Complexity Level of Rated Instruments

[Updated in September 2026]

CARE Ratings Limited (CareEdge Ratings), as an investor education measure, has classified various financial instruments, including fixed deposits, capital market instruments (such as debentures and bonds), money market instruments (such as commercial papers and certificates of deposit), among others, based on their level of complexity. The complexity of a financial instrument indicates the extent to which the associated risk elements can be understood and analysed, as well as the ease with which the returns from the instrument can be assessed and computed. The classification is intended to facilitate informed investment decisions by enabling investors to better understand the nature and complexity of different financial instruments. The classification may also assist market intermediaries in guiding investors based on their ability to understand and evaluate instruments of varying levels of complexity. Further, such classification may be useful to the government and regulators in prescribing appropriate levels of complexity for investments by specific classes of investors, such as provident funds, trusts and insurance companies.

CareEdge Ratings discloses the complexity level of all rated debt instruments, including instruments that are yet to be placed, based on the information available at the time of assigning the rating. Where necessary, the complexity level of a rated financial instrument 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 three categories, Simple, Complex and Highly Complex, based on the following four criteria:

Certainty of Rate of Return

The certainty with which payouts and returns can be determined is an important factor in assessing the complexity of a financial instrument. In the case of fixed deposits and non-convertible debentures (NCDs) and bonds carrying fixed coupon payments, the interest rate and resulting payouts are known with certainty. In contrast, instruments such as market-linked debentures may have returns linked to an equity related benchmark or other underlying variable, requiring a deeper understanding of the underlying parameters and involving greater computational complexity.

Redemption Terms

The predictability of the timing of payouts and returns enables investors to plan their investments more effectively and can influence the overall returns from an instrument. While plain vanilla NCDs and bonds generally do not have put/call options, thereby providing greater certainty regarding the investment tenure, instruments such as deep discount bonds may have multiple put/call options. Investors in such instruments need to be sensitised that their intention to lock in their investment at a preferred rate of interest for the stated maturity period may not be realised if the issuer exercises a call option, resulting in reinvestment risk.

Number of Parties Involved in the Transaction

The complexity of a financial instrument is also influenced by the number of parties involved in the transaction. In the case of instruments carrying a guarantee, investors need to understand that the credit risk of the instrument is dependent not only on the creditworthiness of the issuer but also on that of the guarantor. Instruments carrying a partial guarantee involve additional considerations regarding the extent and terms of the guarantee and are, therefore, considered complex in nature.

Familiarity of Capital Market with the Instrument

Market participants generally find it easier to understand financial instruments that have been established and widely used over time, compared with newly introduced instruments. While fixed deposits, NCDs and bonds have been familiar to investors for several decades, instruments issued by banks for augmenting their capital, such as perpetual bonds, require investors to understand the applicable regulatory framework as well as the financial performance and credit profile of the issuing bank. Similarly, the intricacies associated with instruments arising from securitisation transactions may not be equally familiar to all classes of investors. As market participants gain greater familiarity, understanding and experience with a particular type of instrument over time, its perceived complexity may diminish. Accordingly, the complexity level of an instrument is not necessarily static and may evolve with market development and investor familiarity. The classification based on this criterion may, therefore, require periodic review and revision, where appropriate.

Classification

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

Simple

Instruments included in this category are the least complex financial instruments. These generally comprise instruments with a fixed rate of return or variable returns linked to benchmark rates, such as the repo rate or G-Sec, and having a pre-determined repayment period. Such instruments generally do not involve prepayment risk and typically involve a single counterparty. Market participants are also generally familiar with these types of instruments.

Complex

Instruments included in this category are moderately complex financial instruments. While the repayment period may be fixed, such instruments may involve prepayment risk and may have more than one counterparty. They may also incorporate additional features such as convertibility, flexible repayment terms or subordination, which require investors to consider additional factors in assessing the associated risks and returns. Market participants may have only moderate familiarity with these types of instruments.

Highly Complex

Instruments included in this category are the most complex financial instruments, having inherently advanced structures or combining multiple complexity features. They may offer variable returns linked to equity/stock market benchmarks, such as the BSE Sensex or NSE Nifty 50, and/or may have features such as perpetual maturity or characteristics associated with securitisation transactions. These instruments may also involve cumulative returns, prepayment risk and/or multiple counterparties. Market participants may have relatively less familiarity 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.

CareEdge Ratings does not assign complexity levels to fund-based and non-fund based facilities extended by the lenders. Since the terms and conditions of these facilities are determined by the lender itself, it is already aware of their features and complexity.

Annexure

Levels of Complexity of Instruments Rated by CareEdge Ratings

Category	Simple	Complex	Highly Complex
Bonds, Debentures & Preference Shares	Non-Convertible Debentures/Bonds [Fixed Rate/Floating Rate (Linked to Benchmark Rate such as G-Sec, Repo Rate, etc.)]	Non-Convertible Debentures/Bonds (with Credit Enhancement/Put Option/Call Option)	All types of Preference Shares*
		Compulsorily convertible*	
		Partially convertible*	
		Optionally convertible*	
BFSI Sector Instruments	Certificate of Deposits	Lower Tier II Bonds	All types of Tier I Bonds/Instruments (including Additional Tier I bonds)
	MSE / RIDF Deposits	Tier II Bonds	All types of Upper Tier II Bonds or Upper Tier II Preference Shares
	NHB Deposits		
	Fixed Deposits		
Securitisation			All type of Instruments/Facilities
Other Instruments	Commercial Paper	Deep discount bonds	Perpetual debt
	Fixed Deposits	Zero-coupon bonds	Instruments with coupon/returns linked to equity or stock index such as Sensex, Nifty 50, etc. such as market-linked debentures
	Inter-corporate Deposits	Subordinated debt	
	Infrastructure Bonds	Instruments with flexible repayment (e.g., pay-when-able)	
		Instruments with Credit Enhancement	

*****With or without Credit Enhancement/Put Option/Call Option

[For the previous version, please to refer to 'Complexity Level of Rated Instruments' issued in December 2025]

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