



**All Credit Rating Agencies Registered with SEBI**

Dear Sirs,

**Sub: Guidelines for Credit Rating Agencies**

Recent events in global financial system have underlined the pivotal role that credit ratings play. Effective use of credit ratings by the users is crucially dependent upon quality and quantity of disclosures made by the Credit Rating Agencies (CRAs). There have been widespread consultations on the issue both globally and within India and several documents have been prepared. In the wake of the above and in order to impart higher credibility to the processes and procedures associated with the credit rating, it has been decided, in consultation with the CRAs, to prescribe the following transparency and disclosure norms for them:

**1. Rating Process**

A CRA shall keep the following records in support of each credit rating and review / surveillance thereof:

- 1.1** The important factors underlying the credit rating and sensitivity of such credit rating to changes in these factors,
- 1.2** Summary of discussions with the issuer, its management, auditors and bankers which have a bearing on the credit rating,
- 1.3** Decisions of the rating committee(s), including voting details and notes of dissent, if any, by any member of the rating committee, and
- 1.4** If a quantitative model is a substantial component of the credit rating process, the rationale for any material difference between the credit rating implied by the model and the credit rating actually assigned.
- 1.5** These records should be maintained till five years after maturity of instruments and be made available to auditors and regulatory bodies when sought by them.

**2. Default Studies**

Default studies are central to evaluating the performance of a credit rating agency and whether its ratings can predict default 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 default rates of CRA rating categories and whether the default rates of these categories have changed over time, so that the public can understand the historical performance of each category



and if and how rating categories have changed, and be able to draw quality comparisons among ratings given by different CRAs.

**2.1** The default rates shall be calculated in the following manner:

**2.1.1** One Year Default Rate is the weighted average of default rates of all possible 1 year static pools in the 5-year period.

**2.1.2** Cumulative Default Rate: The cumulative default rate (CDR) represents the likelihood of an entity that was rated at the beginning of any multi-year period defaulting at any time during the multi-year period. Three-year cumulative default rate shall be computed as:

Three-year CDR for rating category X = No. of issuers which defaulted over the three-year period / No. of issuers outstanding at the beginning of the three-year period

**2.2** For the above purposes, the following terms shall have the meaning as under :

**2.2.1** Static Pool : Non-defaulted ratings that were outstanding at the beginning of any period

**2.2.2** Default : Non-payment of interest or principal amount in full on the pre-agreed date. A CRA shall recognize default at the first instance of delay in servicing of interest or principal on the rated debt instrument.

**2.2.3** Default Rate: The number of defaults among rated entities in the static pool as a percentage of the total number of entities in the static pool.

**2.2.4** Averaging : All averaging across static pools for default rate computations must be based on the weighted average method where the weights are the number of ratings in each static period

### **3. Dealing with Conflict of interest**

**3.1** A CRA shall formulate the policies and internal codes for dealing with the conflict of interests.

**3.2** A CRA shall ensure:

**3.2.1** that its analysts do not participate in any kind of marketing and business development including negotiations of fees with the issuer whose securities are being rated,

**3.2.2** that the employees' involved in the credit rating process and their dependants do not have ownership of the shares of the issuer.



- 3.2.3 prompt review of the credit ratings of the securities as and when any of its employees joins the respective issuer.

#### 4. Obligations in respect of Rating of Structured Finance Products

4.1 A CRA may undertake rating of structured finance products, namely, instruments / pay-outs resulting from securitization transactions. In such cases, apart from following all the applicable requirements in case of non-structured ratings, the following additional requirements shall also be complied with:

- a. A CRA or its subsidiaries shall not provide consultancy or advisory services regarding the design of the structured finance instrument.
- b. The rating symbols shall clearly indicate that the ratings are for structured finance products.

#### 5. Unsolicited Credit Ratings

5.1 In case of unsolicited credit ratings, i.e. the credit ratings not arising out of the agreement between a CRA and the issuer, credit rating symbol shall be accompanied by the word “UNSOLICITED” in the same font size.

5.2 A CRA shall monitor and disclose credit rating during the life of the rated securities, as if it were a solicited rating.

#### 6. Disclosures

A CRA shall make all the disclosures stipulated below on their websites. In case of listed securities, the CRA shall also make disclosures to the stock exchanges as specified in the SEBI (Credit Ratings) Regulations, 1999. For ratings assigned and their periodic reviews, the CRA shall issue press releases which shall also be kept on their websites. Where a specific format has been prescribed, the disclosures shall be made in that format.

##### 6.1 Rating Procedure

A CRA shall formulate and disclose its policies, methodology and procedures in detail regarding solicited and unsolicited credit ratings

##### 6.2 Credit Rating History and Defaults –

A CRA shall disclose in the formats specified below

6.2.1 Details of new credit ratings assigned during last six-months (Annexure I),

6.2.2 Movement of credit rating of all outstanding securities during the last six-months:

- (a) Movement of each credit rating(Annexure II),
- (b) Movement of each credit rating from investment grade to non-investment grade and vice versa (Annexure III) and



- (c) Movement of each credit rating that has moved by more than one notch (Annexure IV).

**6.2.3** The history of credit rating of all outstanding securities (Annexure V),

**6.2.4** On annual basis, the list of defaults separately for each rating category (e.g. AAA, AA, A, BBB, BB, B, C) (Annexure VI)}. This shall include the initial credit rating assigned by the CRA, month and year of initial rating, month and year of default, last credit rating assigned by the CRA before the issuer defaulted, comments of CRAs, if any.

**6.2.5** On annual basis, the average one-year and three-year cumulative default rates (based on weighted average), for the last 5 years, separately for each following category:

- (i) each credit rating category (e.g. AAA, AA, A, BBB, BB, B, C), separately (Annexure VII),;
- (ii) structured instruments and non-structured instruments, separately (Annexure VII),

### **6.3 Income**

**6.3.1** A CRA shall disclose the general nature of its compensation arrangements with the issuers.

**6.3.2** A CRA shall disclose, in case of accepted ratings, its conflict of interest, if any, including the details of relationship – commercial or otherwise – between the issuer whose securities are being rated / any of its associate of such issuer and the CRA or its subsidiaries.

**6.3.3** A CRA shall disclose annually

**6.3.3.1** its total receipt from rating services and non-rating services,

**6.3.3.2** issuer wise percentage share of non-rating income of the CRA and its subsidiary to the total revenue of the CRA and its subsidiary from that issuer, and

**6.3.3.3** names of the rated issuers who along with their associates contribute 10% or more of total revenue of the CRA and its subsidiaries.

### **6.4 Structured Finance Products**

**6.4.1** While publishing the ratings of structured finance products and their movements, a CRA apart from following all the applicable requirements in case of non-structured ratings shall also disclose the track record of the originator and details of nature of underlying assets while assigning the credit rating. The track record shall include a brief description of the financials of the originator, rating migrations to speculative categories and defaults.

**6.4.2** A CRA shall also disclose at least once in every six months, the performance of the rated pool, i.e., collection efficiency, delinquencies. A CRA shall also provide a detailed description of the underlying pools including



ageing, Credit enhancements such as liquidity supports, first and second loss guarantee provided shall also be disclosed.

## 6.5 Unsolicited Credit Ratings

**6.5.1** While publishing unsolicited ratings and their movements, a CRA apart from following all the applicable requirements in case of solicited ratings shall make the following disclosures:

- a. the extent of participation by the issuer, its management, bankers and auditors in the credit rating process.
- b. the information used and its source in arriving at and reviewing the credit rating.

**6.5.2** A CRA shall disclose annually

- (i) all the unsolicited ratings carried out in the last three financial years (Annexure VIII);
- (ii) names of issuers, out of those mentioned in (i) above, which were given solicited rating in the last financial year (Annexure VIII).

**6.6 Shareholding** - A CRA shall disclose its shareholding pattern as prescribed by stock exchanges for a listed company under clause 35 of Listing Agreement.

**6.7 Compliance Status of IOSCO Code of Conduct** - A CRA shall disclose the compliance status of each provision of IOSCO code of conduct.

## 7. Implementation Schedule and Reporting

The CRAs shall take necessary steps to implement this circular immediately and ensure its full compliance at the latest by June 30, 2010.

The half-yearly disclosures stipulated above shall be made by the CRAs within 15 days from the end of the half-year (March / September). The yearly disclosures stipulated above shall be made by the CRAs within 30 days from the end of the financial year.

However for the financial year 2009-2010 only, the half yearly and yearly disclosures stipulated above shall be made by the CRAs by June 30, 2010.

## 8. Additional Disclosures

A CRA can make additional disclosures other than those stipulated above with the prior approval of its Board.



**भारतीय प्रतिभूति और विनिमय बोर्ड**  
**Securities and Exchange Board of India**

The CRAs shall communicate to SEBI, the status of the implementation of the provisions of this circular by July 15, 2010. They shall also place the compliance status of this circular before their Boards.

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 regulations 15, 16, 18, 19(1), 20, 24 and Code of Conduct 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,

**Prasanta Mahapatra**  
**Deputy General Manager**  
**Tel. No: 022-26449313**  
**Email id : prasantam@sebi.gov.in**

**Encl: as above**



**ANNEXURE I**

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

<b>New Ratings assigned between Apr-Sep / Oct - Mar</b>				
Sl. No.	Name of the Issuer	Instrument	Issue size (Rs. Millions)	Rating
1				
2				
3				
4				
5				
6				



**ANNEXURE II**

**Movement\* of each credit rating**

<b>Rating Movements between Apr-Sep / Oct - Mar</b>			
Sl. No.	Name of the Issuer	Rating prior to Revision	Rating Post Revision
1			
2			
3			
4			

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



**Movement of each credit rating from investment grade to non-investment grade and vice versa**

<b>Rating Movement from Investment Grade and Non-investment Grade between Apr-Sep / Oct - Mar</b>			
<b>From Investment Grade to Non-investment Grade</b>			
Sl. No.	Name of the Issuer	Rating prior to Revision	Rating Post Revision
1			
2			
3			
4			
<b>From Speculative Grade to Investment Grade</b>			
Sl. No.	Name of the Issuer	Rating prior to Revision	Rating Post Revision
1			
2			
3			
4			



ANNEXURE IV

**Movement of each credit rating that has moved by more than one notch**

<b>Rating Movement by more than one-notch between Apr-Sep / Oct - Mar</b>				
Sl. No.	Name of the Issuer	Rating prior to Revision	Rating Post Revision	Notch Difference
1				
2				
3				
4				



**History of credit rating of all outstanding securities**

<b>Table 2.3 : History of credit rating of all outstanding securities</b>										
Sl. No.	Name of the Issuer	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	.....
1										
2										
3										
4										



List of defaults separately for each rating category

Category-wise List of Defaults in a Financial Year – Long Term Scale					
Sl. No.	Name of the Issuer	Initial Rating	Date of Initial Rating	Rating prior to Default	Date of Default Recognition
<b>AAA or equivalent</b>					
1					
2					
3					
<b>AA or equivalent</b>					
1					
2					
3					
1					
<b>A or equivalent</b>					
1					
2					
3					
<b>BBB or equivalent</b>					
1					
2					
3					
<b>BB or equivalent</b>					
1					
2					
3					
<b>B or equivalent</b>					
1					
2					
3					
<b>C or equivalent</b>					
1					
2					
3					



<b>Category-wise List of Defaults in a Financial Year - Short Term Scale</b>					
<b>Sl. No.</b>	<b>Name of the Issuer</b>	<b>Initial Rating</b>	<b>Date of Initial Rating</b>	<b>Rating prior to Default</b>	<b>Date of Default Recognition</b>
<b>P1 / A1 / PR1 / F1 or equivalent</b>					
1					
2					
3					
<b>P2 / A2 / PR2 / F2 or equivalent</b>					
1					
2					
3					
1					
<b>P3 / A3 / PR3 / F3 or equivalent</b>					
1					
2					
3					



**Structured instruments**

<b>Average Default Rates for the last 5- Financial Year Period- Structured Instruments</b>		
<b>Rating Category</b>	<b>1-Year Default Rate</b>	<b>3-year Cumulative Default Rate</b>
AAA or equivalent		
AA or equivalent		
A or equivalent		
BBB or equivalent		
BB or equivalent		
B or equivalent		
C or equivalent		

**Non-Structured instruments**

<b>Average Default Rates for the last 5- Financial Year Period - Non-Structured Instruments</b>		
<b>Rating Category</b>	<b>1-Year Default Rate</b>	<b>3-year Cumulative Default Rate</b>
AAA or equivalent		
AA or equivalent		
A or equivalent		
BBB or equivalent		
BB or equivalent		
B or equivalent		
C or equivalent		



**Unsolicited Credit Rating\***

SI No	Name of the Issuer	Rating Assigned		
		Financial Year 1	Financial Year 2	Financial Year 3
1				
2				
3				
4				

\* If in a particular financial year, a rating has subsequently been changed, then that shall also be disclosed

**Solicited Credit Ratings assigned to those issuers mentioned in the table above in the last financial year\*\***

SI No	Name of the Issuer	Rating Assigned

\*\* Any subsequent revision of the rating in the same year shall also be disclosed