

SEBI/HO/DDHS/DDHS-RACPOD2/P/CIR/2022/ 124

September 28, 2022

To

All Credit Rating Agencies (CRAs) registered with SEBI

Dear Sir/ Madam,

Sub: Credit Ratings supported by Credit Enhancement (CE)

- I. [SEBI circular SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70 dated June 13, 2019](#) had *inter alia* mandated various measures in reference to credit ratings of securities having explicit credit enhancement feature. In view of recent developments and deliberations with various stakeholders, to provide for enhanced transparency and improved rating process for CE-ratings, SEBI's measures for CE-ratings are being reviewed.
- II. **Applicability:**
 - A. This circular shall be applicable to credit ratings of securities that are listed, or proposed to be listed, on a recognized stock exchange, and other credit ratings that are required under various SEBI Regulations or circulars thereunder.
 - B. The circular shall be applicable with effect from January 1, 2023, and CRAs shall report on their compliance with this circular (as ratified by their respective board of directors) to SEBI within one quarter from the date of applicability of this circular.
- III. Subject to the measures specified in aforesaid SEBI circular dated June 13, 2019, on CE-ratings, it is reiterated that credit ratings pertaining to Para II(A) above, where the credit enhancement is external (or from third party), but the rated security is not bankruptcy remote of the issuer/ originator, will carry the 'CE' suffix. A list of such support considerations for CE-suffix is specified at **Annexure A.**

IV. In order to strengthen the rating process as well as to promote transparency, the following measures are being mandated for credit ratings pertaining to Para II(A) above, wherein any of the support considerations specified at **Annexure A** (“specified support considerations”) is considered in the rating process:

A. In partial modification of Para 1(IV)(B)(b) of SEBI circular dated June 13, 2019, in order to bring further transparency and to enable investors to understand the extent of credit enhancement provided by third party/ parent/ Group Company or specified support considerations, the press release for credit ratings, with or without the CE-suffix, backed by specified support considerations shall contain the following disclosures:

- i. Unsupported ratings without factoring in the explicit credit enhancement or specified support considerations, and
- ii. Supported rating after factoring in the explicit credit enhancement or specified support considerations

Further, the Press Release shall also contain a detailed explanation of all the covenants of the security.

B. It is reiterated that while assigning such credit ratings, CRAs shall conduct independent due diligence on the nature of specified support consideration and form a definitive internal view / opinion, and, wherever warranted, obtain an independent external legal opinion for ascertaining the strength of the credit enhancement.

C. Furthermore, for such credit ratings, it is reiterated that CRAs shall verify the documentation related to the specified support considerations to ensure *inter alia* the following:

- i. The support is unconditional, irrevocable, and legally enforceable till all the obligations of the rated security has been paid to the investors.

- ii. CRAs shall undertake independent examination of financial strength of the support provider to ascertain the ability to honour the obligations guaranteed by the support provider.
 - iii. The support provider has a lower probability of default on a continuous basis, compared with the rated issuer, till the time such ratings are outstanding.
- V. **Monitoring:** Monitoring of this circular shall be done in terms of the half-yearly internal audit for CRAs, mandated under Regulation 22 of the SEBI (Credit Rating Agencies) Regulations, 1999 and [Circular SEBI/ MIRSD/CRA/Cir-01/ 2010 dated January 06, 2010](#) issued thereunder.
- VI. This circular is issued with the approval of competent authority, in exercise of the powers conferred by Section 11 (1) of Securities and Exchange Board of India Act, 1992 read with the provisions of 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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Annexure A - Type of Securities / Support Consideration(s) for CE-suffix:

1. Guaranteed bond; Shortfall undertaking backed bond or other such third-party credit enhancement
2. Covered bonds which have to be serviced primarily by the issuer (i.e., primary recourse to issuer), with secondary recourse to the cash flows from the pool of loans housed in a trust
3. Partially guaranteed bond
4. Commercial Mortgage-Backed Securities (CMBS)-like structures
5. Standby Letter of Credit (SBLC) backed securities
6. Debt backed by pledge of shares or other assets
7. Guaranteed Pooled bond issuance (PBI), not through a trust
8. Obligor/Co-obligor structures or Cross-default guarantee structures
9. Debt backed by Payment Waterfall /Escrow, or DSRA etc., but with Full Guarantee or DSRA Replenishment Guarantee from a third party
10. Letter of comfort