

CIRCULAR

SEBI/HO/DDHS/DDHS-PoD-3/P/CIR/2024/160

November 18, 2024

To,

All Registered Credit Rating Agencies,
All Registered Debenture Trustees,
Issuers who have listed and/or proposed to be listed Non-Convertible Securities, Securitized Debt Instruments, Security Receipts, Municipal Debt Securities or Commercial Paper
Recognized Stock Exchanges,
All Depositories registered with SEBI

Madam/ Sir,

Sub: Amendment to Para 15 of Master Circular for Credit Rating Agencies (CRAs) dated May 16, 2024 (“Master Circular”)

1. As per Annexure 11 of the Master Circular, definition of default for debentures/ bonds is specified as “A delay of 1 day even of 1 rupee (of principal or interest) from the scheduled repayment date”. No exemption is provided from the above, except in case of rescheduling of the debt instrument by the lenders prior to the due date of payment. Therefore, any other instance of a one-day delay in payment or one-rupee shortfall in payment shall be recognized by the CRA as default. Such requirement is reiterated and remains unchanged from since the notification of the SEBI (Credit Rating Agencies) Regulations, 1999.
2. In the wake of COVID-19 pandemic, with a view to providing some flexibility to CRAs in taking appropriate view in cases of defaults corrected by the rated entity within a relatively shorter span of time, the following provision on **post-default curing period** was introduced vide SEBI Circular

SEBI/HO/MIRSD/CRADT/CIR/P/2020/87 dated May 21, 2020, which is contained in Para 15 of the Master Circular:

“15.1 After a default is cured and the payments regularized, a CRA shall generally upgrade the rating from default to non-investment grade after a period of 90 days based on the satisfactory performance by the company during this period. CRAs may deviate from the said period of 90 days on a case to case basis, subject to the CRAs framing a detailed policy in this regard. The said policy shall also be placed on CRA’s website. Cases of deviations from stipulated 90 days, if any, shall be placed before the Ratings Sub-Committee of the board of the CRA, on a half yearly basis, along with the rationale for such deviation.

15.2 The CRA shall frame a policy in respect of upgrade of default rating to investment grade rating and place it on its website.

15.3 The policies framed as above may include scenarios like technical defaults, change in management, acquisition by another firm, sizeable inflow of long-term funds or benefits arising out of a regulatory action, etc. which fundamentally alter the credit risk profile of the defaulting firm.”

3. One of the recommendations of the Working Group of CRAs for Ease of Doing Business is to provide specific policy guidance on treatment of ‘technical defaults’ so that the policy is applied uniformly across CRAs.
4. In this regard, the Working Group has highlighted that the following scenarios of non-payment of debt (principal and/ or interest) may arise due to reasons beyond the control of the issuer, namely, failure to remit payment due to absence of correct information or due to incorrect or dormant investor account furnished by the investor(s) or due to notice/ instruction received from a government authority to freeze the account of investor(s).

5. It has been decided that in the aforesaid scenario, the CRA shall confirm and verify the availability of adequate funds with the issuer and also confirm and verify:
- 5.1. the proof of failure of the required payment of debt (principal and/ or interest),
 - 5.2. the reasons for failure being as specified above, and
 - 5.3. the required amounts being duly paid into a separate escrow account maintained with a scheduled commercial bank by the issuer on the due date of payment.
6. For all such instances, the CRA shall furnish the following details to the Stock Exchanges, Depositories and Debenture Trustee on the same day as the dissemination of the rating Press Release on the CRA's website:

Name of the security	ISIN	Amount to be paid	Due date of payment	Amount of payment made	Amount of payment failed	Reasons for failure of payment

The Stock Exchanges, Depositories and Debenture Trustees shall disseminate the above information on their websites.

7. CRAs shall sensitise their clients, i.e. the issuers, to avail of the penny-drop verification facility offered by banks to avoid occurrence of failure to remit the required payments of debt (principal and/ or interest) and/or other suitable measures to prevent such occurrence.
8. Accordingly, the term "technical default" is hereby omitted from Para 15.3 of the Master Circular and the said para stands modified as under:

"The policies framed as above may include scenarios like change in management, acquisition by another firm, sizeable inflow of long-term funds

or benefits arising out of a regulatory action, etc., which fundamentally alter the credit risk profile of the defaulting firm.”

9. The circular shall be applicable with immediate effect.
10. 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 CRA Regulations to protect the interest of investors in securities and to promote the development of, and to regulate, the securities market.
11. This Circular is available on the website of the Securities and Exchange Board of India at www.sebi.gov.in under the category “Legal” and under the drop down “Circulars”.

Yours faithfully,

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