

Policy

SEBI eases post-default curing period for raters

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Credit rating agencies (CRAs) now have more say in how they want to upgrade a company's status from default to a notch higher.

The Securities and Exchange Board of India said CRAs are now not required to follow the mandatory 90-day period to upgrade their ratings from default to a higher grade. Such decisions can be taken on a case-to-case basis. This means a company's rating can be upgraded in days instead of months.

Raising funds, a concern

Companies had complained to SEBI saying raising funds was becoming difficult due to the lower credit rating when they were no longer defaulters. It took CRAs a minimum of three months to upgrade their ratings.

There was a post-default curing period of 90 days for the rating to move from default to speculative grade and, generally, 365 days for default to move to investment grade. Covid-19 further complicated matters for companies when they needed urgent re-assessment of ratings.

“The review was done on post-default curing period to provide some flexibility to CRAs. They can now deviate from the said period of 90 days on a case-to-case basis, subject to framing of a detailed policy,” SEBI said.

“As per SEBI guidelines, CRAs have to frame a policy and publish the same in their websites. Nevertheless, the guiding principle we would have to follow while deciding on upgrading a company's rating would be to gauge whether or not the default would recur in the given circumstances,” said TN Arun Kumar, chief ratings officer at CARE Ratings.

SEBI has asked CRAs to provide a rationale for their ratings upgrade and place the same before its sub-committee on ratings. It said the policy framed by the raters should 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, which alter the credit risk profile of the defaulting firm.

“This is a welcome move and in line with governments initiatives to enable easy access to funds and is timely given the currently circumstances,” Moin Ladha, Partner, Khaitan said.

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A letter from the Editor

Dear Readers,

The coronavirus crisis has changed the world completely in the last few months. All of us have been locked into our homes, economic activity has come to a near standstill. Everyone has been impacted.