

SEBI/MIRSD/CRA/Cir-01/2010
January 06, 2010

All Credit Rating Agencies Registered with SEBI

Dear Sirs,

Sub: Internal Audit for Credit Rating Agencies (CRAs)

It has been decided in consultation with the credit rating agencies (CRAs) that the audit envisaged under Regulation 22 of the SEBI (Credit Rating Regulations), 1999 shall include an internal audit to be undertaken in the following manner:

- a. It shall be conducted on a half yearly basis.
 - b. It shall be conducted by Chartered Accountants, Company Secretaries or Cost and Management Accountants who are in practice and who do not have any conflict of interest with the CRA.
 - c. It shall cover all aspects of CRA operations and procedures, including investor grievance redressal mechanism, compliance with the requirements stipulated in the SEBI Act, Rules and Regulations made thereunder, and guidelines issued by SEBI from time to time.
 - d. The report shall state the methodology adopted, deficiencies observed, and consideration of response of the management on the deficiencies.
 - e. The report shall include a summary of operations and of the audit, covering the size of operations, number of transactions audited and the number of instances where violations / deviations were observed while making observations on the compliance of any regulatory requirement.
 - f. The report shall comment on the adequacy of systems adopted by the CRA for compliance with the requirements of regulations and guidelines issued by SEBI and investor grievance redressal.
2. The time schedule for the internal audit shall be as under:
 - a. The CRA shall receive the report of the internal audit within two months from the end of the half-year.

- b. The Board of Directors of the CRA shall consider the report and take steps to rectify the deficiencies, if any, and the CRA shall send an Action Taken Report to SEBI within next two months.
3. It is clarified that for the half-year October 2009 - March 2010, the CRA shall receive the report of the internal audit by May 31, 2010. Its Board of Directors shall consider the report and take appropriate measures to rectify the deficiencies and the CRA shall send the Action Taken Report to SEBI by July 31, 2010.
4. This circular is issued in exercise of the powers conferred by Section 11 (1) of the Securities and Exchange Board of India Act, 1992 read with the provisions of Regulations 19(1), 20 and 22 of the 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,

PRASANTA MAHAPATRA