

CIRCULAR

SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 87

May 21, 2020

To

All Credit Rating Agencies (CRAs) registered with SEBI

Dear Sir/ Madam,

Sub: Review of Post-Default Curing Period for CRAs

- I. It has been noted in a few recent cases of defaults that even though the rated entity was able to correct the default within a relatively shorter span of time, the rating could not be upgraded and continued to be under sub-investment grade due to the extant provisions on post-default curing period of 90 days for the rating to move from default to speculative grade and generally 365 days for default to investment grade. There is a possibility that such cases may increase in the wake of COVID-19 pandemic. A need has been felt to review the existing policy on post-default curing period with a view to providing some flexibility to CRAs in taking appropriate view in such cases.
- II. Taking into consideration the representation received from various stakeholders and analysis of the same, the provision on post-default curing period is being hereby revised. Accordingly, in partial modification to Annexure-A1 of SEBI circular no. SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dated November 1, 2016, the revised policy in this regard is as under:
 - A. 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.
 - B. The CRA shall frame a policy in respect of upgrade of default rating to investment grade rating and place it on its website.

- C. 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.
- III. 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 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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