SEBI issues norms for enhanced disclosures by rating agencies

The credit rating industry has come under scrutiny after rating agencies that assessed IL&FS failed to pick up signals of financial trouble brewing at the lender

Markets regulator SEBI November 13 asked credit rating agencies (CRAs) to analyse the deterioration in the liquidity conditions of the issuer and take into account any asset-liability mismatch while reviewing ratings.

Besides, SEBI has introduced a specific section on liquidity among key rating drivers that will highlight parameters like liquid investments or cash balances, access to unutilised credit lines, liquidity coverage ratio, adequacy of cash flows for servicing maturing debt obligation among others.

The rating agencies will also have to disclose any linkage to external support for meeting near term maturing obligations, the Securities and Exchange Board of India (SEBI) said in a circular.

These measures will enable investors to understand underlying rating drivers better and make more informed investment decisions.

The move comes in the wake of the Infrastructure Leasing & Financial Services (IL&FS) default, wherein the role of credit rating agencies came under the regulatory scanner.

According to SEBI, the rating agencies need to review their rating criteria with regard to assessment of holding companies and subsidiaries in terms of their inter-linkages, holding company's liquidity, financial flexibility and support to the subsidiaries among others.

"While carrying out 'monitoring of repayment schedules' CRAs shall analyse the deterioration in the liquidity conditions of the issuer and also take into account any asset-liability mismatch," the regulator noted.

Further, while reviewing 'material events', CRAs need to treat sharp deviations in bond spreads of debt instruments vis-a-vis relevant benchmark yield as a material event.

To strengthen the rating disclosures, SEBI said that if a subsidiary company gets support from the parent group or government, then credit rating agencies will have to name the parent company or government that will provide support towards timely debt servicing. Rating agencies will also have to provide the rationale for this expectation.

In case subsidiaries or group firms are consolidated to arrive at a rating, then rating agencies will have to list all such companies and rationale of consolidation should be provided under the heading.

CRAs need to publish their average one-year rating transition rate over a five year period, on their respective websites, which would be calculated as the weighted average of transitions for each rating category, across all static pools in the five year period.

Each CRA need to furnish data on sharp rating actions in investment grade rating category in a specified to stock exchanges and depositories for disclosure on website on half-yearly basis, within 15 days from the end of the half-year.

(Money Control)