

Consultation Paper on Draft Circular on “Strengthening of ESG Rating Providers (ERPs)”

1. OBJECTIVE:

- 1.1. The objective of this consultation paper is to seek comments/ views/ suggestions from the public on the draft circular titled “Strengthening of ESG Rating Providers (ERPs)” (placed at **Annexure - A**).

2. PUBLIC COMMENTS

- 2.1. Public comments are invited on the draft circular annexed to this consultation paper. The comments/ suggestions should be submitted latest by **March 06, 2025**, through the online web-based form which can be accessed using the following link:

<https://www.sebi.gov.in/sebiweb/publiccommentv2/PublicCommentAction.do?doPublicComments=yes>

- 2.2. The instructions to submit comments on the consultation paper are as under:

1. Before initiating the process, please read the instructions given on top left of the web form as “Instructions”.
2. Select the consultation paper you want to comment upon from the dropdown under the tab – “Consultation Paper” after entering the requisite information in the form.
3. All fields in the form are mandatory.
4. Email ID and phone number cannot be used more than once for providing comments on a particular consultation paper.
5. If you represent any organization other than the types mentioned under dropdown in “Organization Type”, please select “Others” and mention the type, which suits you best. Similarly, if you do not represent any organization, you may select “Others” and mention “Not Applicable” in the text box.
6. There will be a dropdown of Proposals in the form. Please select the proposals one- by-one and for each of the proposal, please record your level of agreement with the selected proposal. Please note that submission of agreement level is mandatory.
7. If you want to provide your comments for the selected proposal, please select “Yes” from the dropdown under “**Do you want to comment on the proposal**” and use the text boxes provided for the same.
8. After recording your response to the proposal, click on “Submit” button. System will save your response to the selected proposal and prompt you to record your response for the next proposal. Please follow this procedure for all the proposals given in the dropdown.

9. *If you do not want to react on any proposal, please select that proposal from the dropdown and click on “**Skip this proposal**” and move to the next proposal.*
10. *After recording your response to all the proposals, you may see your draft response to all of proposals by clicking on “**Check your response before submitting**” just before submitting response to the last proposal in the dropdown. A pdf copy of the response can also be downloaded from the link given in right bottom of the web page.*
11. *The final comments shall be submitted only after recording your response on all of the proposals in the consultation paper*

2.3. In case of any technical issue in submitting your comment through the web-based public comments form, you may contact the following through email with the subject: *"Issue in submitting comments on Consultation Paper on Draft Circular titled 'Strengthening of ESG Rating Providers (ERPs)'.*

- a) Sarika Kataria, DGM (sarikak@sebi.gov.in)
- b) Nishtha Tewari, AGM (nishthat@sebi.gov.in)
- c) Nikhil Chaudhary, Manager (nikhilc@sebi.gov.in)

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DRAFT CIRCULAR

SEBI/HO/DDHS/DDHS-PoD-3/P/CIR/2025/____

Date

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

Madam/ Sir,

Sub: Strengthening of 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, the following clarifications/ guidelines, in respect of the 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, 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. Further, if any rating is withdrawn, the rating has to be withdrawn for all subscribers.

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

1.2.3. 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.

1.2.4. 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. Internal Audit for ERPs

1.3.1. 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. Governance Norms of ERPs

1.4.1. 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".