

## Consultation Paper on Draft Circular on “Rating of Municipal Bonds on the Expected Loss (EL) based Rating Scale”

### 1. OBJECTIVE:

1.1. The objective of this consultation paper is to seek comments/ views/ suggestions from the public on the draft circular titled “*Rating of Municipal Bonds on the Expected Loss (EL) based Rating Scale (“Circular”)*” (placed at Annexure - A).

### 2. PUBLIC COMMENTS

2.1. Public comments are invited on the draft circular annexed to this consultation paper. The comments/ suggestions should be submitted latest by **April 18, 2025**, through the online web-based form which can be accessed using the following link:

<https://www.sebi.gov.in/sebiweb/publiccommentv2/PublicCommentAction.do?doPublicComments=yes>

2.2. The instructions to submit comments on the consultation paper are as under:

1. Before initiating the process, please read the instructions given on top left of the web form as “Instructions”.
2. Select the consultation paper you want to comment upon from the dropdown under the tab – “Consultation Paper” after entering the requisite information in the form.
3. All fields in the form are mandatory.
4. Email ID and phone number cannot be used more than once for providing comments on a particular consultation paper.
5. If you represent any organization other than the types mentioned under dropdown in “Organization Type”, please select “Others” and mention the type, which suits you best. Similarly, if you do not represent any organization, you may select “Others” and mention “Not Applicable” in the text box.
6. There will be a dropdown of Proposals in the form. Please select the proposals one- by-one and for each of the proposal, please record your level of agreement with the selected proposal. Please note that submission of agreement level is mandatory.
7. If you want to provide your comments for the selected proposal, please select “Yes” from the dropdown under “**Do you want to comment on the proposal**” and use the text boxes provided for the same.

8. After recording your response to the proposal, click on “Submit” button. System will save your response to the selected proposal and prompt you to record your response for the next proposal. Please follow this procedure for all the proposals given in the dropdown.
9. If you do not want to react on any proposal, please select that proposal from the dropdown and click on “**Skip this proposal**” and move to the next proposal.
10. After recording your response to all the proposals, you may see your draft response to all of proposals by clicking on “**Check your response before submitting**” just before submitting response to the last proposal in the dropdown. A pdf copy of the response can also be downloaded from the link given in right bottom of the web page.
11. The final comments shall be submitted only after recording your response on all of the proposals in the consultation paper

2.3. In case of any technical issue in submitting your comment through the web-based public comments form, you may contact the following through email with the subject: *“Issue in submitting comments on Consultation Paper on Draft Circular titled ‘Rating of Municipal Bonds on the Expected Loss (EL) based Rating Scale’.”*

- a) Sarika Kataria, DGM ([sarikak@sebi.gov.in](mailto:sarikak@sebi.gov.in))
- b) Nishtha Tewari, AGM ([nishthat@sebi.gov.in](mailto:nishthat@sebi.gov.in))
- c) Nikhil Chaudhary, Manager ([nikhilc@sebi.gov.in](mailto:nikhilc@sebi.gov.in))

**Issued on: March 28, 2025**

**DRAFT CIRCULAR**

**SEBI/HO/DDHS/DDHS-PoD-3/P/CIR/2025/\_\_\_\_**

**Date**

**To,**

**All Registered Credit Rating Agencies (CRAs)**

**All Registered Debenture Trustees,**

**Issuers who have listed and/ or propose to list Non-Convertible Securities,  
Securitized Debt Instruments, Security Receipts, Municipal Debt Securities or  
Commercial Paper**

**Recognized Stock Exchanges**

**All Depositories registered with SEBI**

Dear Sir / Madam,

**Sub: Rating of Municipal Bonds on the Expected Loss (EL) based Rating Scale**

1. Para 5.6.1 of the Master Circular for Credit Rating Agencies (CRAs) ("Master Circular") dated May 16, 2024 provides that in addition to the standardized rating scales prescribed for various instruments, an Expected Loss (EL) based Rating Scale may be used by CRAs for ratings of projects/ instruments associated with infrastructure sector.
2. Pursuant to deliberations with various stakeholders, including the Corporate Bonds and Securitisation Advisory Committee (CoBoSAC), it is felt that EL Ratings, when used along with standardized rating scale/ Probability of Default (PD) Rating, can better reflect the recovery prospects of municipal bonds. Further, Urban Local Bodies/ Municipalities issue bonds primarily for the creation/ development of infrastructure. Therefore, it has been decided that CRAs may, in addition to the standardised rating scale, extend the EL-based Rating Scale for rating of Municipal Bonds.

3. This circular shall be applicable with immediate effect.
4. This circular is issued with the approval of competent authority, 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 CRA Regulations to protect the interest of investors in securities and to promote the development of, and to regulate, the securities market.
5. This Circular is available on the website of the Securities and Exchange Board of India at [www.sebi.gov.in](http://www.sebi.gov.in) under the category “Legal” and under the drop down “Circulars”.