

CIRCULAR

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November 13, 2018

To
All Credit Rating Agencies registered with SEBI
All Recognized Stock Exchanges
All Depositories

Dear Sir/ Madam,

Sub: Guidelines for Enhanced Disclosures by Credit Rating Agencies (CRAs)

SEBI has constantly endeavoured to enhance the quality of disclosures made by the CRAs. In pursuance of the same, the following disclosures are being prescribed to bring about greater transparency:

1. Disclosures in the Press Release regarding Rating Actions:

- A. SEBI, vide Circular dated November 01, 2016, had prescribed the standard format for press release regarding rating action by CRAs. While CRAs are required to monitor and analyse the relevant factors that affect the creditworthiness of an issuer and discuss the same in the rating notes considered by the rating committee for assignment of ratings, such relevant factors may also be suitably incorporated in the press release regarding the rating action.

Accordingly, in order to enable investors to understand underlying rating drivers better and make more informed investment decisions, CRAs shall make the following specific disclosures in the section on “Analytical Approach” in the Press Release:

- a. When a rating factors in support from a Parent/ Group/ Government, with an expectation of infusion of funds towards timely debt servicing, the name of such entities, along with rationale for such expectation, may be provided.
 - b. When subsidiaries or group companies are consolidated to arrive at a rating, list of all such companies, along with the extent (e.g. full, proportionate or moderate) and rationale of consolidation, may be provided.
- B. The Press Release shall include a specific section on “Liquidity”, which shall highlight parameters like liquid investments or cash balances, access to

unutilised credit lines, liquidity coverage ratio, adequacy of cash flows for servicing maturing debt obligation, etc. CRAs shall also disclose any linkage to external support for meeting near term maturing obligations.

2. Review of Rating Criteria

- A. In terms of Para 2 in Annexure A of SEBI Circular dated November 01, 2016, CRAs may review their rating criteria with regard to assessment of holding companies and subsidiaries in terms of their inter-linkages, holding company's liquidity, financial flexibility and support to the subsidiaries, etc.
- B. While carrying out "Monitoring of Repayment Schedules", CRAs shall analyse the deterioration in the liquidity conditions of the issuer and also take into account any asset-liability mismatch.
- C. While reviewing "Material Events", CRAs may treat sharp deviations in bond spreads of debt instruments vis-à-vis relevant benchmark yield as a material event.

3. Disclosure of Average Rating Transition Rates for long-term instruments

- A. Transition studies are central to evaluating the performance of a CRA and provide an insight on the stability of ratings over a period of time. In order to promote transparency and to enable the market to best judge the performance of the ratings, the CRA should publish information about the historical average rating transition rates across various rating categories, so that investors can understand the historical performance of the ratings assigned by the CRAs.
- B. Accordingly, CRAs shall publish their average one-year rating transition rate over a 5-year period, on their respective websites, which shall be calculated as the weighted average of transitions for each rating category, across all static pools in the 5-year period. The format of the transition matrix is enclosed as **Annexure A**.
 - a. For the said purpose, the following terms shall have the meaning as under:
 - i. **Static Pool:** Ratings outstanding for each category at the beginning of any financial year. However, 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. Transition Rate: The number of movements/ transitions from each rating category to another, as at the end of the financial year, as a percentage of the total number of ratings in the static pool.
- iii. Averaging: All averaging across static pools for transition rate computations must be based on the weighted average method where the weights are the number of issuers in each static period.

4. Disclosure of performance of CRAs on Stock Exchange and Depository website

- A. Each CRA shall furnish data on sharp rating actions in investment grade rating category, as per the format specified in **Annexure B**, to Stock Exchanges and Depositories for disclosure on website on half-yearly basis, within 15 days from the end of the half-year (31st March/ 30th September).

5. Internal Audit of CRAs:

- A. It is clarified that the half-yearly internal audit, mandated under Regulation 22 of the SEBI (Credit Rating Agencies) Regulations, 1999 and Circular SEBI/ MIRSD/CRA/Cir-01/ 2010 dated January 06, 2010, shall also cover adherence to the prescribed methodology for calculation of transition rates, as specified in Para 3. B. above and default rates, in line with Circular CIR/MIRSD/CRA/6/2010 dated May 3, 2010.
6. 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,

Parag Basu
Chief General Manager
Tel. No: 022-26449360
Email id: paragb@sebi.gov.in

ANNEXURE A

Average one-year transition rates for long-term ratings for the last 5-Financial Year Period

Rating Category	AAA	AA	A	BBB	BB	B	C	D
AAA								
AA								
A								
BBB								
BB								
B								
C								

Note: The left-hand column identifies ratings outstanding at the beginning of the year. Each row provides information on the migration pattern of those ratings by end of the year.

ANNEXURE B

**Sharp rating actions in investment grade rating category
(excluding non-cooperative issuers)**

S. No.	Rating action	Number of ratings
1.	Number of rating downgrades of more than 3 notches	
2.	Number of downgrades to default from investment grade ratings	
3.	Number of rating upgrades of more than 3 notches	
4.	Number of outstanding ratings as on March 31/ September 30	