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# Centre for Public Policy and Good Governance

# SEBI's New ESG Rating Withdrawal Norms

**Ready to make ESG ratings as trustworthy as the values they measure? Here's how the norms help.**

1. Accountability
2. Transparency
3. Integrity
4. Credibility
5. Sustainability

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## How do we keep sustainability ratings from becoming unsustainable themselves?

By enforcing SEBI's new ESG Rating Withdrawal Norms, issued vide:

**MASTER CIRCULAR FOR ESG RATING PROVIDERS (ERPS)**

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# The Policy Objective

- To trengthen the **credibility** of India's ESG-rating ecosystem.
- To **prevent** arbitrary withdrawals that can mislead investors.
- To **align** ESG ratings with the rigour and transparency of credit ratings.
- To build **trust** in sustainability-linked investing.

# Background & Evolution

- As ESG investing grew, ratings proliferated, often with inconsistent standards.
- **SEBI's Master Circular** (May 2024) introduced a framework for ESG Rating Providers (**ERPs**).
- In **April 2025**, SEBI refined withdrawal, disclosure, and governance norms after market feedback.
- This marks India's shift from voluntary sustainability practices to regulated accountability.

# What Should you Keep Score of?

- **ESG Rating**: A score assessing how well a company manages Environmental, Social, and Governance factors.
- **ERP (ESG Rating Provider):** Entity registered with SEBI to issue such ratings.
- **Issuer-Pays Model:** Company pays the ERP to rate it, similar to credit ratings.
- **Subscriber-Pays Model:** Investors or funds pay for access to ratings.
- **Withdrawal Norms:** Rules defining when and how a rating may be discontinued, ensuring transparency.

# Structure & Oversight

- **Regulator:** SEBI
- **Covered Entities:** Registered ESG Rating Providers
- **Disclosures:**
  - Withdrawal policies on ERP websites.
  - Active & withdrawn ratings published on Stock Exchange portals.
- **Monitoring:** SEBI reviews ERP compliance through CRA Regulations.

# Conditions of Withdrawal

- **Subscriber-Pays Model:**
  - Rating may be withdrawn only if there are no active subscribers.
  - Not allowed for index-linked ratings if subscribers still exist.
- **Issuer-Pays Model:**
  - For debt securities → may withdraw after 3 years or 50 % of tenure (whichever longer).
  - Needs NOC from 75 % of bondholders by value.
  - For issuer-level ratings → minimum 3 years continuous coverage.

# Stakeholders & Their Roles

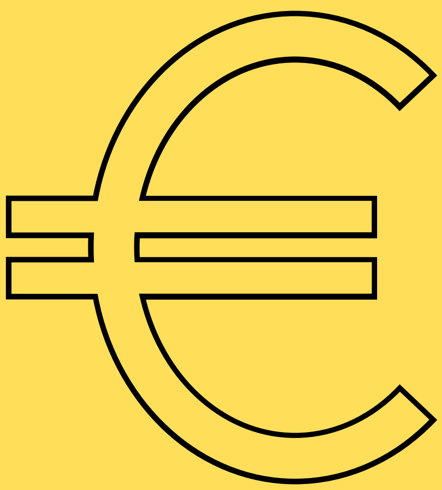
- **SEBI:** Chief Regulator
- **ERPs:** Apply withdrawal policy, disclose rationale.
- **Issuers/Listed Companies:** Ensure timely BRSR (Business Responsibility & Sustainability Report).
- **Investors & Bondholders:** Consent & rely on transparency.
- **Stock Exchanges:** Host public rating information.

# Challenges in Implementation

- **Data Integrity:** The quality and timeliness of BRSR disclosures will determine whether ratings remain reliable or risk premature withdrawal.
- **Investor Interpretation:** A withdrawn rating does not necessarily imply poor ESG performance, clarity in communication is essential to prevent misperception.
- **Regulatory Balance:** SEBI must ensure that withdrawal flexibility does not become an avenue for avoiding scrutiny or concealing weak assessments.
- **Continuity of Information:** Frequent withdrawals could erode historical comparability, making long-term ESG performance tracking more difficult.
- **Capacity of Rating Providers:** Smaller ERPs may find compliance resource-intensive, underscoring the need for capacity-building within the ecosystem.

## Global Context

- **EU (CSRD):** Focuses on company disclosure, not rating withdrawal.
- **US & UK:** Debating greenwashing regulation; no lifecycle norms yet.
- **India:** One of the first regulators to detail ESG rating withdrawal rules, balancing innovation and investor protection.



# Expected Impact

- Boosted **investor confidence** & market integrity.
- Reduced greenwashing through clear **accountability**.
- Benchmarks set for emerging economies on **ESG oversight.**
- Could cause **short-term data gaps** if many ratings are withdrawn.

# What Comes Next?

- **Aligning** Indian ESG rules with ISSB & TCFD standards.
- **Developing** public repositories of rating history & withdrawals.
- **Conducting** independent audits of ERP performance.
- **Promoting** policy literacy on what “withdrawn rating” means for markets.

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## Food for Thought

If an ESG rating can expire, does accountability for sustainability expire with it?

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