

CIRCULAR

SEBI/HO/MIRSD/MIRSD\_CRADT/P/CIR/2021/594

July 16, 2021

To,  
All Credit Rating Agencies (CRAs) registered with SEBI

Dear Madam / Sir,

**Sub: Introduction of Expected Loss (EL) based Rating Scale and Standardisation of Rating Scales Used by Credit Rating Agencies**

- SEBI, vide circular numbered [CIR/MIRSD/4/2011](#) dated June 15, 2011, had devised certain standardised rating symbols and their definitions used by the Credit Rating Agencies (CRAs). Further, SEBI vide circular numbered [SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70](#) dated June 13, 2019 had standardised symbols and definitions for ratings of instruments having explicit credit enhancement feature.

**A. Introduction of Expected Loss (EL) based Rating Scale**

- In addition to the standardized rating scales prescribed by aforementioned circulars, subsequent to discussions with various stakeholders, the following rating scale viz. Expected Loss (EL) based Rating Scale may be used by CRAs for ratings of projects/ instruments associated with infrastructure sector to begin with:

Rating symbols should have CRA's first name as prefix	
Rating symbol	Definition
EL 1	Instruments rated "EL 1" are considered to have the lowest expected loss, over the life of the instrument
EL 2	Instruments rated "EL 2" are considered to have very low expected loss, over the life of the instrument
EL 3	Instruments rated "EL 3" are considered to have low expected loss, over the life of the instrument
EL 4	Instruments rated "EL 4" are considered to have moderate expected loss over the life of the instrument.
EL 5	Instruments rated "EL 5" are considered to have high expected loss, over the life of the instrument
EL 6	Instruments rated "EL 6" are considered to have very high expected loss, over the life of the instrument
EL 7	Instruments rated "EL 7" are considered to have highest expected loss, over the life of the instrument

- For existing outstanding ratings, the CRAs shall be guided by the para 6 of SEBI circular numbered [CIR/MIRSD/4/2011](#) dated June 15, 2011.

## **B. Standardisation of Rating Scales Used by Credit Rating Agencies**

4. CRAs, in terms of Regulation 9(f) of SEBI (Credit Rating Agencies) Regulations, 1999 (“CRA Regulations”), undertake ratings of various financial instruments under the guidelines of different financial sector regulators or authorities.
5. In order to standardise the usage of rating scales, CRAs are advised to align their rating scales with the rating scales prescribed under the guidelines of respective financial sector regulator or authority in terms of Regulation 9(f) of CRA Regulations, or in absence of the same, follow rating scales prescribed by the Board vide circular dated June 15, 2011, June 13, 2019, or any other circular issued by the Board from time to time.
6. CRAs are also advised to note Regulation 24(6) read with Regulation 24(9) of CRA Regulations and in cases where a rating scale has not been prescribed by a financial sector regulator or authority, CRAs shall only use rating scales prescribed by the Board from time to time.

## **C. Applicability**

7. The CRAs shall ensure compliance with the requirements of this circular, latest by March 31, 2022 and also place the compliance status of this circular before their Board of Directors. Further, the CRAs are advised to confirm compliance of this circular to SEBI latest by April 15, 2022.
8. All the provisions of this circular are applicable with immediate effect except Section B above which comes into effect from April 01, 2022.
9. This circular is issued in exercise of the powers conferred by Section 11 (1) of Securities and Exchange Board of India Act, 1992 read with the provisions of Regulation 20 of SEBI (Credit Rating Agencies) Regulations, 1999, to protect the interest of investors in securities and to promote the development of, and to regulate, the securities market.

Yours faithfully,

**Richa G. Agarwal**  
**General Manager**  
**Market Intermediaries Regulation & Supervision Department**  
Email ID: [richag@sebi.gov.in](mailto:richag@sebi.gov.in)  
Phone: +91-22-26449596