Complexity Level of Rated Instruments

[Updated in December 2025]

CARE Ratings Limited (CareEdge Ratings) has, as an investor education measure, introduced classification of financial instruments i.e., bank facilities, fixed deposits, capital market instruments (debentures, bonds etc.), money market instruments (commercial papers, certificate of deposits) based on their complexity. Complexity indicates how easily the risk elements of a financial instrument can be understood and analysed and the ease with which the returns from various financial instruments can be computed. It enables the investors to take well-informed decisions about investment in financial instruments. This classification helps the market intermediaries to guide the investors depending upon the levels of acceptable complexity. Further, the government / regulators find this classification useful in prescribing the levels of complexity for investments by certain class of investors such as provident funds, trusts, insurance companies etc.

CareEdge Ratings discloses the complexity level of all rated debt instruments, including those which are yet to placed based on the information available at the time of rating. Where necessary, the complexity level of the rated financial instruments may be revised in the press release published after the placement / issuance of the instrument, once additional details become available.

Financial instruments have been classified into the three categories - simple, complex and highly complex, based on four criteria:

Certainty of Rate of Return
The certainty with which payouts and returns can be computed affects the complexity of an instrument. In case of fixed deposits and non-convertible debentures (NCDs) and bonds with fixed coupon payment, there is no uncertainty regarding the rate of interest, unlike some other instruments such as market-linked debentures which may be linked to a benchmark, which requires deep understanding and involves significant computational complexity.

Redemption Terms
When the timing is predictable, investors can plan their investments more effectively, which in turn influences the overall returns. While plain vanilla NCDs and bonds may not have a put / call option that exposes an investor to reinvestment risk, deep discount bonds generally have multiple put / call options. Investors in such instruments need to be sensitized that their intention to lock-in at a preferred rate of interest for the maturity period of the instrument may not fructify if the issuer exercises the call option.

Number of Parties Involved in the Transaction
The complexity of an instrument is also influenced by the number of parties involved in the transaction. In case of instruments carrying a guarantee, the investors need to understand that the credit risk of these instruments is dependent upon the creditworthiness of the guarantor apart from the issuer itself. Instruments with partial guarantee are also in vogue and are complex in nature.

Familiarity of Capital Market with the Instrument
Market participants tend to find it easier to understand instruments that have been established for some time, compared to those that are newly introduced. While fixed deposits, NCDs, bonds etc. have been popular with the investors for decades, instruments issued by the banks for augmenting their capital like perpetual bonds, require an understanding of the regulatory framework and the performance of the issuing banks. Also, all investor classes are not well acquainted with the intricacies of instruments issued in case of securitization transactions. As the market

becomes more familiar with a particular type of instrument over time, its perceived complexity tends to diminish. Consequently, the complexity level of an instrument is not static, and it may evolve as market participants gain greater familiarity, understanding and experience with it. Therefore, classification based on this criteria may require a revision.

Classification

Classification of instruments based on the above criteria is given below:

Simple

Instruments included in this level are the least complex instruments. These are generally, instruments with a fixed rate of return and a pre-determined repayment period. They do not have any prepayment risk and there is only one counterparty. Market participants are very familiar with these types of instruments.

Complex

Instruments included in this level are moderately complex instruments. These are generally, instruments with a variable rate of return. While the repayment period may be fixed, there is a risk of prepayment, and the number of counterparties may be more than one. Market participants may be only moderately familiar with these types of instruments.

Highly Complex

Instruments included in this level are the most complex instruments. They generally have a variable return and maturity profile and the number of counterparties involved may be more than one. Market participants are not very familiar with these types of instruments.

Complexity vs Credit Risk

Classification of instruments based on their complexity should not be misconstrued as an indicator of the inherent credit risk of the instrument. The credit risk associated with an instrument is indicated by its credit rating. Even instruments classified as 'Simple' may have a higher credit risk compared to those classified as 'Complex' or 'Highly Complex'. For example, while fixed deposits, which are unsecured in nature, are simple instruments to transact, the credit risk may be higher (in case of a corporate with weaker fundamentals mobilising the deposit) than that of 'Highly Complex' instruments like asset backed securities. This risk is easier to comprehend in the case of instruments classified as 'Simple', compared to those categorized as 'Complex' or 'Highly Complex'.

Benefits

The above classification is useful to the investors, issuers and market intermediaries. The investors find the classification useful to understand the degree of due diligence required to understand the risk factors associated with the instruments before selecting an instrument. Issuers and market intermediaries find it useful in understanding target customers for each type of instrument and targeting different classes of investors with instruments of acceptable levels of complexity. Further, the government / regulators find the classification useful while stipulating investment criteria for certain classes of investors like provident funds, trusts, insurance companies etc.

For broad guidance on classification of instruments based on the criteria mentioned above please refer to the Annexure.

This service is made on a voluntary basis, free of cost as an investor education measure to all the users of CareEdge Ratings.

Issuers / investors / market intermediaries / regulators or others are welcome to write to care@careedge.in for clarifications.

Annexure

	Levels of Complexity of Instruments Rated by CareEdge Ratings	
	Name of the Instrument	**CareEdge Ratings' Classification**
	General	
	Bank Facilities	Simple
	Fixed Deposits	Simple
	Inter Corporate Deposits	Simple
	Commercial Paper (Fixed Rate)	Simple
	Commercial Paper (Linked to Benchmark Rate)	Complex
	Non-Convertible Bonds / Debentures (Fixed Rate)	Simple
	Non-Convertible Bonds / Debentures (Fixed Rate with Put / Call Option)	Complex
	Non-Convertible Bonds / Debentures - Floating Rate (Yield Linked to Benchmark Rate)	Complex
	Non-Convertible Bonds / Debentures - Floating Rate (Put / Call Option, Floor / Cap)	Highly Complex
	Compulsorily Convertible Bonds / Debentures	Complex
	Partially Convertible Bonds / Debentures	Complex
	Optionally Convertible Bonds / Debentures	Highly Complex
	Deep Discount Bonds	Complex
	Zero Coupon Bonds	Complex
	Redeemable Preference Shares	Complex
	Optionally Convertible Preference Shares	Highly Complex
	Compulsorily Convertible Preference Shares	Complex
	Cumulative Redeemable Preference Shares	Complex
	Subordinated Debt	Complex
	Infrastructure Bonds	Simple
	Perpetual Debt	Highly Complex
	Banking Sector	
	Certificate of Deposits	Simple
	Lower Tier II Bonds	Complex
	Perpetual Non-Cumulative Preference Shares (PNCPS) - Tier I)	Highly Complex
	Innovative Perpetual Debt Instruments (IPDI) - Tier I	Highly Complex
	Perpetual Cumulative Preference Shares (PCPS) - Upper Tier II	Highly Complex
	Redeemable Cumulative Preference Shares (RCPS) - Upper Tier II	Highly Complex
	Redeemable Non-Cumulative Preference Shares (RNCPS) - Upper Tier II	Highly Complex
	Upper Tier II Bonds	Highly Complex
	Tier I Bonds	Highly Complex
	MSE / RIDF Deposits	Simple
	NHB Deposits	Simple

	Structured Finance	
	Assignee Payout	Highly Complex
	Liquidity Facility	Highly Complex
	Pass Through Certificates	Highly Complex
	Second Loss Facility	Highly Complex
	Securitisation Notes	Highly Complex
	Capital Protected Oriented Schemes	Highly Complex
	Covered Bonds	Highly Complex
	Pooled Bond Issuance	Highly Complex
	Collateralised Debt Obligations	Highly Complex
	Collateralised Loan Obligations	Highly Complex

[For the previous version, please to refer to 'Complexity Level of Rated Instruments' issued in July 2020]

CARE Ratings Limited

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Phone : +91 - 22 - 6754 3456 I CIN: L67190MH1993PLC071691

Connect :

Locations: Ahmedabad I Andheri-Mumbai I Bengaluru I Chennai I Coimbatore I Hyderabad I Kolkata I Noida I Pune

About:

CareEdge is a knowledge-based analytical group offering services in Credit Ratings, Analytics, Consulting and Sustainability. Established in 1993, the parent company CARE Ratings Ltd (CareEdge Ratings) is India's second-largest rating agency, with a credible track record of rating companies across diverse sectors and holding leadership positions in high-growth sectors such as BFSI and Infra. The wholly-owned subsidiaries of CareEdge Ratings are (I) CARE Analytics & Advisory Private Ltd, (II) CARE ESG Ratings Ltd, and (III) CareEdge Global IFSC Ltd. CareEdge Ratings' other international subsidiary entities include CARE Ratings (Africa) Private Ltd in Mauritius, CARE Ratings South Africa (Pty) Ltd, and CARE Ratings Nepal Ltd. For more information: www.careedge.in.