FIDC

Finance Industry Development Council

(A Representative Body of NBFCs in India)

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August 20, 2024

To
Sarika Kataria
Deputy General Manager
Department of Debt and Hybrid Securities,
Securities & Exchange Board of India (SEBI).
SEBI Bhavan,
Bandra-Kurla Complex, Bandra (East),
Mumbai 400 051

Madam/Sir,

SUB: Representation on Amendment to Para 15 of Master Circular for Credit Rating Agencies (CRAs) dated May 16, 2024 ("Master Circular")

Finance Industry Development Council (FIDC) is a premier industry association representing the interests of NBFCs in India. With a legacy spanning over 20 years, FIDC has been instrumental in promoting responsible and sustainable growth, as well as a culture of regulatory compliance within the NBFC sector. It serves as a unified voice for its diverse membership base for which it has adopted a comprehensive code of conduct advocating for professional governance standards, facilitating dialogue with regulatory bodies, and fostering industry-wide best practices.

We laud SEBI for taking a progressive view and issuing Draft Circular Amendment to Para 15 of Master Circular for Credit Rating Agencies (CRAs) dated May 16, 2024 ("Master Circular") for seeking views of stakeholders.

We also appreciate changes in Para 15.3 wherein the word "Technical Default" has been removed and following have been inserted:

"The policies framed as above may take into consideration scenarios like force majeure events, absence of or incorrect or dormant investor account furnished by the investor(s), notice/ instruction received from a government authority to

freeze the account of investor(s), bank strike on the due date of payment, etc. The said policies may also include scenarios such as 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."

However, considering the substantial impact of a rating change of a Company, we also recommend that if following line can also be added in to the insertion:

"The policies framed as above may take into consideration scenarios like force majeure events, absence of or incorrect or dormant investor account furnished by the investor(s), notice/ instruction received from a government authority to freeze the account of investor(s), bank strike on the due date of payment, etc. The said policies may also include scenarios such as 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. ***Further, in the event where downgrade or adverse change of stance is being considered, then an opportunity must be given to the Company to provide mitigants for the factors leading to such determination****"*

We believe that giving an opportunity to the Companies to present their submissions and mitigants wherever a downgrade or an adverse change of stance is being considered is in line with the principles of natural justice and will lead to much better outcome.

Further, we have additional request as follows:

SEBI's definition of default- which is defined as delay by one day or one rupee should exclude payment failures arising from operational issues beyond the control of the company as long as the company is able to demonstrate availability of adequate liquidity at its disposal. Issues such as mismatch in investor bank account details, technical glitch from the bank, investors' accounts being dormant etc. are real issues that can happen **inadvertently. T**hese events would not be a true reflection of the credit profile of the issuer or its ability and

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willingness to honour its debt obligations, which is what a credit rating should indicate.

Downgrading based on such instances would be disproportionately harsh and may lead to very severe implications for the entity as well as the interests of the investors.

We appreciate that SEBI's objective is to protect investor interest, but a downgrade emerging from such operational issues, not affecting the fundamental quality of the instrument/entity would hurt investor interests harshly and may irreparably damage investor confidence.

Our request:

We therefore request that no downgrading of any instrument be mandated purely on such operational matters as long as the entity is able to demonstrate adequate liquidity and there is no fundamental change in the strength of the underlying securities.

We look forward to positive consideration of our submissions and shall be happy to provide any other information / clarification on the abovesaid concerns.

Thanking you,

Yours Faithfully,

For **FINANCE INDUSTRY DEVELOPMENT COUNCIL**

MAHESH THAKKAR
DIRECTOR GENERAL
9820035553