

BusinessLine

SEBI tightens norms for issuance of credit ratings

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Asks agencies to issue monthly report on debt servicing by companies

Mumbai, July 3:

Any laxity by credit rating agencies (CRA) towards companies trying to cover up debt crises may no longer be tolerated. Alarmed by the agencies' failure to conduct a timely review of the financial rating of a debt instrument of Reliance Communications, the Securities and Exchange Board of India (SEBI) has tightened norms for the issuance of credit ratings.

SEBI has virtually put the onus on CRAs to monitor sharing of information by companies with regard to servicing of their debt. This includes seeking a 'no default statement' from companies at the end of every month.

RCom issue

RCom had missed a payment on its dues on February 27 but it was only on May 30 that CRAs first downgraded its short- and long-term debt to default category. The share price of the company had already crashed by over 40 per cent by then, on the back of a heavy build-up of derivative open interest.

"It has come to notice that there have been instances where CRAs have not taken cognizance of information regarding delays in servicing debt obligations by the issuer, even though the information has already been discounted by the market," SEBI said in a circular. "As responsible institutions, CRAs are expected to pro-actively track all important changes relating to the client companies in order to yield timely and accurate ratings."

"The regulator can now blame rating agencies for the sins committed by companies but the fact remains that reporting norms for companies, too, were lax and our hands were tied," said the head of a credit rating agency.

SEBI said that if companies do not share information sought by rating agencies within seven days, even after repeated reminders, then the agencies would have to take appropriate rating action.

Lender database sought

The CRAs *BusinessLine* spoke to said it would be tedious to impose these norms on unlisted mid- and small-size companies, but were putting systems in place to comply with SEBI norms. In fact, CRA officials told *BusinessLine* that they had even demanded a proper database of lenders from the Reserve Bank of India as a proactive measure.

"We are already following a procedure to check with bankers wherever there is the slightest doubt on companies. All further norms by SEBI will be followed in letter and spirit," said Arun Kumar, Head, Ratings, CARE.

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(This article was published on July 3, 2017)

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