discontinues rating an issuer or obligation. In both cases, continuing publications by ICRA of the discontinued rating shall indicate the date the rating was last updated and the fact that the rating is no longer being updated.

C. Integrity of the Rating Process

- 1.11 ICRA and its employees shall comply with all applicable laws and regulations governing its activities in each jurisdiction in which it operates.
- 1.12 ICRA and its employees shall deal fairly and honestly with issuers, investors, other market participants, and the public.
- 1.13 ICRA's analysts shall be held to high standards of integrity, and ICRA shall not employ individuals with demonstrably compromised integrity.
- 1.14 ICRA and its employees shall not, either implicitly or explicitly, give any assurance or guarantee of a particular rating prior to a rating assessment. This does not preclude ICRA from developing prospective assessments used in structured finance and similar transactions.
- 1.14-1 ICRA shall prohibit its analysts from making proposals or recommendations regarding the design of structured finance products that ICRA rates.
- 1.15 ICRA shall institute policies and procedures that clearly specify a person responsible for ICRA's and ICRA's employees' compliance with the provisions of ICRA's code of conduct and with applicable laws and regulations. This person's reporting lines and compensation shall be independent of ICRA's rating operations.

- 1.16 Upon becoming aware that another employee or entity under common control with ICRA is or has engaged in conduct that is illegal, unethical or contrary to ICRA's code of conduct, ICRA employee shall report such information immediately to the individual in charge of compliance or an officer of ICRA, as appropriate, so proper action may be taken. ICRA's employees are not necessarily expected to be experts in the law. Nonetheless, its employees are expected to report the activities that a reasonable person would question. Any ICRA officer who receives such a report from ICRA employee is obligated to take appropriate action, as determined by the laws and regulations of the jurisdiction and the rules and guidelines set forth by ICRA. ICRA management shall prohibit retaliation by other ICRA staff or by ICRA itself against any employees who, in good faith, make such reports. ICRA has in place a "Whistle Blower Policy" for employees to report to the management instances of unethical behavior, actual or suspected, fraud or violation of the company's code of conduct or ethics policy. The whistle blower policy also provides sufficient protection to the whistle blower against possible intimidation or retaliation.

2. INDEPENDENCE AND AVOIDANCE OF CONFLICTS OF INTEREST

A. General

- 2.1 ICRA shall not forbear or refrain from taking a rating action based on the potential effect (economic, political, or otherwise) of the action on ICRA, an issuer, an investor, or other market participant.
- 2.2 ICRA and its analysts shall use care and professional judgment to maintain both the substance and appearance of independence and objectivity.
- 2.3 The determination of a credit rating shall be influenced only by factors relevant to the credit assessment.

- 2.4 The credit rating ICRA assigns to an issuer or security shall not be affected by the existence of or potential for a business relationship between ICRA (or its affiliates) and the issuer (or its affiliates) or any other party, or the non-existence of such a relationship.
- 2.5 ICRA's credit rating business and analysts are separate, operationally and legally from any other businesses of ICRA, including consulting businesses, that may present a conflict of interest. ICRA shall ensure that ancillary business operations which do not necessarily present conflicts of interest with ICRA's rating business have in place procedures and mechanisms designed to minimize the likelihood that conflicts of interest will arise. ICRA shall also define what it considers, and does not consider, to be an ancillary business and why.

B. ICRA Ratings' Procedures and Policies

- 2.6 ICRA shall adopt written internal procedures and mechanisms to (1) identify, and (2) eliminate, or manage and disclose, as appropriate, any actual or potential conflicts of interest that may influence the opinions and analyses ICRA makes or the judgment and analyses of the individuals ICRA employs who have an influence on ratings decisions. ICRA will disclose such conflict avoidance and management measures.
- 2.7 ICRA's disclosures of actual and potential conflicts of interest shall be complete, timely, clear, concise, specific and prominent.
- 2.8 ICRA shall disclose the general nature of its compensation arrangements with rated entities.

- a. Where ICRA receives from a rated entity compensation unrelated to its ratings service, such as compensation for consulting services, ICRA shall disclose the proportion such non-rating fees constitute against the fees ICRA receives from the entity for ratings services.
 - b. ICRA shall disclose if it receives 10 percent or more of its annual revenue from a single client.
 - c. ICRA shall encourage structured finance issuers and originators of structured finance products to publicly disclose all relevant information regarding these products so that investors and other Credit Rating Agencies can conduct their own analyses independently of ICRA.
- 2.9 ICRA and its employees shall not engage in any securities or derivatives trading presenting conflicts of interest with ICRA's rating activities.
- 2.10 In instances where rated entities (e.g., governments) have, or are simultaneously pursuing, oversight functions related to ICRA, ICRA shall use different employees to conduct its rating actions than those employees involved in its oversight issues.

C. Analyst and Employee Independence

- 2.11 Reporting lines for ICRA employees and their compensation arrangements shall be structured to eliminate or effectively manage actual and potential conflicts of interest.
- a. An ICRA analyst shall not be compensated or evaluated on the basis of the amount of revenue that ICRA derives from issuers that the analyst rates or with which the analyst regularly interacts.

- b. ICRA shall conduct formal and periodic reviews of compensation policies and practices for analysts and other employees who participate in or who might otherwise have an effect on the rating process to ensure that these policies and practices do not compromise the objectivity of ICRA's rating process.
- 2.12 ICRA shall not have employees who are directly involved in the rating process initiate, or participate in, discussions regarding fees or payments with any entity they rate.
- 2.13 No ICRA employee shall participate in or otherwise influence the determination of ICRA's rating of any particular entity or obligation if the employee:
- a. Owns securities or derivatives of the rated entity, other than holdings in diversified collective investment schemes;
 - b. Owns securities or derivatives of any entity related to a rated entity, the ownership of which may cause or may be perceived as causing a conflict of interest, other than holdings in diversified collective investment schemes;
 - c. Has had a recent employment or other significant business relationship with the rated entity that may cause or may be perceived as causing a conflict of interest;
 - d. Has an immediate relation (i.e., a spouse, partner, parent, child, or sibling) who currently works for the rated entity; or
 - e. Has, or had, any other relationship with the rated entity or any related entity thereof that may cause or may be perceived as causing a conflict of interest.

- 2.14 ICRA's analysts and anyone involved in the rating process (or their spouse, partner or minor children) shall not buy or sell or engage in any transaction in any security or derivative based on a security issued, guaranteed, or otherwise supported by any entity within such analyst's area of primary analytical responsibility, other than holdings in diversified collective investment schemes.
- 2.15 ICRA employees shall be prohibited from soliciting money, gifts or favors from anyone with whom ICRA does business and shall be prohibited from accepting gifts offered in the form of cash or any gifts exceeding a minimal monetary value.
- 2.16 Any ICRA analyst who becomes involved in any personal relationship that creates the potential for any real or apparent conflict of interest (including, for example, any personal relationship with an employee of a rated entity or agent of such entity within his or her area of analytic responsibility), shall be required to disclose such relationship to the appropriate manager or officer of ICRA, as determined by ICRA's compliance policies.
- 2.17 ICRA shall establish policies and procedures for reviewing the past work of analysts that leave the employment of ICRA and join an issuer ICRA analyst has been involved in rating, or a financial firm with which ICRA analyst has had significant dealings as part of his or her duties at ICRA.

3. RESPONSIBILITIES TO THE INVESTING PUBLIC AND ISSUERS

A. Transparency and Timeliness of Ratings Disclosure

- 3.1 ICRA shall distribute in a timely manner its ratings actions regarding the entities and securities it rates.
- 3.2 ICRA shall publicly disclose its policies for distributing ratings, reports and updates.

- 3.3 ICRA shall indicate with each of its ratings when the rating was last updated. Each rating announcement shall also indicate that the rating methodologies that are used in determining the rating are available on the ICRA website at www.icra.in. ICRA Ratings are accompanied by a rationale explaining the basis for assigning the rating.
- 3.4 Except for “private ratings” provided only to the issuer, ICRA shall disclose its rating actions, as well as any subsequent action to discontinue such a rating to the public, on a non-selective basis and free of charge. If a rating action is already public, a subsequent rating action will also be made public.
- 3.5 ICRA shall publish sufficient information about its procedures, methodologies and assumptions (including financial statement adjustments that deviate materially from those contained in the issuer’s published financial statements and a description of the rating committee process, if applicable) so that outside parties can understand how a rating was arrived at by ICRA. This information will include (but not be limited to) the meaning of each rating category and the definition of default or recovery ICRA used when making a rating decision.
- a. Where ICRA rates a structured finance product, it shall provide investors and /or subscribers (depending on ICRA’s business model) with a rationale that forms the basis for assigning the rating.
- b. ICRA differentiates ratings of structured finance products from traditional corporate bond ratings, through a different rating symbology. ICRA shall also disclose how this differentiation functions. ICRA clearly defines its rating symbols and applies it in a consistent manner for all types of securities to which these symbols are assigned.

- c. ICRA shall assist investors in developing a greater understanding of what a credit rating is, and the limits to which credit ratings can be put to use vis-à-vis a particular type of financial product that ICRA rates. ICRA shall clearly indicate the attributes and limitations of each credit opinion, and the limits to which ICRA verifies information provided to it by the issuer or originator of a rated security.
- 3.6 When issuing or revising a rating, ICRA shall explain in its press releases and reports the key elements underlying the rating opinion.
- 3.7 Where feasible and appropriate, prior to issuing or revising a rating, ICRA shall inform the issuer of the critical information and principal considerations upon which a rating will be based and afford the issuer an opportunity to clarify any likely factual misperceptions or other matters that ICRA would wish to be made aware of in order to produce an accurate rating. ICRA will duly evaluate the response. Where in particular circumstances ICRA has not informed the issuer prior to issuing or revising a rating, ICRA shall inform the issuer as soon as practical thereafter.
- 3.8 In order to promote transparency and to enable the market to best judge the performance of the ratings, ICRA, where possible, shall publish sufficient information about the historical default rates and transition between rating categories of ICRA rating categories and whether these parameters have changed over time, so that interested parties can understand the historical performance of each category. These ratings performance studies will be carried out at regular intervals.
- 3.9 ICRA does not assign unsolicited ratings. For each rating assigned, ICRA has a specific mandate from the issuer wherein the latter agrees to several terms and conditions including participation in the conduct of the rating exercise and provision of necessary information.

- 3.10 ICRA shall fully and publicly disclose any material modification to its methodologies and significant practices, procedures, and processes, and these shall be made available on ICRA's website, www.icra.in. Where feasible and appropriate, disclosure of such material modifications shall be made prior to their going into effect. ICRA shall carefully consider the various uses of credit ratings before modifying its methodologies, practices, procedures and processes.

B. The Treatment of Confidential Information

- 3.11 ICRA shall adopt procedures and mechanisms to protect the confidential nature of information shared with them by issuers under the terms of a confidentiality agreement or otherwise under a mutual understanding that the information is shared confidentially. Unless otherwise permitted by the confidentiality agreement and consistent with applicable laws or regulations, ICRA and its employees shall not disclose confidential information in press releases, through research conferences, to future employers, or in conversations with investors, other issuers, other persons, or otherwise.
- 3.12 ICRA shall use confidential information only for purposes related to its rating activities or otherwise in accordance with any confidentiality agreements with the issuer.
- 3.13 ICRA employees shall take all reasonable measures to protect all property and records belonging to or in possession of ICRA from fraud, theft or misuse.
- 3.14 ICRA employees shall be prohibited from engaging in transactions in securities when they possess confidential information concerning the issuer of such security.

- 3.15 In preservation of confidential information, ICRA employees shall familiarize themselves with the internal securities trading policies maintained by their employer, and periodically certify their compliance as required by such policies.
- 3.16 ICRA employees shall not selectively disclose any non-public information about rating opinions or possible future rating actions of ICRA, except to the issuer or its designated agents.
- 3.17 ICRA employees shall not share confidential information within ICRA except on an “as needed” basis.
- 3.18 ICRA employees shall not use or share confidential information for the purpose of trading securities, or for any other purpose except the conduct of ICRA’s business.

4. DISCLOSURE OF THE CODE OF CONDUCT AND COMMUNICATION WITH MARKET PARTICIPANTS

- 4.1 ICRA shall disclose to the public its code of conduct, and any deviations from the IOSCO Code will be explained. Enforcement of the Code will be done through the designated Compliance Officer.
- 4.2 ICRA shall establish a function within its organization charged with communicating with market participants and the public about any questions, concerns or complaints that ICRA may receive. The objective of this function shall be to help ensure that ICRA’s officers and management are informed of those issues that ICRA’s officers and management would want to be made aware of when setting the organization’s policies.

- 4.3 ICRA shall publish in a prominent position on its home webpage links to (1) ICRA Ratings Code of Conduct; (2) a description of the methodologies that ICRA Ratings uses; and (3) information about ICRA Ratings historic performance data.

5. DEVIATIONS WITH IOSCO CODE OF CONDUCT FUNDAMENTALS FOR CREDIT RATING AGENCIES

ICRA Ratings Code of Conduct is aligned with the Code of Conduct Fundamentals for Credit Rating Agencies issued by the Technical Committee of the International Organization of Securities Commissions but there are two clauses of ICRA Ratings Code of Conduct wherein there is a deviation with the provisions of the IOSCO Code, detailed as under:-

5.1 Disclosure by structured finance issuers and originators of structured finance products

Most information deemed relevant is provided both in ICRA's rating rationale as well as the transaction offer circular. However, as of now ICRA is not specifically informed by the issuers whether they are publicly disclosing all the relevant information. *(See Clause 2.8(c) of the IOSCO Code)*

5.2 Information to investors in case of rating of Structured Finance product

As per clause 3.5(a) of the IOSCO Code, Where a Credit Rating Agency (CRA) rates a structured finance product, it should provide investors and/or subscribers with sufficient information about its loss and cash-flow analysis so that an investor allowed to invest in the product can understand the basis for the CRA's rating. A CRA should also disclose the degree to which it analyzes how sensitive a rating of a structured finance product is to changes in the CRA's underlying rating assumptions.

A reasonably detailed analytical rationale that forms the basis for assigning the rating is provided. The rationale includes information, which in ICRA's opinion is adequate for understanding the basis for ICRA's rating for the structured finance product. *(See Clause 3.5(a) of the IOSCO Code)*