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ASSESSING THE REGULATORY OVERSIGHT OF CREDIT RATING AGENCIES IN INDIA

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Abstract

In India's financial architecture, credit rating agencies (CRAs) play a crucial role by affecting capital allocation, investment choices, and systemic stability. Despite its regulatory significance, market trust is also weakened by enduring worries about conflicts of interest, rating inflation, a lack of accountability, and ineffective enforcement measures. In order to address these structural weaknesses, the Securities and Exchange Board of India (Credit Rating Agencies) Regulations, 1999, are examined critically in this article. Using a doctrinal research technique, the study examines the evolving boundaries of regulatory control by analysing the statutory framework governing CRAs as well as significant judicial interventions, such as Brickwork Ratings v. SEBI and Vidarbha Industries v. Axis Bank. Although recent enforcement actions and judicial scrutiny have reinforced supervisory control, the paper contends that there are still important gaps, especially with regard to rating shopping, the issuer-pays model, and the lack of meaningful civil and criminal liability. The study emphasizes the need for improved transparency, proactive monitoring, and more precise accountability requirements by placing India's CRA regime in the larger framework of financial market regulation and post-crisis reform. In order to strengthen regulatory credibility and guarantee that credit ratings fulfil their intended function as trustworthy indicators of credit risk in India's financial markets, it ends by suggesting specific legislative and policy changes.

Methodology

This study utilizes a doctrinal legal method, analysing main legal tools like the Securities and Exchange Board of India Act of 1992, the SEBI (Credit Rating Agencies) Regulations of 1999, and relevant sections of the 2016 Insolvency and Bankruptcy Code. A defining feature of case law research is the specific emphasis on judicial rulings that have influenced CRA regulation, such as Brickwork Ratings v. SEBI, Vidarbha Industries v. Axis Bank, and others. Secondary sources, such as scholarly publications, SEBI reports, and financial market analyses, offer background information for comprehending policy gaps, regulatory obstacles, and suggested improvements.

The study critically looks at the issuer-pays model's structural flaws, the effectiveness of SEBI's enforcement procedures, and the boundaries of CRAs' legal accountability. While keeping its focus on Indian legal frameworks, it assesses judicial interpretations of CRA requirements and, when applicable, investigates comparable regulatory insights. In order to give a thorough evaluation of how CRA monitoring might be improved in India, this study will synthesize legal doctrine, judicial reasoning, and policy recommendations.

Research Questions

1. Why is regulatory oversight of credit rating agencies necessary?
2. How effective are the SEBI (Credit Rating Agencies) Regulations, 1999, in ensuring transparency and accountability among CRAs?

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3. What are the major regulatory challenges faced in monitoring CRAs?
4. How have judicial decisions shaped the oversight of CRAs in India?
5. What legal and policy reforms are needed to enhance the effectiveness of regulatory oversight over CRAs?

Introduction

Since their evaluations have an impact on capital flows, investor confidence, and systemic financial stability, credit rating agencies are essential to the operation of financial markets. Strict control is required to prevent market distortions caused by rating failures, as seen by the dependence of banks, mutual funds, and regulatory agencies on credit ratings. Significant regulatory flaws in CRA governance were revealed by the 2008 global financial crisis and domestic financial failures including IL&FS and DHFL. These issues raised questions about conflicts of interest, rating transparency, and SEBI's enforcement powers.

In 1999, the SEBI (Credit Rating Agencies) Regulations were implemented to ensure the impartiality, independence, and accuracy of CRA operations. Many changes have been made, but issues remain around CRA accountability, the efficiency of SEBI's supervisory processes, and the ability of regulatory frameworks to deter misconduct. Cases when rating downgrades resulted in financial crises or insolvency procedures have been particularly helpful in helping to interpret CRA standards. This paper looks at the evolving regulations that govern CRAs in India, assessing the role of SEBI, court decisions, and potential modifications to increase the effectiveness of CRA monitoring.

Importance of regulatory oversight of credit rating agencies

To ascertain the creditworthiness of different organizations such as companies, banks, and sovereign states, credit rating agencies, or CRAs, are an integral part of the financial markets. Ratings are of crucial importance to the debt markets as they influence significantly the direction of capital flows, borrowing rates, and investment decisions. Given that they are used extensively, transparency, accountability, and financial stability require appropriate regulation. Credit rating agencies may engage in unfair rating practices, experience conflicts of interest, and take poor risk decisions if properly regulated. These practices can prove to be injurious to the investors and the economy in general.[185]

Regulatory supervision is mainly to avoid market distortions resulting from false or misleading ratings. Credit rating agency ratings have a profound impact on issuers' capital costs since they evaluate the default risk of different financial instruments. Companies with a good rating are able to raise capital at lower interest rates, while companies with a downgrading risk cause market panic, which can lead to liquidity crises and capital flight. Without strict regulatory supervision, Credit Rating Agencies (CRAs) would be motivated to inflate ratings because of their issuer-pays business model, which entails being paid by the organizations that they rate. Firm regulatory action is necessary to ensure independent and impartial ratings are released because of the inherent conflict of interest. Regulatory discipline depends on investor confidence and financial health. Credit ratings are used by market participants like pension funds, mutual funds, and banks to assess investment risk. Investors can make financial decisions on the basis of erroneous information because of the absence of transparency in flawed rating techniques or exposure to commercial pressures. The 2008 financial crisis is a classic case of the disastrous consequences generated by the absence of regulation of credit rating agencies (CRAs). Credit rating agencies then produced highly rated complex mortgage-backed securities, which exacerbated the financial disaster when they defaulted.[186] Due to this failure, the systemic

[185] Shreya Prakash, Aditya Ayachit & Shreya Garg, **Regulation of Credit Rating Agencies in India** 10 (Vidhi Ctr. for Legal Pol'y 2017).
[186] Arnab Chowdhury et al., **The Global Financial Crisis and the Regulation of Credit Rating Business** 10 (2016).

dangers posed by unregulated or poorly regulated Credit Rating Agencies (CRAs) were laid bare, bringing into focus the need for stringent enforcement of regulatory requirements to prevent such disasters.

As the domestic bond market develops, regulation becomes highly crucial in India. Compared to more advanced financial systems, the Indian corporate bond market is highly underdeveloped, and investors mainly depend on credit rating to determine risk. Credit rating agencies (CRAs) are highly critical, and the Securities and Exchange Board of India (SEBI) has set regulatory frameworks in place to ensure that credit ratings are provided in an open format and supported by good risk assessment practices. Past financial crises, such as the IL&FS and DHFL bankruptcies, have highlighted regulatory failures, where Credit Rating Agencies failed to issue timely warnings in spite of clear signs of financial distress. These mistakes indicate the need for more stringent disclosure norms, regular regulatory oversight, and better accountability mechanisms to ensure that credit ratings truly reflect actual credit risk.

Investor protection and preservation of the stability of the financial markets are also addressed in the regulation of Credit Rating Agencies (CRAs). Ineffective supervision can undermine the credibility of credit ratings, which would undermine the very purpose of these institutions. Overcoming conflicts of interest, the avoidance of rating manipulation, and improving the transparency of rating procedures all depend on strong regulatory frameworks. As credit rating agencies play a very influential role in financial markets, they need to be held to high standards of independence, accuracy, and accountability. Regulation is therefore a necessary protection from systemic financial risks.

Effectiveness of SEBI Regulations 1999 in ensuring transparency and accountability among CRAs

The SEBI (Credit Rating Agencies) Regulations, was brought in 1999, with the goal of creating a statutory framework under which the Credit Rating Agencies would be registered and their activities, governed. The prime purpose behind this was to ensure that the CRAs function in a fair and transparent way, helping to maintain stability of the financial market and build investor trust. It laid down many requirements to prevent conflict of interest, regulate CRA working and legitimize credit ratings.

In order to ensure that only qualified and reliable organizations are allowed to carry out these rating functions, Section 3 of the above regulation states that no credit rating agency shall provide credit rating services unless it is registered with SEBI. This provision aims at creating an environment that reduces the risks from unregulated rating agencies issuing incorrect ratings by allowing CRAs to work under regulatory supervision.[187]

The Code of Conduct for CRAs, which is outlined in Section 7, establishes professional and ethical guidelines that CRAs must follow when grading. High standards of independence, honesty, and transparency are upheld by CRAs in their activities thanks to this part. It also forbids CRAs from taking part in activities that can jeopardize their objectivity in an effort to reduce possible conflicts of interest.[188]

CRAs must examine and update their ratings on a regular basis in accordance with Section 9(f) to guarantee that they are accurate and represent financial realities. This clause aims to avoid circumstances in which out-of-date ratings are unable to indicate a rated entity's financial decline. The goal is to increase rating reliability so that investors can make wise choices.[189]

[187] *SEBI (Credit Rating Agencies) Regulations, 1999, Reg. 3.*
[188] SEBI (Credit Rating Agencies) Regulations, 1999, Reg. 7.
[189] SEBI (Credit Rating Agencies) Regulations, 1999, Reg. 9(f).

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Regularly review and update the rating to ensure that it reflects financial reality by Section 9(f) from CRA. With it, out-of-date ratings become unable to uncover a declining financial condition for a rated entity. Thus, the reliability of the rating will be improved so that the investor will make more informed decisions.[190] This measure aims to hold CRAs accountable for their assessment algorithms and provide investor education. As required under Section 15, rating assignments are also subjected to regulation and retrospective analysis, whereby CRAs must keep records of all rating decisions for at least five years.[191]

In 2019, Regulation 24(2) came into effect, mandating issuers to disclose all the ratings they have obtained in an attempt to discourage manipulative rating practices. In an attempt to stifle rating shopping, where companies approach several credit rating agencies and only disclose the best-rated, this requirement was established. SEBI aims to promote investor transparency by restraining issuers from dominating rating options through disclosure enforcement.[192]

Despite the strong legislative foundation that CRA regulation has gained with these rules, there remain several problems regarding their effectiveness and implementation. The issuer-pays model remains a structural conflict of interest and the most pressing one. Section 16 requires CRAs to maintain independent directors in their boards, but this rule has been too ineffective in keeping rating inflation and biased assessment in check, as was observed in cases like IL&FS and DHFL, where agencies failed to downgrade on time.[193]

Weak enforcement measures are another major problem. Even though Section 9(f) requires rating evaluations on a regular basis, CRAs have frequently postponed essential downgrades, which has resulted in risk being misrepresented. Although SEBI has fined CRAs for these violations, the fines have not been enough to stop CRAs from continuing to violate the law.[194]

Rating shopping is still a common problem, too, because of uneven enforcement of Regulation 24(2), which was introduced in 2019. The fact that so many issuers still take advantage of disclosure regulations makes it hard for investors to determine the true level of financial risk involved in a rated firm.[195]

The full effectiveness of SEBI's regulations is hampered by ongoing conflicts of interest, a lack of real-time monitoring, and inadequate deterrence measures, despite the fact that they have strengthened disclosure standards and oversight. Important initiatives to guarantee that CRAs function with more accountability and transparency include fortifying penal laws, improving real-time supervision, and bolstering independent oversight mechanisms.

Role of judiciary decisions in shaping oversight of CRAs

The regulatory control of credit rating agencies in India has been greatly influenced by court rulings that have interpreted the scope of SEBI's authority, strengthened CRA responsibility, and addressed regulatory shortcomings. Courts have stepped in on multiple instances to ensure that regulatory actions are reasonable, consistent with natural justice principles, and sound legally. Particularly in cases where rating downgrades have had a significant impact on financial markets and bankruptcy procedures, the judiciary has especially emphasized the importance of credit rating transparency. Courts have examined the limitations of SEBI enforcement actions in a series of judgments, which have also referred to the SEBI (Credit Rating Agencies) Regulations, 1999, obligations of credit rating agencies (CRAs). Along with strengthening CRA norms and steering regulatory reforms, the judgments have set

[190] SEBI (Credit Rating Agencies) Regulations, 1999, Reg. 14.
[191] SEBI (Credit Rating Agencies) Regulations, 1999, Reg. 15.
[192] SEBI (Credit Rating Agencies) Regulations, 1999, Reg. 24(2).
[193] SEBI (Credit Rating Agencies) Regulations, 1999, Reg. 16.
[194] Shuchi Agrawal, Rethinking Reform and Regulation of Credit Rating Agencies: An Indian Perspective, **2022 Bangalore L. Rev. 191, 210**.
[195] Prakash *supra* note 1, at 14.

parameters for the fair exercise of SEBI's disciplinary powers.

In Brickwork Ratings India Pvt. Ltd. v. SEBI, a CRA's registration was cancelled by SEBI for repeated defaults under the 1999 SEBI (CRA) Regulations and the same was challenged in the Securities Appellate Tribunal (SAT). As per SEBI, non-compliance with disclosure guidelines, conflict of interest, and failure to follow recommended rating processes could result in debarment under Regulation 27(1). SEBI's order was set aside by SAT, as it considered the order to be disproportionate to the default since, SEBI also had the option of imposing fines. Instead of taking drastic measures, the tribunal reaffirmed the need for SEBI to impose sanctions proportionate to the gravity of non-compliance and observed that disciplinary proceedings need to pass the proportionality test. In exercising under the 1999 restrictions, SEBI has to adhere to due process, and this judgment highlighted the judge's role in ensuring that restrictions are not imposed disproportionately. It also reaffirmed the need for transparent procedural protection to SEBI's CRA regulation policy, particularly in determining the type and quantum of fines.[196]

In Vidarbha Industries Power Ltd. v. Axis Bank Ltd., the Supreme Court considered the effect of credit rating downgrades on bankruptcy proceedings via interpretation of Section 7(5)(a) of the Bankruptcy and Bankruptcy Code (IBC), 2016. The corporate debtor Vidarbha Industries witnessed an unexpected rating fall that made it hard to arrange finance, which Axis Bank utilized to initiate insolvency proceedings against it before the National Company Law Tribunal (NCLT). According to the Supreme Court, NCLT has the option to reject or accept petitions from financial creditors and ought to consider other than credit ratings for the determination of the financial credibility of a debtor. Given its recognition of the strong influence of credit ratings on bankruptcy proceedings and its emphasis on the significance of CRAs to ensure that ratings reflect financial situations, this judgment had significant implications on CRA regulation. It also raised concerns about the regulatory framework of SEBI's ability to manage rating volatility and the systemic risks that come with abrupt downgrades.[197]

The judiciary's involvement in rating failed in the IL&FS and DHFL crises, and investors suffered significant losses as a result of credit rating firms' continued high ratings for financially problematic businesses. In response to these crises, SEBI enacted Regulation 14 (2018), which requires CRAs to explain rating changes and liquidity risk indicators. After reviewing these cases, the courts highlighted that financial instability was made worse by the delays in rating downgrades, underscoring the necessity of timely, fact-based rating evaluations. Apart from exposing the inadequacies of post-facto enforcement tactics, these court decisions suggested that authorities have to act proactively instead of enforcing penalties after the fact.[198] [199]

In the Amtek Auto case, rating agencies were accused of failing to spot early warning indicators despite clear indications of financial trouble, which sparked similar worries. When evaluating SEBI's regulatory response, courts questioned whether the fines imposed on CRAs for these infractions were sufficient to prevent it from happening in the future. The Court reiterated that more rigorous real-time compliance checks and penalties are necessary as part of SEBI's enforcement, particularly with regard to Regulation 9(f), which mandates periodic rating evaluations.[200]

For failing to follow the specified rating methods, SEBI fined India Ratings & Research Pvt. Ltd. (2020). The case's courts-maintained

[196] *Brickwork Ratings India Pvt. Ltd. v. SEBI*, Appeal No. 694 of 2022, SAT Order dated 6 June 2023, [p 22].

[197] *Vidarbha Industries Power Ltd. v. Axis Bank Ltd.*, (2022) SC [p 12].

[198] *IL&FS Financial Services Ltd. v. SEBI*, Writ Petition (L) No. 16337 of 2021, Bombay High Court, 12 August 2021.

[199] *Dewan Housing Finance Corporation Ltd. v. Union of India*, Writ Petition No. 3157 of 2021, Bombay High Court, 16 November 2021.

[200] *Amtek Auto Ltd. v. SEBI*, Appeal No. 208 of 2016, SAT Order, 12 October 2017.

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SEBI's authority to regulate CRA operations, but they also underlined the necessity for more specific statutory requirements regarding rating responsibility. The ruling upheld the core principle that CRAs must be held legally responsible for negligent ratings by restating the requirement under Section 15 of the SEBI (CRA) Regulations, 1999, which requires CRAs to maintain records of rating decisions for at least five years in order to permit regulatory scrutiny and retrospective analysis.[201]

While ensuring SEBI's authority over CRAs, the judiciary has also instated adequate checks against arbitrary conduct and ensured that CRAs operate in a fair and responsible system. Court decisions have called for more intensive oversight procedures that focus on fundamental regulatory reforms and not on the levy of fines. By clarifying the legal obligations of CRAs and strengthening SEBI's role in maintaining market integrity, courts have played a vital role in shaping CRA regulation in India. The independence, accountability, and transparency of credit rating agencies will be dependent to a large extent on the judiciary's role in interpreting and consolidating regulatory regimes as markets continue to grow more sophisticated.

Major regulatory challenges faced in monitoring CRAs

Despite being crucial to the financial markets because they assess an entity's creditworthiness, credit rating agencies (CRAs) are challenging to regulate. To improve the reliability, accountability, and transparency of rating assessments, SEBI, the primary regulator, has put in place a number of procedures under the SEBI (Credit Rating Agencies) Regulations, 1999. However, systemic problems persist, such as rating shopping, conflicts of interest, ambiguous processes, inadequate legal liability, and inefficient enforcement. The frequency with which these issues have surfaced during major financial crises raises questions about the effectiveness of SEBI's oversight. CRAs continue to operate with minimal accountability, and enforcement is still unequal even though some of these concerns have been addressed by changes to regulations.

1. Disagreements Regarding the Issuer-Pays Framework:
The issuer-pays model remains one of the fundamental regulatory concerns that the credit rating industry faces. The fact that CRAs are financially reliant on the very companies they assess gives them an incentive to give higher ratings in order to ensure repeat business. CRAs are required under Regulation 16 of the SEBI (CRA) Regulations, 1999, to have independent directors in order to maintain objectivity, however this provision has not been effectively implemented. Due to CRAs' delay in downgrading, the 2018 IL&FS crisis exposed the dangers of this conflict when highly rated companies failed due to undetected financial troubles. Due to the lack of fundamental changes to the payment model, issuers continue to have an undue degree of control over rating decisions despite these concerns.[202]

2. 2. Rating shopping and ineffective enforcement of disclosure:
Credit rating organizations' credibility is undermined when issuers deliberately reveal only the best ratings, misleading investors about the true creditworthiness of their instruments. Regulation 24(2) mandates that issuers report all ratings received, although compliance varies, and issuers continue to exploit legal loopholes to influence market sentiment. Although SEBI attempted to curb this practice by banning suggestive ratings, companies can still manipulate the system by approaching many agencies and presenting ratings that benefit them. Further undermining this law's effectiveness is the lack of harsh penalties for noncompliance, which allows issuers to prioritize favourable ratings over transparency.[203]

[201] *SEBI v. India Ratings & Research Pvt. Ltd.*, Appeal No. 103 of 2020, SAT Order, MANU/SB/0459/2020.

[202] Vandana Gupta, R.K. Mittal & V.K. Bhalla, **Role of the Credit Rating Agencies in the Financial Market Crisis** 15 (2010).

[203] Prakash *supra* note 1, at 22.

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3. Obscure Rating Systems and Lack of Transparency:

Opacity in rating methods increases the regulatory burden by making it harder for investors and regulators to scrutinize CRA evaluations. Regulation 14 of the SEBI (CRA) Regulations, 1999 mandates that CRAs publish the primary assumptions that underlie ratings; nonetheless, many agencies continue to use complex, unreported models that are hard for investors and regulators to audit. Typically, investors rely on CRA evaluations without fully understanding the criteria used to determine creditworthiness, making them vulnerable to abrupt downgrades. An unexpected decline in rating had a significant impact on the company's financial health and led to insolvency procedures, which highlighted this issue in the case of Vidarbha Industries. The remarks made by the court in this case reinforced worries about the opaqueness of rating systems and the systemic risks of incorrect evaluations.[204]

4. CRAs are not legally liable:

Because rating agencies are not held legally responsible for giving inaccurate or misleading assessments, they are subject to little punishment, which has made regulatory shortcomings worse. Financial institutions are more susceptible to lawsuits than CRAs because they do not have contractual duties to investors. SEBI's meagre sanctions, especially in cases of proven negligence like the Amtek Auto default, have lessened the deterrent effect of regulatory action. When the Securities Appellate Tribunal (SAT) overturned SEBI's decision to revoke the agency's registration in the Brickwork Ratings case due to a lack of proportionality, these problems were made clear. Stronger legal responsibility is necessary because this decision made it harder for SEBI to take firm action against CRAs that are not in compliance.[205]

5. Insufficient Reactive Regulation and Enforcement:

By imposing fines only after rating infractions, SEBI's regulatory actions have primarily been reactive rather than proactive, ensuring proactive oversight. The regulatory response in cases such as IL&FS and DHFL was delayed, demonstrating the absence of real-time monitoring tools that could prevent rating inflation before it leads to market instability. Without provisions for continuous monitoring, the current regulatory framework depends on post-facto inquiries, which are sometimes too late to safeguard investors. The courts have repeatedly noted that SEBI's fines are not a deterrence, indicating the need for more stringent enforcement actions. Notwithstanding SEBI's attempts to improve CRA oversight, regulatory problems persist due to the structural flaws in the rating business. Investor scrutiny is limited by opaque procedures, the issuer-pays paradigm promotes biased ratings, and rating shopping allows issuers to alter disclosures. Since CRAs are not legally required to do anything, they are not held accountable, and SEBI's enforcement is still mostly reactive. More transparent rating processes, more severe penalties, and real-time monitoring are some of the systemic improvements required to overcome these problems. Without these changes, credit rating agencies will still jeopardize investor safety and the stability of the financial system.[206]

Legal and policy reforms to enhance the effectiveness of regulatory oversight over CRAs

In order to provide greater accountability, transparency, and integrity in the credit rating industry, reforms must address conflicts of interest, insufficient enforcement mechanisms, lack of liability, and rating transparency. The SEBI (Credit Rating Agencies) Regulations, 1999 have been updated to enhance oversight; nonetheless, persistent gaps in enforcement and regulatory architecture necessitate more legislative and policy adjustments. Stricter legal liability for CRAs, improved transparency of

[204] Agrawal *supra* note 10, at 215.
[205] Prakash *supra* note 1, at 26.
[206] Chowdhury *supra* note 2, at 12.

rating methodology, bolstering SEBI's supervisory role, and addressing vulnerabilities that permit rating shopping are all necessary for a more complete regulatory framework.[207] A long-standing worry for CRA regulation has been the issuer-pays paradigm, in which CRAs get payment from the organizations they grade. Agencies that inflate ratings to retain clients are engaging in a conflict of interest. Notwithstanding SEBI's initiatives to improve independent oversight in CRAs, these steps have not sufficiently addressed the possibility of ratings being jeopardized. One possible change would be to look into alternative compensation models, such as a regulator-assigned fee structure, in which a neutral entity receives issuer payments and distributes them to CRAs in accordance with predefined norms. This would decrease the direct financial dependence of rating agencies and issuers, so lowering conflicts of interest and preserving market competitiveness. Requirements for analyst rotation and more independent boards are two examples of stricter internal control measures that could help stop undue influence on ratings.

Enhancing its oversight processes is essential if SEBI is to move beyond post-facto punishments and introduce real-time CRA monitoring. Current regulatory enforcement largely relies on fining or cancelling registrations after crimes are committed, rather than preventing misconduct through proactive oversight. SEBI might establish a continuous compliance audit system that would compel CRAs to submit quarterly reports on their rating methods, internal review processes, and conflict resolution plans. The implementation of a real-time rating validation process, in which independent auditors or experts chosen by SEBI periodically assess high-risk rating judgments, may help reduce examples of inflated ratings and delayed downgrades.

The inconspicuousness of grading technique continues to be one of the most significant barriers to market trust.[208] Despite SEBI's requirement that CRAs disclose the primary assumptions underlying their ratings, many agencies continue to use complex, opaque algorithms that are out of reach for typical investors. In order for investors and regulators to properly review rating processes, it is necessary that CRAs disclose full rating frameworks and risk assessment models to the public in an understandable manner. Accountability and investor trust would be increased, especially considering past financial crises where CRAs were unable to adequately defend their rating decisions.

Altering the legal obligations of CRAs is another pressing matter. Currently, there are few legal consequences for rating companies who give inaccurate or misleading ratings. Expert responsibility provisions can act as a deterrent to CRAs using negligent rating practices since they make them legally liable for negligence in their risk assessments. In the event that investors suffer losses due to CRA carelessness, SEBI may create a statutory liability structure that would allow them to seek legal action. SEBI should enhance its penalty structure to include investor compensation measures in order to further ensure that market participants are not the only ones who suffer from erroneous ratings.

In order to avoid misleading investors, issuers should avoid rating shopping, which involves revealing only the best ratings. Even though SEBI Regulation 24(2) requires issuers to report all ratings they have earned, there are still irregularities in compliance, and systemic weaknesses allow issuers to continue manipulating the system. One solution to this problem is to implement necessary cross-verification among CRAs, which calls for all agencies rating the same issuer to share information and spot inconsistencies. Additionally, SEBI might implement automated disclosure processes that would ensure that stock exchanges and regulatory agencies

[207] Prakash *supra* note 1, at 27.

[208] Chowdhury *supra* note 2, at 16.

receive a direct report of any rating provided by a CRA, eliminating issuers' selective reporting.

By undertaking these approaches, SEBI will be able to create more transparency and accountability, which will also increase the utility and efficiency of credit rating agencies. Investor trust would greatly increase if the structural problems in CRA compensation, strengthening oversight practices, enforcing legal responsibility, and closing regulatory gaps are dealt with. This will also strengthen the reputation of CRAs as gatekeepers of financial risk. As financial markets become more complicated, these legislative and policy actions are essential for maintaining market integrity and long-term investor interests.

Conclusion

Despite changes brought about by judicial and legislative measures, there are still significant loopholes in India's regulation of credit rating agencies that ensure accountability, transparency, and investor safety. In spite of the fact that the SEBI (Credit Rating Agencies) Regulations, 1999, established a well-structured legal framework, enforcement has often been reactive rather than proactive, as demonstrated by the DHFL and IL&FS cases, where rating errors had detrimental economic consequences. Reiterating the need for stricter regulatory oversight and compliance procedures are court decisions in cases such as Brickwork Ratings v. SEBI and Vidarbha Industries v. Axis Bank. In the future, effective CRA regulation will require real-time monitoring, tougher penalties for non-compliance, and rating agencies' increasing legal responsibility. Because of the ongoing structural challenges with the issuer-pays paradigm, other compensation arrangements are required to minimize conflicts of interest. Limiting rating shopping, increasing rating transparency, and strengthening SEBI's enforcement power are all crucial steps to ensure a robust and trustworthy CRA ecosystem. As financial markets continue to evolve, a dynamic and well-executed regulatory framework is necessary to preserve investor interests and market integrity.

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