

Sebi tightens disclosure and review norms for rating agencies

Move comes amid concerns that CRAs failed to raise red flags on IL&FS crisis

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THE SECURITIES and Exchange Board of India (Sebi) on Tuesday tightened disclosure and review norms for credit rating agencies (CRAs) amid concerns that these agencies failed to raise timely red flags ahead of the collapse of Infrastructure Leasing and Financial Service Ltd (IL&FS).

The market watchdog has ordered rating agencies to analyse deterioration in the liquidity conditions of an issuer, while monitoring its repayment schedules and taking into account any asset-liability mismatches. Sebi also said the CRAs should disclose parameters such as liquid investments or cash balances, access to any unutilised credit lines and adequacy of cash flows in a specific section on liquidity.

"CRAs shall also disclose any linkage to external support for meeting near term maturing obligations," said the Securities and Exchange Board of India.

For reviewing rating criteria, Sebi has directed ratings agencies, to assess inter-linkages of holding company and subsidiaries, holding company's liquidity, financial flexibility and support to the subsidiaries.

"While carrying out monitoring of repayment schedules, credit rating agencies shall analyse the deterioration in the liquidity conditions of the issuer and also take into account any asset-liability mismatch. While reviewing material events, CRAs may treat sharp deviations in bond spreads of debt instruments vis-à-vis relevant benchmark yield as a mate-

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rial event," said Sebi.

The market regulator has also asked credit rating agencies to publish information about historical average rating transition rates across various rating categories, for investors to understand the historical performance of the ratings assigned by the credit rating agencies.

"...credit rating agencies shall publish their average one-year rating transition rate over a five-year period, on their respective websites, which shall be calculated as the weighted average of transitions for each rating category, across all static pools in the five-year period," said Sebi.

According to the new norms, credit rating agencies will also have to furnish data on sharp rating actions in investment grade rating category to stock exchanges and depositories on half-yearly basis, within 15 days from the end of the half year on March 31 and September 30.