Print Close

Wed, Nov 02 2016. 04 36 AM IST

Sebi tightens norms for credit rating companies

Sebi has asked credit rating companies to define on what basis they rate companies and how the rating process is carried out

Sebi has said that rating has to be reviewed periodically and disclosed publicly. Photo: Mint

Mumbai: The Securities and Exchange Board of India (Sebi) on Tuesday asked credit rating agencies to frame detailed rules for rating criteria, processes and responsibilities of rating analysts and increase the range of their disclosures. Raters have 60 days to adhere to these norms.
The capital markets regulator asked rating companies to define on what basis they rate companies and how the rating process is carried out. This would include a clear set of criteria for analysing financial ratios, treatment of consolidation of firms, parent group's support, nature of business and so on while rating any instrument.

Sebi said that every such rating has to be reviewed periodically and disclosed publicly. Any change in the rating process or policies also has to be disclosed by a rater on its website along with the original provision so that investors can understand the changes.

Sebi also asked raters to make a complete and timely disclosure about the rationale for rating changes and the history of ratings for all instruments issued by the company so that investors are able to take an informed decision while dealing in any security associated with the same company or its group firms.

Disclosures on ratings and ratings changes have to be made on a standard format press statement. In such releases, the rater has to disclose the history of all instruments from the issuer it rated in the past three years.

Sebi said that every rater must disclose the details of all ratings assigned, irrespective of whether the rating was accepted by the issuer or not. Raters will now have to mandatorily review an instrument on an ongoing basis throughout its lifetime, on the basis of best available information, even in case of non-cooperation by the issuer.

In order to enhance the accountability of rating agencies and avoiding conflict of interest, Sebi said that any person having business responsibility cannot be a part of the rating committee. However, the managing director or the CEO of the rating agency may become a member of the rating committee if the majority of the rating committee members are independent. The regulator also stipulated that every rating committee will be subjected to an annual review.

The new guidelines follow the recommendations of a Sebi committee on "strengthening the guidelines and raising industry standards for credit rating agencies", which included representatives from all existing rating agencies.

Sebi's new norms will completely stop the practice of rating suspension by rating companies and will deter the practice of rating shopping, said Rajesh Mokashi, managing director and CEO of CARE Ratings.

Shriram Subramanian, founder and managing director of proxy advisory firm InGovern Research Services Pvt. Ltd said:, "The new norms to periodically review the rating and continue it throughout the instrument's lifetime will somewhat prevent the practice of rating shopping."

On 25 October, *Mint* had reported that Sebi was planning to tighten the norms for raters by ensuring that rating processes are insulated from business decisions.

The regulator was prompted to revise the existing rating norms after a sharp cut in the ratings of Amtek Auto Ltd in September 2015 forced JP Morgan Asset Management Co. to restrict redemptions for two of its funds in September. Other instances of sharp, sudden downgrades and ratings withdrawals have also come to light, forcing a wider re-look at credit rating agency oversight.