



## **Lenders/Bankers should take cue from SEBI's guidelines on disclosure and provide timely information to CRAs says Brickwork Ratings**

**Brickwork Ratings, August 22, 2019, Mumbai:** The market regulator, Securities and Exchange Board of India (SEBI), in its board meeting held on Aug 21, approved a slew of amendments in a bid to rationalize the existing regulatory framework for Foreign Portfolio Investors (FPIs) and boost efficient rating mechanism in India.

SEBI said FPIs would no longer be required to meet the 'broad-basing' criteria, under which at least 20 investors were required to establish a fund. Also, central banks that are not members of the Bank for International Settlements (BIS) will be allowed to register as FPIs. Offshore funds floated by Indian mutual funds will be permitted to invest in the domestic markets under the FPI route.

Further, it would rationalise the framework for issuance of participatory notes (P-notes), an instrument once very popular with overseas investors.

Commenting on this, **Senior Director, Brickwork Ratings, Balkrishna Piparaiya** said, "Simplification of procedure for FPI is welcome, however, we need to watch if this will materially push up such investments as these are primarily driven by interest rate differential between other well-regulated countries and India with respect to debt investments and expected earnings in equity investments."

"With Indian debt yields still being relatively higher compared to other countries, the FPI investments may continue to grow and the simplification in procedure may neutralise the impact of recent downward trend in yields. However, owing to trends of downturn in economy, the returns in equity investments by FPI may not be in line with their expectations and more steps may be needed to attract the same," **Piparaiya** added.

Also, the market regulator has relaxed the regulations for issuances of Municipal bonds. The definition of the issuer has been widened to include other bodies like urban development authorities, city planning agencies, pooled funds, etc.

"Municipalities have gone through a lot of structural changes in terms of service level benchmarking and improvement, capacity building to improve efficiencies and changes such as reporting and auditing of accounts under the AMRUT scheme while other urban development bodies are yet to bring in these changes. This may take some time," **Vipula Sharma, Director, Brickwork Ratings** said adding "The deletion of the requirement of the backing of the State Government or Central Government is a negative in terms of the oversight and commitments from the State Governments for the securities."

Further, the regulator said Credit Rating Agencies and companies would have to enter into agreements where the latter would provide "explicit consent" to give details of any delay or default in servicing such borrowing.

"Currently the Rating Agreements of CRAs already have such authorisation to collect debt servicing details or loan account conduct particulars from investors, lenders or bankers, and they are doing so in respect of facilities rated by them. While the amendment now proposed broad-bases the sources from which they can collect such information, it is the willingness of the lenders or investors to share such data that becomes critical. When a CRA seeks information from a lender or investor whose specific debt is not rated by the CRA, such sources are generally reluctant to provide details, and this results in the data collected by the CRA incomplete. If there are guidelines to them to share data with CRAs promptly, particularly regarding delays or defaults, it would be more effective," **MSR Manjunatha, Chief Ratings Officer, Brickwork Ratings** said.

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