

## Consultation Paper on Draft Circular on “Amendment to Para 15 of Master Circular for Credit Rating Agencies (CRAs) dated May 16, 2024”

### 1. OBJECTIVE:

1.1. The objective of this consultation paper is to seek comments/ views/ suggestions from the public on the draft circular titled “Amendment to Para 15 of Master Circular for Credit Rating Agencies (CRAs) dated May 16, 2024 (“Master 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 **August 15, 2024**, 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 ‘Amendment to Para 15 of Master Circular for Credit Rating Agencies (CRAs) dated May 16, 2024’.”*

- 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: July 25, 2024**

ANNEXURE - A

DRAFT CIRCULAR

SEBI/HO/DDHS/DDHS-PoD-3/P/CIR/2024/\_\_\_\_

July \_\_\_\_, 2024

To,

All Registered Credit Rating Agencies (CRAs)

Madam/Sir,

**Sub: Amendment to Para 15 of Master Circular for Credit Rating Agencies (CRAs) dated May 16, 2024 (“Master Circular”)**

1. As per Annexure 11 of the Master Circular, definition of default for debentures/ bonds is specified as “A delay of 1 day even of 1 rupee (of principal or interest) from the scheduled repayment date”. No exemption is provided from the above, except in case of rescheduling of the debt instrument by the lenders prior to the due date of payment. Hence, any other instance of a one-day delay in payment or one-rupee shortfall in payment has to be recognized as default.
2. Para 15 of Master Circular, in respect of “Post default curing period”, *inter-alia*, specifies the following:

“.....

15.2 The CRA shall frame a policy in respect of upgrade of default rating to investment grade rating and place it on its website.

15.3 The policies framed as above may include scenarios like technical defaults, change in management, acquisition by another firm, sizeable inflow of long-term funds or benefits arising out of a regulatory action, etc. which fundamentally alter the credit risk profile of the defaulting firm.”
3. One of the recommendations of the Working Group of CRAs for Ease of Doing Business (EoDB) is to provide specific policy guidance on the definition of ‘technical defaults’ so that the policy is applied uniformly across CRAs.

4. In this regard, the Working Group has submitted that:
  - 4.1. Classifying issuers under “default” in case of technical default may result in unintended consequences like sending out wrong signals to the market regarding the credibility of the issuer and/or trigger of covenants on other borrowings. Such events are unpredictable and are not/ cannot be foreseen by CRAs in their forward-looking assessment of business, financial and management risks to arrive at credit ratings and will not show a fair representation of the CRA’s default statistics.
  - 4.2. CRAs have highlighted certain instances of payment failures arising from operational issues, viz. force majeure events, absence of or incorrect or dormant investor account furnished by the investor, notice/ instruction received from a government authority to freeze the account of investor(s), bank strike on the due date of payment, etc.
5. Based on the recommendations in the Corporate Bonds and Securitization Advisory Committee (CoBoSAC) and internal deliberations thereon, it is felt that default recognition is crucial considering the systemic effects of a default on the financial system. Therefore, CRAs should comply with the extant provisions for recognition of default, while incorporating the detailed reasons for the rating action/ occurrence in all instances of defaults in the relevant Press Release and reasons for upgrade of default rating.
6. Accordingly, the term "technical default" is hereby omitted from Para 15.3 of the Master Circular and the said para is modified as under:

*“The policies framed as above may take into consideration scenarios like force majeure events, absence of or incorrect or dormant investor account furnished by the investor(s), notice/ instruction received from a government authority to freeze the account of investor(s), bank strike on the due date of payment, etc. The said policies may also include scenarios such as change in management, acquisition by another firm, sizeable inflow of long-term funds or benefits*

*arising out of a regulatory action, etc., which fundamentally alter the credit risk profile of the defaulting firm.”*

7. The circular shall be applicable with immediate effect.
8. 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.
9. 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”.