

POLICY IN RESPECT OF NON-COOPERATION BY A RATED ENTITY**June 2024**

This document outlines ICRA ESG Ratings Limited's (ICRA ESG) (formerly known as Pragati Development Consulting Services Limited) policy in respect of entities that have an Environmental, Social, Governance (ESG) Rating outstanding from ICRA ESG but have stopped cooperating in terms of sharing the information required by ICRA ESG to review the rating, or in terms of adhering to the commercial terms of the rating agreement. This policy is aligned with the Securities and Exchange Board of India (Credit Rating Agencies) Regulations, 1999 and the master circular for the ESG Rating Providers *SEBI/HO/DDHS/POD3/P/CIR/2024/45* dated May 16, 2024, as amended from time to time.

Overview

ESG Ratings seek to measure the extent to which entities integrate, manage, and disclose the relevant sustainability factors in their activities, and, depending on the ESG Rating product type, reflect either an entity's impact on or exposure to environment, social, or governance risks.

For undertaking the above analysis, ICRA ESG relies on public information and/or non-public information, the source for the latter primarily being the rated entity itself. ICRA ESG enters into a written agreement with the rated entity that seeks an ESG Rating for itself at the issuer level or its debt instruments. As per the terms and conditions of the written agreement, the rated entity is required to furnish information and clarifications as may be periodically required by ICRA ESG to monitor the assigned ESG Rating throughout the lifetime of the rated debt obligation/ entity or until the rating is withdrawn. The rated entity is expected to provide to ICRA ESG accurate, bonafide, adequate and timely information as required for assigning and/or monitoring the ESG risks.

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sunil.ks-esg@icraindia.com**What is the approach taken by ICRA ESG in the case of non-cooperation by the rated entity?**

Situations may arise at times when ICRA ESG is unable to monitor the ESG performance of a rated entity because of non-cooperation by it in terms of sharing adequate information or not giving an opportunity to discuss the business/ sustainability performance and future plans with the management, despite reminders from ICRA ESG. This constraints ICRA ESG's ability to take a reliable ESG rating decision. In addition, situations may arise where the rated entity does not adhere to the commercial terms of the written agreement with ICRA ESG.

An indicative list of information required by ICRA ESG to adequately monitor the ESG performance of a rated entity includes (but is not limited to):

- i. Timely updates on the sustainability performance via quarterly, half-yearly or annual results, as the case maybe
- ii. Regular updates on sustainability-related expenditures
- iii. Details relating to the ESG transition plans and programmes
- iv. Details of assurance engagements including observations from the auditor with respect to sustainability-related disclosures
- v. Any other information or management meetings, as may be requested by ICRA ESG from time to time

If the entity does not share the information sought by ICRA ESG even after repeated reminders, ICRA ESG may take appropriate rating action depending upon the materiality of the information inadequacy.

Under the situations where the rated entity remains non-cooperative, ICRA ESG continues to review such ratings on an ongoing basis throughout the instrument's lifetime, or until such ratings are withdrawn, on the basis of the best available information. The rating action as well as any relevant update on the entity is disseminated via a rating rationale on ICRA ESG's website. To caution lenders, investors and market participants, the ESG Rating symbol/ score in the rating rationale for such entities is accompanied by the suffix "ISSUER NOT COOPERATING" in the same font size as the rating symbol, followed by an asterisk mark, with a description spelt out separately and read as "*Issuer did not cooperate; Based on best available information*".

What does a rating symbol accompanied by the suffix "ISSUER NOT COOPERATING" signify?

A rating/ score that is accompanied by the suffix "ISSUER NOT COOPERATING" signifies that the rating is based on limited or outdated information on the entity's ESG performance since the time it was last assessed comprehensively. For such ratings, the lenders, investors and other market participants are thus advised to exercise appropriate caution while using the rating, as it may not adequately reflect the ESG impact/ risk/ transition profile of the entity. The entity's ESG profile may have changed to an extent not represented by the rating symbol. A rating/ score that is accompanied by the suffix "ISSUER NOT COOPERATING" can also signify non-adherence to the commercial terms by the rated entity as per the written agreement with ICRA ESG.

Rating action taken by ICRA ESG in case of non-cooperation by the rated entity

Scenario	Rating Action
When only partial information is available, but there are reasons to believe that the ESG profile of the entity has weakened since last assessed	Rating downgraded: The severity of the downgrade would depend on ICRA ESG's assessment of the entity's ESG profile based on information available on a best effort basis. The users of the rating should exercise caution as despite the downgrade, the rating may still not adequately reflect the ESG impact/ risk/ transition profile of the entity.
When no information or only partial information is available, and it is difficult to form a reliable opinion on the ESG rating quality of the entity	Rating may or may not be downgraded: ICRA ESG would assess the extent to which the lack of information creates an uncertainty regarding the entity's ESG profile. Accordingly, ICRA ESG would consider whether the rating of the entity could be retained or needs to be suitably downgraded depending on the extent of information available commensurate with the rating ¹ . Also, the users of the rating should exercise caution as the rating, whether retained or downgraded, may still not adequately reflect the ESG impact/ risk/ transition profile of the entity.

¹ It may be noted that with prolonged non-cooperation, the uncertainty around the entity's ESG profile would increase further because of persistent lack of information. Thus, the rating may be subjected to a further downgrade, if the circumstances so merit.

What is the approach taken in case an entity has a history of non-cooperation with other ESG Rating Providers?

In case an entity approaches ICRA ESG for an ESG Rating, having not cooperated with all other ESG Rating Providers (ERPs) with whom it has any ESG Rating outstanding, ICRA ESG will examine whether the entity's ESG rating from all the other ERPs has persistently remained in the INC category for 12 months² or more.

- » If the entity's rating from all the other ERPs has persistently remained in the INC category for 12 months or more, ICRA ESG would not carry out the ESG rating assignment until the entity resumes cooperation with any of the other ERPs or its ratings with INC status are withdrawn by all the other ERPs.
- » If 12 months of persistent non-cooperation with all the other ERPs are yet to expire, ICRA ESG may carry out the rating assignment and the rating rationale that shall be published by ICRA ESG as part of the rating assignment would disclose, *inter alia*, the aspect for non-cooperation by the entity with the other ERP(s). As per the terms of the written agreement, the rated entity is required to disclose to ICRA ESG, the history and status of the rating from the other ERP, along with reasons for non-cooperation.

Note: ESG Ratings are different from credit ratings.

² The period of 12 months of non-cooperation by an entity with the other ERPs, during which ICRA ESG might consider undertaking the rating assignment for such entity would be linked to ICRA ESG being able to complete the rating assignment and publish the press release prior to the passage of 12 months. *Example:* If ICRA ESG initiates the rating exercise but is unable to conclude the assessment within 12 months of the INC press release of the other ERP, then ICRA ESG would not publish the press release, unless the entity resumes cooperation with any of the other ERPs or gets its ratings withdrawn from all the other ERPs.

Contact us for any feedback or comments at methodologies-esg@icraindia.com

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About ICRA ESG Ratings Limited:

ICRA ESG Ratings Ltd (ICRA ESG), is a Category-I ESG Ratings Provider (ERP) licensed by the Securities and Exchange Board of India. ICRA ESG provides comprehensive ESG assessments, offering a holistic view of an entity's state and progress towards sustainability. Our approach covers not only the conventional metrics but also incorporates a nuanced evaluation of an entity's commitment to and transition towards sustainability.

ICRA ESG is a wholly owned subsidiary of ICRA Limited (ICRA), one of India's leading Credit Rating Agencies, with a track record of over three decades. The ultimate parent company of international Credit Rating Agency Moody's Investors Service is the indirect largest shareholder of ICRA.

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ESG Ratings are different from credit ratings.

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