

CIRCULAR

SEBI/HO/DDHS/DDHS-PoD-2/P/CIR/2025/59

April 29, 2025

To,
All Registered ESG Rating Providers,
All Listed Entities,
All Recognized Stock Exchanges,
All Registered Depositories

Madam/ Sir,

Sub: Clarificatory and Procedural changes to aid and strengthen ESG Rating Providers (ERPs)

1. The Master Circular for ESG Rating Providers (ERPs) SEBI/HO/DDHS/DDHS-POD3/P/CIR/2024/45 dated May 16, 2024 ("Master Circular") specifies various procedural/disclosure requirements and obligations for ERPs. Based on representation received from ERPs and feedback from various stakeholders through public consultation, the following clarifications/ guidelines in respect of provisions of the Master Circular are being specified:

1.1. Withdrawal of ESG ratings

- 1.1.1. Para 13.1 of the Master Circular provides as under:

"Regulation 28M of CRA regulations prescribe, inter-alia, that an ERP shall not withdraw an ESG rating except in cases where the rated issuer, or the issuer whose security is rated, is wound up or merged or amalgamated with another company, or except in cases as may be specified by SEBI from time to time. Further, subject to CRA Regulations, ERP shall withdraw an ESG rating as per its documented policies which shall also be disclosed on its website. In this regard, an ERP shall adhere to the provisions of this circular in withdrawal of any ESG rating."

- 1.1.2. In this regard, considering the challenges faced by ERPs and in order to align the requirements with the withdrawal norms laid down for credit rating, in addition to the cases specified in Regulation 28M of the SEBI (Credit Rating Agencies) Regulations, 1999, the following is being specified:

For ERPs following a Subscriber-Pays business model:

- i. The ERP may withdraw a rating provided that there are no subscribers for the rating as on the date of withdrawal.
- ii. However, where the rated entity/ instrument is part of a rating package (e.g. Nifty 50), which continues to have subscribers, such rating may not be withdrawn.
- iii. Once withdrawn, the ERP shall ensure that such withdrawn rating is not made available to any subscriber in future.
- iv. The ERP may withdraw the rating for an issuer/ rated entity in case of non-availability of the Business Responsibility and Sustainability Report (BRSR) for such issuer/ rated entity.

For ERPs following an Issuer-Pays business model:

- i. In case of rating of a security, the ERP may withdraw the rating subject to the ERP having rated the security continuously for 3 years or 50 % of the tenure of the security, whichever is higher, and having received NOC from 75% of the bondholders by value.
- ii. In case of rating of an issuer/ entity, the ERP may withdraw the rating subject to the ERP having rated the issuer/ entity continuously for 3 years.

1.2. Disclosure of Rating Rationale on the website of ERP

- 1.2.1. Para 11.3 of the Master Circular specifies the minimum disclosures to be made in the ESG Rating Rationale/ ESG Report by all ERPs. Further, Para 20.2 of the Master Circular, inter alia, provides for continuous disclosure of Rating Rationales and Rating Reports on the ERP's website.
- 1.2.2. It is clarified that ERPs following a Subscriber-Pays business model may share the detailed Rating Rationales/ Rating Reports, as specified in Para 11.3 of the Master Circular, only with their subscribers and may not disclose the same on their websites. However, ERPs following a Subscriber-Pays business model shall disclose the ESG ratings assigned on their website in the following format:

Name of the rated issuer/ security	Sector	ESG Rating	Date of rating

The above disclosure may be segregated year-wise, indicating the Business Responsibility and Sustainability Report (BRSR) on which the ESG rating is based.

- 1.2.3. The rated entity/ issuer may provide its comments on the ESG rating report/ rating rationale to the ERP in the standardised format as devised by the ESG Rating Provider Association in consultation with SEBI. Further, the ESG Rating Provider Association, in consultation with SEBI, has framed the standards for the clarification to be provided by the ERP to the rated entity, balancing the minimum information that is to be provided while maintaining confidentiality of intellectual property of ERPs. The said format/ standards are enclosed as **Annexure A**. ERPs following subscriber-pays business model shall ensure that the said format/ standards are disclosed on their websites and are shared with the rated issuer while sharing the ESG rating report/ rationale with the issuer.

1.3. Disclosure of Rating Rationale on the website of Stock Exchange(s)

- 1.3.1. For ESG ratings of an issuer/ entity, the stock exchange where such issuer is listed shall prominently disclose the ESG rating on its website under a separate tab/ section on the listed company's page.
- 1.3.2. For ESG ratings of a debt security, the stock exchange where the security is listed shall prominently disclose the ESG rating on its website under a separate tab/ section on the listed security's page.
- 1.3.3. The format for disclosure of ESG ratings, as specified in Para 1.3.1. and 1.3.2., shall be as under:

Name of the rated issuer	Symbol or ISIN, as applicable	Sector	ESG rating	Date of rating	ERP Name	Business Model of ERP (i.e. Subscriber-)	ESG Rating Press Release

or security						pays Issuer- pays)	or (PDF attachment)

Details in the above format shall be provided by the ERP to the relevant stock exchange(s).

1.4. Internal Audit for ERPs

1.4.1. Chapter IV of the Master Circular provides the requirements related to Internal Audit of ERPs. Considering the challenges faced by Category II ERPs in the initial years of operation, the requirement to conduct internal audit shall become effective for Category-II ERPs after a period of two years from the date of issuance of this Circular.

1.4.2. In order to provide all ERPs with a larger pool of eligible professionals with the relevant experience/ qualifications for conducting the internal audit, it has been decided to include Cost Accountant (ACMA/ FCMA) and Diploma in Information System Security Audit (DISSA) qualifications from the Institute of Cost Accounts of India (ICMAI) to the audit team. Accordingly, Para 23.1.3 of the Master Circular stands modified as under:

“The audit team must be composed of at least a Chartered Accountant (ACA/ FCA) or a Cost Accountant (ACMA/ FCMA) and a certified Information Systems Auditor/ Diploma in Information System Auditor/ Diploma in Information System Security Audit (CISA/ DISA/ DISSA).”

1.5. Governance Norms of ERPs

1.5.1. Para 15.3 of the Master Circular, inter alia, provides for constitution of ESG Ratings Sub-Committee and Nomination and Remuneration Committee (NRC) by ERPs. Considering the challenges faced by Category II ERPs in the initial years of operation, the requirement for constitution of an ESG Ratings Sub-Committee and NRC shall become effective for Category-II ERPs after a period of two years from the date of issuance of this Circular. Until the said time, the

relevant issues under the purview of NRC and ESG Ratings Sub-Committee may be handled by the Board of the Category II ERP.

2. The circular shall be applicable with immediate effect.
3. This circular is issued with the approval of competent authority, 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 28H 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.
4. This Circular is available on the website of the Securities and Exchange Board of India at www.sebi.gov.in under the category “Legal” and under the drop down “Circulars”.

Yours faithfully,

Ritesh Nandwani
Deputy General Manager
Department of Debt and Hybrid Securities
Tel No.022-2644-9696
Email ID - riteshn@sebi.gov.in

Annexure A

Standard Format for Rated Entity / Issuer's Comments on the Rating Report – For ERPs following Subscriber Pays business model

Subject: Comments on the Rating Report for [Name of the Rated Entity / Instrument] Reference:

1. Date of Rating Rationale
2. Rating assigned: [Insert Rating] Specific Comments on the ESG Rating Rationale (only in case the rated entity wants a clarification on the Rating Report shared including any aspect pertaining to the ESG Rating assigned by the ERP):
3. Specify the points or data (as mentioned in the ESG Rating Rationale shared by the ERP) where the rated entity/ issuer seeks clarification or differs in opinion. Provide data or reasoning to substantiate these concerns (provide public link to this data).
4. A tabulated format as shown below may also be used by the rated entity:

Name of Company	Points to be considered for appeal	Link for public document/ disclosure

Authorized Signatory

[Name]

[Designation]

[Contact Information]

Standards for Clarifications to be provided by the ERP to the rated entity

To maintain transparency while safeguarding the ERP's intellectual property, the following standards will govern the nature and scope of clarifications provided to the rated entity in response to their comments on the rating rationale:

1. Purpose

The ERP will address valid concerns and ensure that the rating process is transparent and comprehensible. Proprietary models, algorithms, and benchmark datasets used in the rating process will not be disclosed. Only information that is relevant and material to the specific rating will be shared. Further, for any queries/ information sought over and above what is already shared in the rating rationale will be addressed by the ERP on a best effort basis.

As per Para 11 of SEBI Master Circular for ERPs, the ESG Rating Rationale to be shared with the rated entity shall contain the following details -

- i. Current ESG Rating along with any changes from previous evaluation and last review date
- ii. Provide key factors driving the rating, including reasons for change in the rating, wherever applicable. This should include both qualitative and quantitative factors considered while arriving at the ESG Rating. It could also cover the following:
 - Pillar-wise E, S and G scores including pillar-wise weights
 - Rating sensitivity factors
 - Any material controversies or regulatory lapses wherever applicable
 - Link to the ESG Rating methodology or criteria as disclosed on the website

2. Scope of Clarifications pertaining to:

- Rating Rationale: Source of data use (Appropriately, safeguarding proprietary nature of methodology, benchmarks and criteria)
- Methodology and Criteria Application: Reference to the published methodology and criteria document on ERP website.

3. Format of Response: Provide a structured, written response addressing concerns raised by the rated entity

4. Confidentiality: The ERP following a subscriber-pay model will not disclose:

- Details of proprietary rating models, algorithms, or weighting mechanisms
- Internal deliberations or communications during the rating process
- Benchmarks, Peer data or comparisons that could compromise confidentiality

Further, it to be noted that the ERPs will endeavour to address the queries raised by rated entities on a best effort basis, while maintaining confidentiality of the rating process and methodology.

5. **Timeline to respond** (Applicable to ERPs following subscriber-pays business model):

The rated entity shall respond with a single consolidated response within two working days from the date of receipt of rating rationale. This response should be addressed to the specific email ID, as disclosed by the ERP on its website.