



**CIRCULAR**

SEBI/ HO/ MIRSD/ MIRSD\_CRADT/ P/ CIR/ 2021/ 554

April 27, 2021

To

All Credit Rating Agencies (CRAs) registered with SEBI

Dear Madam / Sir,

**Sub: Standardizing and Strengthening Policies on Provisional Rating by Credit Rating Agencies (CRAs) for Debt Instruments**

1. SEBI, vide circular numbered [SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119](#) dated November 1, 2016, had advised Credit Rating Agencies to frame detailed policy on provisional ratings.
2. In order to strengthen and standardize the policies on provisional rating, subsequent to consultation with various stakeholders, including credit rating agencies, it has been decided to prescribe as under:
  - 2.1. **Rating Symbol:** All Provisional Ratings ('long term' or 'short term') for debt instruments shall be prefixed as 'Provisional' before the rating symbol in all communications viz. rating letter, press release / rating rationale, etc.
  - 2.2. **Standardized Term:** A rating shall be considered as provisional, and not final, when it is contingent upon occurrence following steps or execution of following documents, as applicable:
    - a) execution of letter of comfort, corporate guarantee, or other forms of explicit third-party support;

- b) execution of documents such as debenture trust deed/ debenture trustee agreement, legal agreements/ opinions, representations and warranties, final term sheet;
- c) assignment of loan pools or finalisation of cash flow escrow arrangements;
- d) setting up of debt service reserve account;
- e) opening of escrow account; or
- f) For a proposed Real Estate Investment Trust (REIT) or Infrastructure Investment Trust (InvIT), pending formation of a trust - only after receipt of SEBI Registration. However, the process of obtaining rating may commence at the stage of the sponsor filing with SEBI for the registration of the Trust, subject to declaration from the sponsor to this effect being submitted to the credit rating agency.

In no case shall a rating, including provisional rating, be assigned by a credit rating agency for an issuer/ client evaluating strategic decisions, such as funding mix for a project, acquisition, debt restructuring, scenario-analysis in loan refinancing, etc.

### **2.3. Validity period:**

- a) The provisional rating shall be converted into a final rating within 90 days from the date of issuance of the debt instrument. The final rating assigned after end of 90 days shall be consistent with the available documents or completed steps, as applicable.
- b) An extension of 90 days may be granted on a case-to-case basis by the CRA's rating committee(s), in accordance with the policy framed by the credit rating agency in this regard.

- c) No CRA shall assign any provisional rating to a debt instrument upon the expiry of 180 days from the date of its issuance.

**2.4. Disclosures in the press release / rating rationale:** In addition to the disclosures already made by Credit Rating Agencies, the following disclosures shall be included in press release / rating rationale while assigning provisional ratings:

- a) pending steps/ documentation considered while assigning provisional rating.
- b) risks associated with the provisional nature of the credit rating, including risk factors that are present in the absence of completed documentation / steps.
- c) rating that would have been assigned in absence of the pending steps/ documentation considered while assigning provisional rating. In cases where the absence of said steps/ documentation would not result in any rating being assigned by the CRA (for instance, in case of provisional rating for REIT/ InvIT – pending formation of trust), the CRA shall specify the same in the press release.
- d) While assigning provisional rating to a debt instrument proposed to be issued, the press release shall specify that in case the debt instrument is subsequently issued, the provisional rating would have to be converted into final rating as per the validity period prescribed at Para 2.3 above.
- e) While assigning provisional rating to an issued debt instrument, the press release shall specify the rating and timeline implications as per the validity period prescribed at Para 2.3 above.

- f) Furthermore, in case of provisional ratings for cases mentioned in Para 2.2(f) above, the following disclosures shall also be required, wherever applicable:
- i. the broad details of the assets that are proposed to be held by the REIT/ InvIT, the proposed capital structure, etc.
  - ii. the rating rationale should disclose that the CRA has taken an undertaking from the sponsor stating that the key assumptions (relating to the assets, capital structure, etc.) are in consonance with the details filed by the sponsor with SEBI.
  - iii. In case of change in provisional rating due to change in aforesaid key assumptions, the press release shall state that the rating by the CRA is based on a declaration from the issuer that similar changes have been made in the filing with SEBI.

**2.5. Unaccepted provisional rating:** In case the provisional rating assigned is not accepted by the issuer (or sponsor, in case of REITs/InvITs), then in the "non-accepted ratings" published by credit rating agencies on their website the following supplementary disclosures shall be provided:

- a) the details of the steps taken for assigning the provisional rating. For instance, in case of REITs/ InvITs, such disclosure shall contain the broad details of the assets to be housed under the Trust, the proposed capital structure, etc.
- b) the rating referred to in Para 2.4 (c), viz. rating that would have been assigned in absence of the said steps/ documentation.

3. This circular is issued in exercise of the powers conferred by Section 11 (1) of Securities and Exchange Board of India Act, 1992 read with the provisions of



भारतीय प्रतिभूति और विनिमय बोर्ड  
Securities and Exchange Board of India

Regulation 20 of SEBI (Credit Rating Agencies) Regulations, 1999, to protect the interest of investors in securities and to promote the development of, and to regulate, the securities market.

Yours faithfully,

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