

**CIRCULAR**

**SEBI/HO/DDHS/DDHS-RACPOD2/P/CIR/2022/ 113**

**August 25, 2022**

**To**

**All Credit Rating Agencies (CRAs) registered with SEBI**

Dear Sir/ Madam,

**Sub: Enhanced Disclosures by CRAs and Norms on Rating Withdrawal**

- I. SEBI (Credit Rating Agencies) Regulations, 1999 (“CRA Regulations”) provide for a principle-based regulation of CRAs focusing *inter alia* on enhanced transparency and disclosures by CRAs. Over time, SEBI has prescribed various disclosures under different circulars under the CRA Regulations.
- II. In order to allow investors and other stakeholders to properly use such disclosures in a fair assessment of CRAs, the following changes are being suggested for disclosures made by CRAs.
- III. **Applicability:** This circular shall be applicable to credit ratings of securities that are listed, or proposed to be listed, on a recognized stock exchange, and other credit ratings that are required under various SEBI Regulations or circulars thereunder.
- IV. **Methodology for Computation of Sharp Rating Action**
  - A. SEBI circular numbered SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2018/ 140 dated November 13, 2018 had *inter alia* mandated CRAs to furnish data on sharp rating actions in investment grade rating category, as per the format in Annexure A of the aforesaid circular, to Stock Exchanges and Depositories for disclosure on website on half-yearly basis.
  - B. In order to standardize the methodology of computation and disclosure of a ‘sharp rating action’, it is clarified that CRAs shall compare two consecutive rating actions. Therefore, a CRA shall disclose a sharp rating action, if the rating change between two consecutive rating actions is more than or equal to 3 notches downward. In other words, if the difference in credit rating between two consecutive press releases is more than or equal to 3 notches downward, the same has to be included in the disclosure on sharp rating actions.
  - C. The disclosure on sharp rating actions shall be limited to credit ratings referred at Section III above.
  - D. In addition to the current disclosures of sharp rating actions excluding non-cooperative issuers, CRAs shall also separately disclose sharp rating actions including such actions on non-cooperative issuers.

V. **Issuers Not Cooperating (INC) and information required for rating**

- A. SEBI Circular dated November 01, 2016 *inter-alia* prescribed certain norms regarding policy in respect of non-co-operation by the issuer, including mandating each CRA to frame detailed guidelines on what constitutes non-cooperation.
- B. In continuation to the same, CRAs shall have a detailed policy in this respect which shall include the following:
- i. Non-submission of material information including (but not limited to) the following:
    - a) Non-submission of quarterly financial results or performance results or audited financial results within prescribed timelines
    - b) Current and past operational details including details about capex plans
    - c) Debt obligations and repayment details
    - d) Any other issue felt appropriate by credit rating agency as per internal assessment or as laid down by CRA in its internal policy/manual.
  - ii. The criteria/ methodology in respect of assessing the risk of non-availability of information from the issuers including non-cooperative issuers.
  - iii. The steps to be taken under various scenarios in order to ascertain the status of non-cooperation by the issuer company.
- C. CRAs shall follow a uniform practice of three consecutive months of non-submission of No-default Statement (NDS) (or inability to validate timely debt servicing through other sources) as a ground for considering migrating the ratings to INC and shall tag such ratings as INC within a period of 7 days of three consecutive months of non-submission of NDS. The CRA in its judgement may migrate a rating to the INC category before the expiry of three consecutive months of non-receipt of NDS.
- D. CRAs shall also formulate a policy on “Minimum/ Indicative Information requirement” in terms of various sectors or types of ratings (referred at Section III above), etc. and disclose it on their website.

VI. **Rating Withdrawal** - It is clarified that while withdrawing any credit rating referred to in Section III above, a CRA in its press release shall also assign a credit rating to such security, except where there are no outstanding obligations under the security rated by the CRA, or the company whose security is rated is wound up or merged or amalgamated with another company.

VII. **Rating Withdrawal of Perpetual Debt Securities**, that are listed or proposed to be listed on a recognized stock exchange.

- A. As per the current rating withdrawal provisions it is seen that in case of ratings of perpetual debt securities, such as AT-I bonds, that are listed or proposed to be listed on a recognized stock exchange, a credit rating cannot be withdrawn unless the security is redeemed. Often, this can result in the issuer of such bonds to stop cooperating with the CRA.
- B. Therefore, to facilitate withdrawal of ratings of perpetual debt securities that are listed or proposed to be listed on a recognized stock exchange, it is proposed to revise withdrawal norms of ratings of such securities. Accordingly, a CRA may withdraw ratings of such securities provided that the CRA has:
- i. rated such security/ies continuously for 5 years; and
  - ii. received an undertaking from the Issuer that a rating is available on such security/ies; and
  - iii. received an undertaking from the other CRA(s) that a rating is available on such security/ies.

#### VIII. Disclosure of Average Rating Transition Rates for Long-Term Credit Ratings

- A. SEBI circular numbered SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2018/ 140 dated November 13, 2018 has *inter alia* mandated CRAs to disclose a rating transition matrix, where the static pool has been defined to exclude ratings that have been withdrawn or ratings of non-cooperative issuers during the financial year.
- B. Given the increased non-cooperative issuers in the CRAs' rated universe, excluding such INC ratings might not depict a true picture of stability of credit ratings within CRAs and across CRAs.
- C. In view of the above, it is mandated that in addition to the current disclosure of rating transitions as per SEBI circular dated November 13, 2018, CRAs shall also disclose two additional and separate rating transition matrices (limited to credit ratings of securities that are listed, or proposed to be listed, on a recognized stock exchange) using the following definition of static pool:
- i. *Static Pool: Ratings outstanding for each category at the beginning of any financial year. It shall **exclude** ratings that have been withdrawn or ratings of non-cooperative issuers during the financial year. Ratings downgraded to D shall be treated as default for the rest of the financial year. Ratings which are upgraded from D shall be considered as new rating for the relevant subsequent static pools.*
  - ii. *Static Pool: Ratings outstanding for each category at the beginning of any financial year. It shall **include** ratings that have been withdrawn or ratings of non-cooperative issuers during the financial year. Ratings downgraded to D shall be treated as default for the rest of the financial year. Ratings*

*which are upgraded from D shall be considered as new rating for the relevant subsequent static pools.*

- D. In the disclosure at C.(ii) above, a CRA shall include an additional column to indicate the proportion of ratings that were withdrawn during the financial year.

#### IX. Enhanced Disclosures by CRAs

- A. In order to facilitate enhanced transparency and usability of disclosures made by CRAs on their websites, the following is proposed:

- i. Disclosures required by CRAs on their websites under various SEBI circulars should be provided in excel / machine readable format.
- ii. An archive of disclosures should be maintained by CRAs on their website, for at least 10 years. This also includes ratings press releases by CRAs.

- B. In addition to current disclosure on cumulative default rates (CDR) which includes non-cooperative issuers and various types of credit ratings, CRAs shall also disclose, separately, two other CDRs limited to credit ratings of securities that are listed, or proposed to be listed, on a recognized stock exchange:

- i. CDR (ii), wherein ratings of non-cooperative issuers shall be **included** in the cohort under the rating category in which the instrument is currently being rated.
- ii. CDR (iii), wherein ratings of non-cooperative issuers shall be **excluded** in the cohort under the rating category in which the instrument is currently being rated.

- X. **Applicability:** The date or time period of applicability of the above sections shall be as provided below:

Section of the Circular	Date of Applicability
IV. Methodology for Computation of Sharp Rating Action	Disclosures for H1 of Financial Year 2022-23
V. Issuers Not Cooperating (INC) and information required for rating	Latest by March 31, 2023
VI. Withdrawal Norms	Ratings withdrawn after September 30, 2022
VII. Rating Withdrawal of Perpetual Debt Securities	Ratings withdrawn after September 30, 2022
VIII. Disclosure of Average Rating Transition Rates for Long-Term Credit Ratings	Disclosures for Financial Year 2022-23
IX. Enhanced Disclosures by CRAs	Website Disclosures made after March 31, 2023

- XI. This circular is issued with the approval of the competent authority.
- XII. This circular is issued in exercise of the powers conferred by Section 11 (1) of Securities and Exchange Board of India Act, 1992 read with the provisions of Regulation 20 of SEBI (Credit Rating Agencies) Regulations, 1999, to protect the interest of investors in securities and to promote the development of, and to regulate, the securities market.

Yours faithfully,

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