

Timely credit information to CRAs will be positive for credit markets

SEBI move to take borrower consent for critical lenders' data a significant step

Acuite Ratings believes that SEBI's decision to amend the CRA Regulations, 1999 and facilitate the availability of timely information on credit defaults to CRAs will further strengthen the quality of ratings in India. In the opinion of Acuite, at least 25% of the outstanding ratings in India across all credit rating agencies are non-cooperative in nature, wherein both the borrower and the lenders are not willing to share the necessary information. Such a significant number of outstanding ratings based, 'at best', on inadequate information is unhealthy for the Indian credit markets. The implementation of SEBI's decision should help CRAs to obtain the credit history of non-cooperative borrowers, thereby enabling rating actions, if warranted. This may even improve the overall level of issuer co-operation, mitigate "rating shopping" and strengthen the ability of CRAs to provide more robust and stable ratings in the bank loan category.

Non-availability of critical credit information from the bankers or other lenders constrains Credit Rating Agencies (CRAs) in its ability to provide a reliable opinion in many bank loan ratings. With SEBI proposing an enabling provision in the standard rating agreement, which will ensure the consent of the issuer to sharing of all relevant data on borrowings and default by the lenders or even any credit bureau etc., the legal and the 'confidentiality' aspects of this matter are likely to be addressed. Acuite therefore, expects banks and all lenders to be far more forthcoming and pro-active in sharing client-specific credit data with CRAs going forward. This will clearly help CRAs to be timely and more objective in their rating actions, particularly in a default scenario. Further, such timely rating actions will improve the levels of transparency and disclosures in the credit markets and reduce the vulnerability of the banking and the NBFC sector to asset quality challenges in the long run.

Additionally, SEBI in its board meeting has also taken steps to facilitate the development of the municipal bond market in India. The expansion of the definition of issuers in the "Listing of debt securities by municipalities – SEBI Regulations 2015" was, therefore, necessary. The municipal bodies also face challenges in providing latest audited financial information due to their longer audit procedures; SEBI has revised those timelines to address the bottlenecks in the listing and compliance of such municipal issuances. The erstwhile regulations for municipal bonds also had several stringent requirements like 100% asset cover, project viability report and formal government support, etc. which were making it difficult for many potential ULB issuers to tap the bond market; doing away with these requirements are likely to increase the municipal bond issuance volumes in the near to medium term. With urban infrastructure development a key agenda of the government, funding through bond markets need to be increasingly explored not only

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by the municipal corporations but also by many urban development authorities. The above development will provide the necessary impetus.

About Acuite Ratings & Research Limited:

Acuite Ratings & Research Limited (*Erstwhile SMERA Ratings Limited*) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

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