

SEBI issues Circular for amendment in Para 15 of SEBI Master Circular for Credit Rating Agencies

[effective from 18.08.2024]

Existing provisions in CRA Master Circular

- Delay of 1 day or a shortfall of even Rs. 1 in scheduled repayment of debentures/bonds is considered as default.
- CRAs to have a mandatory policy for upgrading default ratings to investment-grade ratings, which is required to be published on their website. (Para 15.2)
- A cure period of 90 days is provided to upgrade the ratings basis the performance of the issuer. CRA may deviate from this cure period as per the Policy. (Para 15.1)
- Policy may include scenarios to upgrade the ratings of defaulting securities such as technical defaults, changes in management, acquisitions, significant inflows of long-term funds, or regulatory actions. (Para 15.3)

Recommendations of the Working Group

- Provide policy guidance on the treatment of 'technical defaults' to ensure uniformity.
- Non payment by issuers may be due to scenarios such as failure to remit payment due to absence of correct information or incorrect information or dormant investor account or freezing of investor account due to any notice by government authority
- The Consultation Paper suggested CRAs to incorporate detailed reasons for rating action in all instances of defaults along with reasons for upgrade.

Rationale

- The term "technical default" was undefined and lacks clarity.
- CRAs like ICRA, India-Ratings, CRISIL, and Brickworks define it as an exception of following the cure period, though their explanations vary.
- Operational issues such as force majeure events, incorrect or dormant account information etc. can also trigger a technical default and subsequent default rating can hamper issuer's reputation.

Amendment

- The term "technical defaults" has been omitted from para 15.3 of the CRA Master Circular.
- In case of a technical default by an issuer, CRAs to confirm & verify the following:
 - issuer's fund availability to make the required payment
 - proof of payment failure
 - failure is due to technical defaults
 - necessary funds are transferred to a separate escrow A/c on due date of payment.
- In aforesaid cases, CRAs to report the details as specified in the circular to stock exchanges, depositories, debenture trustee on the same day as the rating press release, which is to be disseminated by them on their respective websites.
- CRAs to sensitize issuers on using penny drop verification facility with bank to avoid remittance failure in bank accounts

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