

BBB, A, AA, AAA

**A Professional Opinion
can show you
the way**

CARE Ratings
Professional Risk Opinion
CREDIT ANALYSIS & RESEARCH LIMITED



ENHANCED STANDARDS FOR CRAs

Presented by:

Revati Kasture

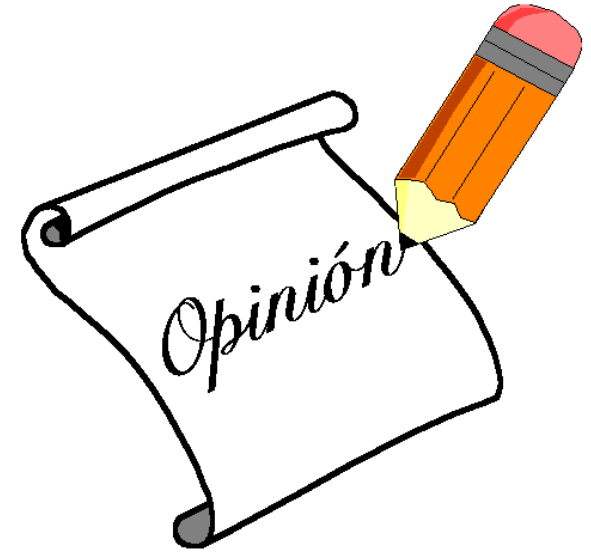
Chief General Manager

Credit Analysis & Research Limited

What is Credit Rating?

Rating is:

A unbiased and independent **opinion** on borrower's **ability** and willingness to make **timely repayment** of debt.



Estimates the credit worthiness of an individual, corporation or even a country.

Objective is to differentiate credit risk in borrowers / issuers.

Credit rating is a forward looking exercise.

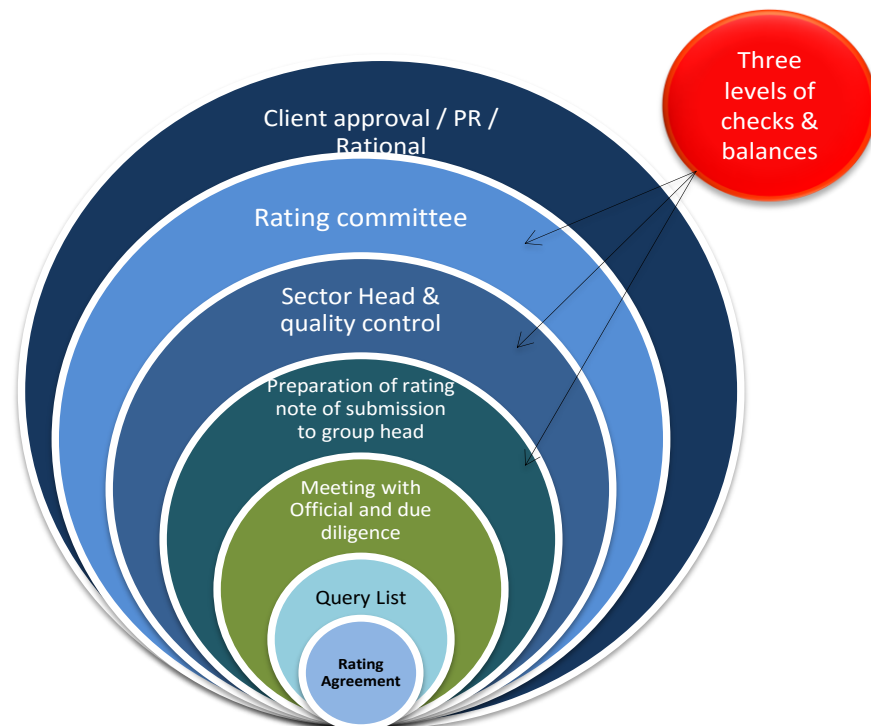
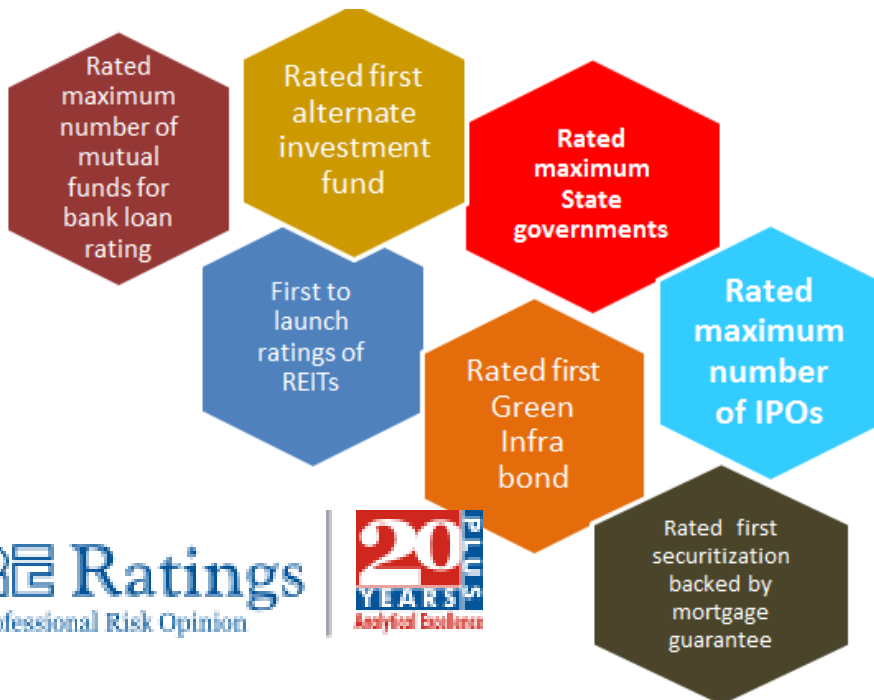
Regulators for Credit Rating Agencies

- ✓ Credit rating agencies are globally regulated by the **Capital Market Regulators** of the countries of operations.
- ✓ With risk based approach and capital adequacy norms based on the ratings, **Central Banks** also have guidelines for the CRAs.
- ✓ International Organization of Securities Commission (**IOSCO**), an association of over 100 countries, has stipulated best practices for the credit rating agencies. Most of the rating agencies follow the same. Of late the country regulators have started to formulate their policies based on these best practices.
- ✓ Association of Credit Rating Agencies in Asia (**ACRAA**) is an association of CRAs in Asia. ACRAA also guides its members for the best practices in the business.



Introduction to CARE Ratings

- ❖ Leading banks are main shareholders
- ❖ 2nd largest credit rating agency in the country by rating income
- ❖ Highest share in ET Top 500 and BS rated top 1,000 companies
- ❖ Strong Rating Credibility - External Rating Committee
- ❖ Multilayer rating process
- ❖ Professionally managed company



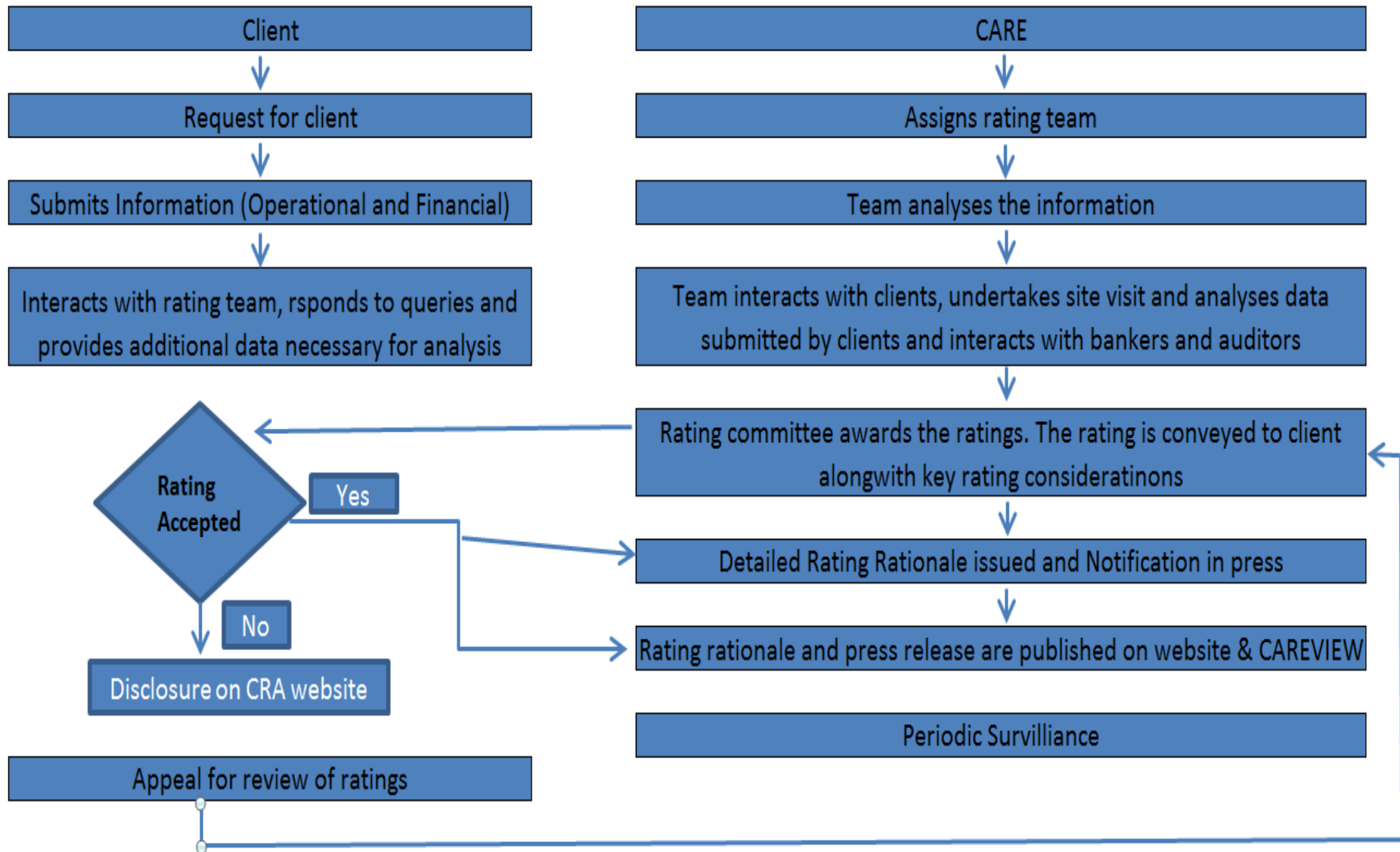
Highlights of the recent SEBI circular

- Formulation of Rating Criteria and Processes and public disclosure of the same
- Accountability of Rating Analysts
- Standardization of Press Release for rating actions
- Functioning & evaluation of Rating Committees/Sub Committees
- Disclosure of ratings in case of non-acceptance by an issuer
- Disclosure in case of delay in periodic review of ratings
- Policy in respect of non-co-operation by the issuer

Guidelines to be implemented by the CRAs by January 1, 2017

Formulation of Rating Criteria & Processes and public disclosure of the same

Rating Process (Present) and Disclosure on Website



Criteria Disclosures

- Default recognition and post-default curing period
- Financial ratios (including adjustments for the interpretation of financial ratios)
- Consolidation of companies
- Parent support/group/government support
- Manufacturing, trading companies, and services sector
- Banks and financial institutions
- Securitization transactions
- Public finance
- Infrastructure ratings

Click Here 

Criteria & Processes

- ✓ Criteria to be reviewed periodically
 - ❖ Periodicity of criteria review to be put on website
 - ❖ Revision in criteria - Provide reference/hyperlink to old criteria also
- ✓ Press Release on rating action to provide reference/ hyperlink to applicable criteria

Operational Manual

General nature of compensation arrangements with rated entities & policy for appeal by Issuers against the Rating being assigned

Policy for placing ratings on credit watch

[Click Here](#)

Guidelines on what constitutes non-cooperation

Gift policy

Confidentiality policy

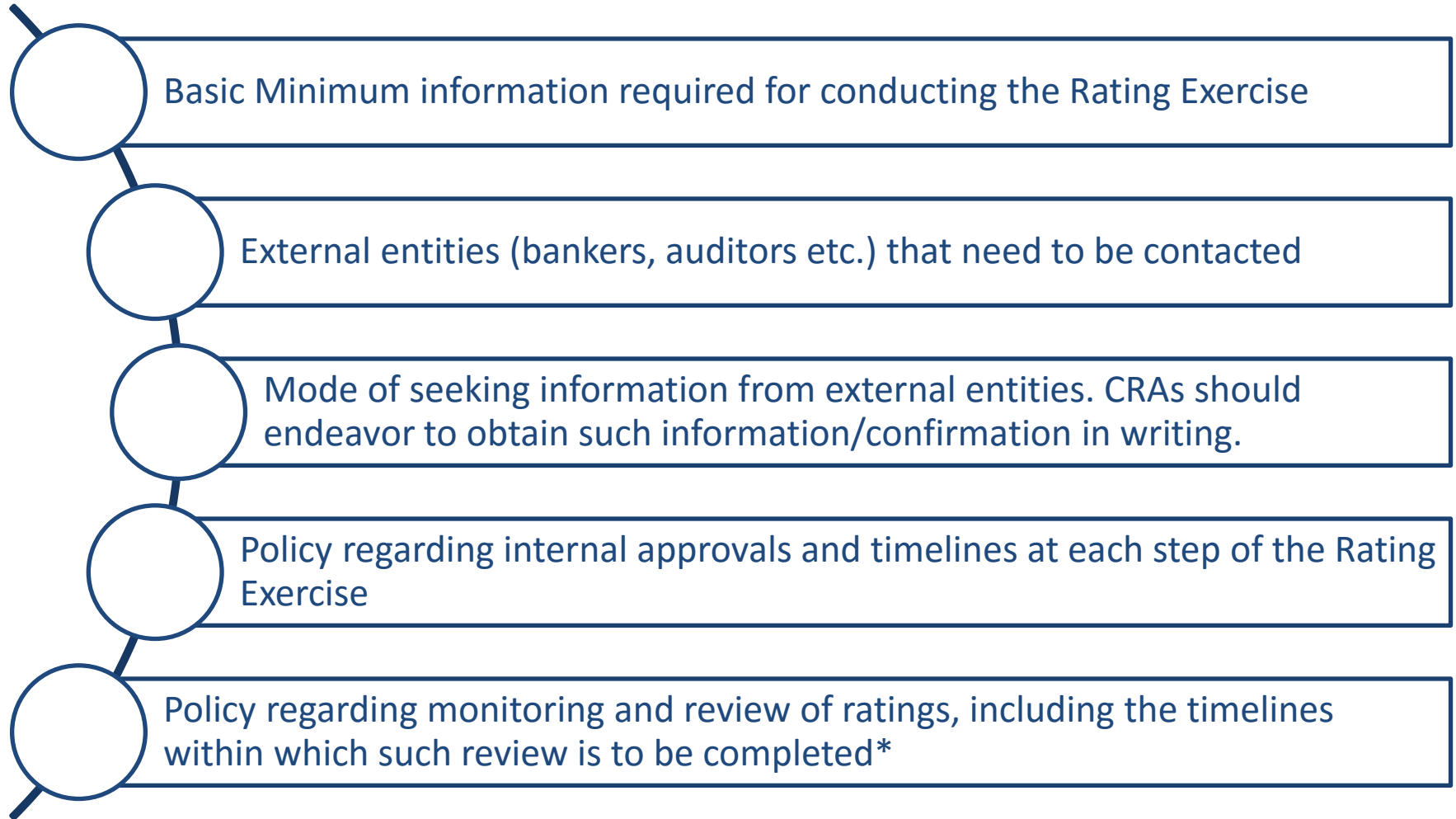
Policy on outsourcing of activities

Policy on provisional ratings

FAQs on ratings

Disclosure on managing conflict of interest

Operational Manual (Internal document)



** In case of delay, press release to be put out*

Accountability of Rating Analysts

Accountability of Rating Analysts

- ✓ Roles & Responsibilities of rating analysts to be specified in Op. Manual
- ✓ Analysts shall be responsible for undertaking the rating process and adhering to the timelines as specified in the Op. Manual

Standardization of Press Release for rating actions

Standardization of Press Release for Rating Actions:

- ✓ CRA to assign **rating outlook**

[Click Here](#) 

- ✓ Standardized template of PR and disclosure

[Click Here](#) 

- ✓ PR for review of rating to include

- ❖ Rating transition/ history of each instrument rated in the last 3 years, even if the instrument is outstanding or not

- ✓ Rating history, PR, Rating Reports (including those which have been withdrawn) shall be available on the website

Functioning & evaluation of Rating Committees/Sub Committees

Rating Committees/Sub-Committees

- 1 • Eligibility for becoming committee/sub-committee members
- 2 • Composition of committee/sub-committee
- 3 • Minimum quorum required
- 4 • Duties of committee members
- 5 • System of voting and recording of dissent
- 6 • Managing conflict of interest in the rating committee/sub-committee.

Persons who have business responsibility shall not be part of RC. However, MD/ CEO may be a member of the Rating Committee if the majority of the Rating Committee members are independent. (not having any pecuniary relationship with the CRA or any of its employees).

Minutes of Committee Meetings

- ✓ Minutes of each case discussed at the committee shall be maintained and signed (digitally or manually) by the Chairperson.
- ✓ Standard format for the Minutes of Rating Committee Meeting specified.

Review of decisions at RC/IRC

- ✓ Chairperson(s) of each rating committee/sub-committee shall, on an annual basis, undertake a review of the decisions taken by the Committees in that year, which would, inter alia, include:
 - Ratings assigned by the committees including ratings assigned based on best available information in cases of non-cooperation by the issuer.
 - Sharp changes in ratings*

- ✓ Review report to be placed before the Board of the CRA.

* *Analysis of Quick downgrades already being done periodically, as per RBI requirement*

Disclosure of ratings in case of non-acceptance by an issuer

Unaccepted Ratings to be Disclosed

- Unaccepted ratings disclosed on website
(including non-public issues)

- Details to include:
 - ✓ Name of the issuer
 - ✓ Name/ type of instrument
 - ✓ Size of the issue
 - ✓ Rating and outlook assigned, etc.

Policy in respect of non-co-operation by the issuer

Policy on Non-co-operation by issuer

- ✓ **NO SUSPENSIONS ALLOWED**
- ✓ Non-cooperation by the issuer = not providing information required for rating, non-payment of fees for conducting surveillance
- ✓ CRA shall continue to review the instrument, on an ongoing basis throughout the instrument's lifetime, on the basis of best available information, in accordance with the rating process and policies set forth in its Op. Manual.
- ✓ **Issue to deal with – Unlisted firms**
- ✓ Credit rating symbol shall be accompanied by “Issuer non-cooperation” in the *same font size*.
- ✓ Press Release shall mention “Limitations regarding information availability” (suitable caveat cautioning investors/lenders /public) & Rating History for 3 years

Policy on Non-co-operation by issuer...contd.

- ✓ If non co-operating issuer approaches another CRA, the new CRA shall disclose the aspect of non-co-operation in PR.
- ✓ Rating Agreement shall have an additional clause -
"The client (issuer/ borrower) agrees to disclose the history and status (non-cooperation, non-payment of fees etc.) of previous rating relation with the earlier CRA(s) to the new CRA along with reasons for non-cooperation, etc. if applicable."

Disclosure in case of delay in periodic review of ratings

Delay in Periodic Review

- As per RBI circular, the review has to be done once in 15 months, while as per SEBI circular, the review can be done once in 12 months
- Each CRA shall promptly disclose on its website details of all such ratings where the review became due but was not completed by the due date, as per the timelines specified in the CRA's Operations Manual/ Internal governing document.
- Details disclosed shall include the name of the issuer, name/ type of instrument, size of the issue, date of last review, reasons for delay in periodic review, hyperlink to the last Press Release, etc.

Other Operational Practices

Internal Audit

➤ Eligibility

- Minimum 3 yrs experience in the financial sector
- Audit team to have minimum 1 CA & 1 CISA

➤ Rotation of internal Auditors:

- Max. tenure of 5 yrs followed by cooling-off period of 2 yrs

➤ Action on the Internal Audit Report:

- Post receipt of internal audit report, Compliance Officer to provide detailed comments on each observation & place the same before the Board.
- Final ATR, including the comments/ recommendations made by Compliance Officer & Board as well as the corrective steps taken by CRA, shall be submitted to SEBI within 2 months from the date of receipt of the internal audit report or 1 month from the date of Board Meeting of CRA, whichever is later.

Internal Audit - Scope

- Verify if CRA employees have complied with Code of conduct
- Verify if processes for operations have been followed
- Verify if analysts adhered to roles as laid down
- Compliance with policy for non-cooperation
- Default recognition policy consistent with regulations + adherence
- Checklist for delay/default
- Recording dissent,
- Compliance with timelines of publication
- Compliance of PR in line with standard template
- Verify disclosures
- Comment on conflict of interest

Benefits of CRAs guidelines

Benefits of CRAs guidelines

- ❑ Increased Transparency for market participants
- ❑ Role and increased scope of work of internal audit
- ❑ Uniformity and standardization of formats
- ❑ Increased levels of disclosure leading to informed decision making

THANK YOU