

**CIRCULAR**

**SEBI/ HO/ MIRSD/ DOP2/ CIR/ P/ 2018/ 86**

**May 30, 2018**

**To**  
**All Credit Rating Agencies registered with SEBI**

Dear Sir/ Madam,

**Sub: Enhanced Disclosure and Transparency Norms for Credit Rating Agencies**

In order to enhance the governance, accountability and functioning of Credit Rating Agencies (CRAs), a Consultation Paper comprising proposals pertaining to, inter-alia, rating process followed by the CRAs and disclosures pertaining to the ratings assigned, was issued for public comments on September 08, 2017. Taking into consideration the comments and suggestions received from the public, the following guidelines are being issued:

**1. Request by Issuers for review of ratings provided by CRAs:**

- A. In the interest of transparency and fairness, it has been decided that all cases of requests by an Issuers for review of the rating(s) provided to its instrument(s) by the CRA, shall be reviewed by a Rating Committee of the CRA that shall consist of a majority of independent members.
- B. As defined in the Circular for Enhanced Standards for CRAs dated November 01, 2016, "*independent*" would mean people not having any pecuniary relationship with the CRA or any of its employees.

**2. Disclosures in case of ratings not accepted by an Issuer**

- A. In order to make the disclosures more relevant, it is clarified that all non-accepted ratings shall be disclosed on the CRA's website for a period of 12 months from the date of such rating being disclosed as a non-accepted rating on the CRA's website in the following format:

S. No	Name of the Issuer	Sector (Finance & Banking, Textiles, etc.)	Instrument Type (NCD, Preference Shares, CP, CD, etc.)	Issue Size (₹ millions)	Date of Non-acceptance	Listing Status (Listed/ Unlisted)	Rating assigned

**3. Rationalization of disclosures:**

- A. A Rating Summary Sheet presenting a snapshot of the rating actions carried out during the half-year, shall be uploaded by the CRAs on their websites on a half-yearly basis, within 15 days from the end of the half-year (March/September), in the format specified at **Annexure A**.
- B. Such disclosure shall be segregated for ratings assigned to -
- I. Securities; and
  - II. Financial instruments other than securities.
- C. **Modification in formats of disclosure requirements of SEBI Circular CIR/MIRSD/ CRA/ 6/ 2010 dated May 3, 2010**
- I. In order to enhance the quality of these disclosures, improve accountability of CRAs and to facilitate the public in understanding the promptness of the CRA in taking the rating action, the formats of disclosure requirements of SEBI Circular CIR/MIRSD/CRA/6/2010 dated May 3, 2010 are hereby modified. The revised format of these disclosures is specified at **Annexure B**.
  - II. Annexure IV of the aforementioned Circular stands deleted.
  - III. Annexure VI of the aforementioned Circular, disclosing the list of defaults separately for each rating category, shall now be disclosed on a half-yearly basis.
  - IV. With respect to Annexure VII, the following terms, in addition to those already defined under Point 2.2 of the aforementioned Circular, shall have the meaning as under:
    - a. **Debt-weighted default rate:** *the amount of rated debt that defaulted in the static pool as a percentage of the total amount of rated debt in the static pool.*
    - b. **Averaging for debt-weighted default rate** shall be based on *the weighted average method where weights shall be the amount of debt rated in each static period.*
  - V. For ease of understanding by the investors, these disclosures shall be prepared and disclosed separately for ratings of
    - a. Securities; and
    - b. Financial instruments other than securities.

**4. Internal Audit of CRAs:**

- A. Compliance by CRA with the provisions of this Circular shall be verified during the half-yearly Internal Audit.
  - B. Further, with respect to point 6 A III of Circular dated Nov 01, 2016, it is hereby clarified that the audit team must be composed of, at least, a Chartered Accountant (ACA/ FCA) and a Certified Information Systems Auditor/ Diploma in Information Systems Auditor (CISA/ DISA).
5. 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,

**Surabhi Gupta**  
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**ANNEXURE A: Format for Half-Yearly Rating Summary Sheet, segregated for securities and financial instruments other than securities**

S.No.	Parameter	No. of ratings	Amount of debt rated (₹ millions)
<b>1.</b>	<b>New Ratings</b>		
<b>2.</b>	<b>Upgrades</b>		
a.	Total Upgrades		
b.	Upgrades from Non-Investment to Investment Grade		
<b>3.</b>	<b>Downgrades</b>		
a.	Total Downgrades		
b.	Downgrades from Investment to Non - Investment Grade		
<b>4.</b>	<b>Defaults</b>		
a.	Total Defaults		
b.	Default from Non- Investment Grade		
c.	Default from Investment Grade:		
	AAA		
	AA		
	A		
	BBB		
<b>5.</b>	<b>Change in Ratings assigned post appeal by Issuer in surveillance cases</b>		
a.	Ratings appealed by the Issuer		
b.	Rating that have undergone revision post appeal by Issuer		

<b>6.</b>	<b>Ratings Withdrawn</b>		
<b>7.</b>	<b>Rating Distribution for outstanding ratings as on 31<sup>st</sup> March/ 30<sup>th</sup> September</b>		
a.	AAA		
b.	AA		
c.	A		
d.	BBB		
e.	BB		
f.	B		
g.	C		
h.	D		

**ANNEXURE B: Modification of Disclosures of Circular MIRSD/ CRA/ 6/ 2010 dated May 03, 2010**

**Annexure I - Details of new credit ratings assigned during last six-months**

New Ratings assigned between Apr – Sep/ Oct – Mar						
S. No	Name of the Issuer	Sector (Finance & Banking, Textiles, etc.)	Instrument Type (NCD, Preference Shares, CP, CD, etc.)	Issue Size (₹ millions)	Listing Status (Listed/ Unlisted)	Rating

**Annexure II–Movement\* of Each Credit Rating**

**Annexure II A - Upgrades**

Rating Upgrades between Apr – Sep/ Oct – Mar									
S. No	Name of the Issuer	Sector (Finance & Banking, Textiles, etc.)	Type of Instrument being rated (NCD/ Preference Shares/ CP/ CD, etc.)	Listing Status (Listed / Unlisted)	Rating prior to Revision	Rating post Revision	Date of Press Release for Rating Upgrade	Notch Difference	Trigger Event (Quarterly Results, Exchange Disclosures, Annual Surveillance etc.)

### Annexure II B – Downgrades

Rating Upgrades between Apr – Sep/ Oct – Mar									
S. No	Name of the Issuer	Sector (Finance & Banking, Textiles, etc.)	Type of Instrument being rated (NCD/ Preference Shares/ CP/ CD, etc.)	Listing Status (Listed / Unlisted)	Rating prior to Revision	Rating post Revision	Date of Press Release for Rating downgrade	Notch Difference	Trigger Event (Quarterly Results, Exchange Disclosures, Annual Surveillance etc.)

*\*Will cover only rating changes. Reaffirmations shall be excluded*

### Annexure III - Movement of each credit rating from investment grade to non-investment grade and vice versa

Rating Movement from Investment Grade and Non-Investment Grade between Apr – Sep/ Oct – Mar						
From Investment Grade to Non-Investment Grade						
S. No	Name of the Issuer	Sector (Finance & Banking, Textiles, etc.)	Type of Instrument being rated (NCD/ Preference Shares/ CP/ CD, etc.)	Listing Status (Listed/ Unlisted)	Rating prior to Revision	Rating post Revision
From Non- Investment Grade to Investment Grade						
S. No	Name of the Issuer	Sector (Finance & Banking, Textiles, etc.)	Type of Instrument being rated (NCD/ Preference Shares/ CP/ CD, etc.)	Listing Status (Listed/ Unlisted)	Rating prior to Revision	Rating post Revision

**Annexure V – History of Credit Rating of all Outstanding Securities**

History of Credit Rating of all Outstanding Securities															
S . N o	Name of the Issuer	Sector (Finance & Banking, Textiles etc)	Instrument Type (NCD, Preference Shares, CP, CD etc)	Outstanding Issue Size (₹ millions)	Listing Status (Listed/Unlisted)	Initial Rating	Date of Initial Rating	Rating after 1 <sup>st</sup> Revision	Date of 1 <sup>st</sup> Revision	Rating after 2 <sup>nd</sup> Revision	Date of 2 <sup>nd</sup> Revision	Rating after 3 <sup>rd</sup> Revision	Date of 3 <sup>rd</sup> Revision	...	Current Outstanding Rating

**Annexure VI – List of Defaults Separately for Each Rating Category**
**Annexure VI A – Long Term Scale**

S . N o	Name of the Issuer	Sector	Instrument Type	Issue Size (₹ millions)	Listing Status (Listed/Unlisted)	Rating prior to Default	Trigger Event	Date of trigger of event/receiving intimation	Date of Default Recognition
Rating prior to default - AAA category									
1									
2									
Rating prior to default - AA category									
1									
2									
Rating prior to default - A category									
1									
2									
Rating prior to default – BBB category									



1									
2									
Rating prior to default – BB category									
1									
2									
Rating prior to default – B category									
1									
2									
Rating prior to default – B category									
1									
2									

### Annexure VI B – Short Term Scale

S. No	Name of the Issuer	Sector	Instrument Type	Issue Size (₹ millions)	Listing Status (Listed/Unlisted)	Rating prior to Default	Trigger Event	Date of trigger of event/receiving intimation	Date of Default Recognition
Rating prior to default - A1 category									
1									
2									
Rating prior to default – A2 category									
1									
2									
Rating prior to default – A3 category									
1									
2									
Rating prior to default – A4 category									
1									
2									

**Annexure VII – Average Default Rates for the last 5-Financial Year Period**
**Annexure VII A - STRUCTURED INSTRUMENTS**

Rating Category	Weighted by No. of Issuers in Static Pool		Weighted by Amount of Debt in Static Pool	
	1-Year Default Rate	3-Year Cumulative Default Rate	1-Year Default Rate	3-Year Cumulative Default Rate
AAA				
AA				
A				
BBB				
BB				
B				
C				

**Annexure VII B - NON-STRUCTURED INSTRUMENTS**

Rating Category	Weighted by No. of Issuers in Static Pool		Weighted by Amount of Debt in Static Pool	
	1-Year Default Rate	3-Year Cumulative Default Rate	1-Year Default Rate	3-Year Cumulative Default Rate
AAA				
AA				
A				
BBB				
BB				
B				
C				