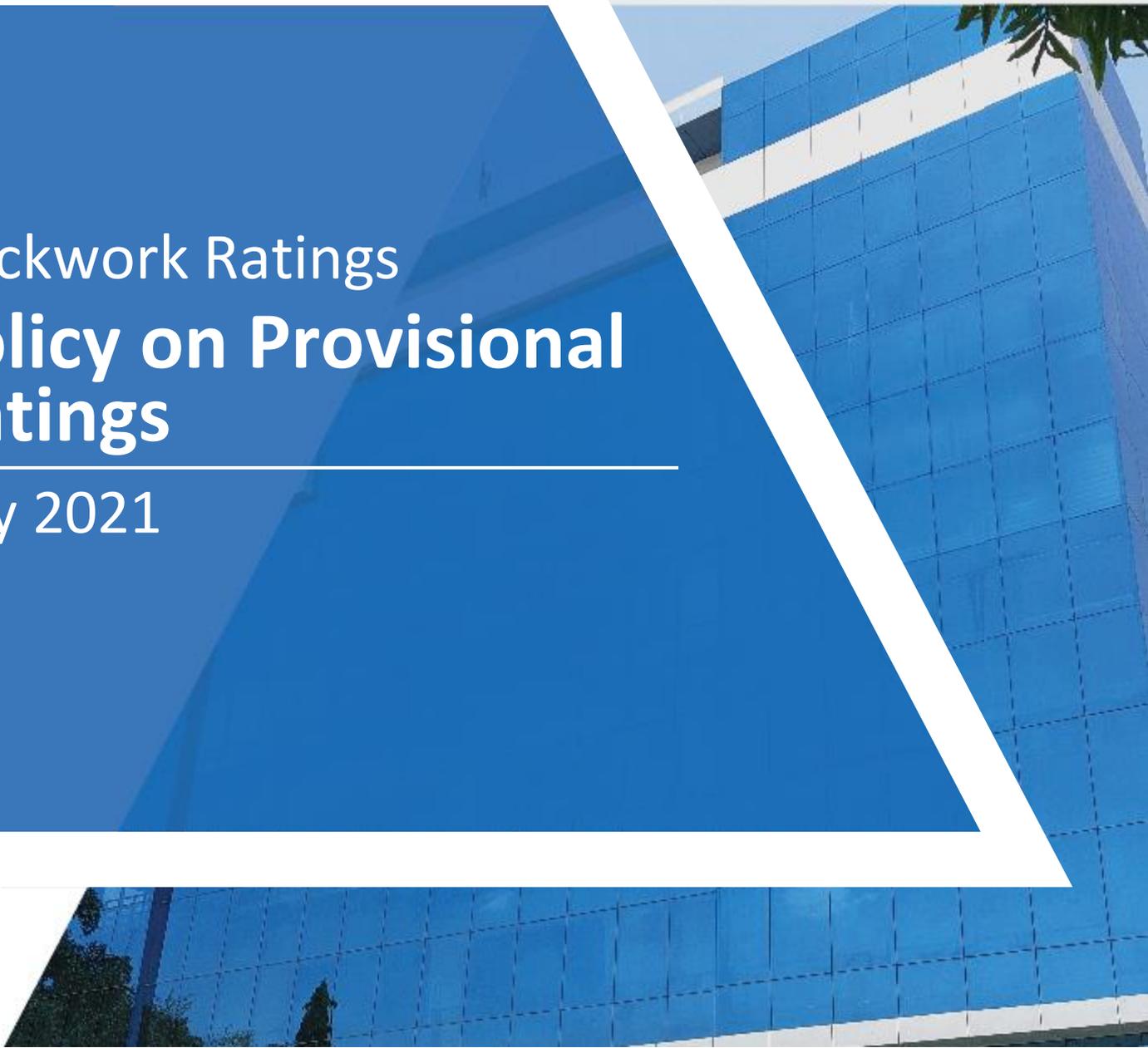




# Brickwork Ratings **Policy on Provisional Ratings**

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July 2021



## **Policy on Provisional Ratings**

Brickwork Ratings (BWR) has, in accordance with the requirements of SEBI Circular SEBI/HO/MIRSD/MIRSD\_CRADT/P/CIR/2021/554 dated 27Apr2021 on “Standardizing and Strengthening Policies on Provisional Rating by Credit Rating Agencies (CRAs) for Debt Instruments”, and the subsequent clarifications received from SEBI in this regard, revised its Policy on Provisional Ratings. This revised policy is applicable to all debt instruments and borrowing facilities including securities, bank loan facilities, commercial papers, issuer ratings etc.<sup>1</sup>

## **Assignment of Provisional Rating and Prefix**

### **A. General applicability**

BWR assigns a Provisional rating to such instruments/facilities when the rating is contingent upon completion of the critical pending steps and/or execution of pending documentation, as applicable. The provisional ratings assigned by BWR, on both the long-term as well as the short-term scale, are prefixed with the word ‘Provisional’, denoting that the rating assigned to the instrument/facility is subject to fulfilment of certain conditions/steps or execution of the pending documentation. Such pending steps or documentation (as applicable) are as follows:

- a) Execution of letter of comfort, corporate guarantee, or other forms of explicit third-party support.
- b) Execution of documents such as debenture trustee deed/debenture trustee agreement, legal opinions, representations and warranties, final term sheet.
- c) Assignment of loan pools or finalisation of cash flow escrow arrangements.
- d) Setting up of debt service reserve account (DSRA).
- e) Opening of escrow account; or
- f) For a proposed Real Estate Investment Trust (REIT) or Infrastructure Investment Trust (InvIT), pending formation of a trust but only after receipt of SEBI Registration. However, the process of obtaining rating may commence at the stage of the sponsor filing with SEBI for the registration of the Trust, subject to declaration from the sponsor to this effect being submitted to BWR. The provisional rating indicates the final rating that is likely to be assigned to the InvIT/ REIT after the transfer of the shareholding in the designated Special Purpose Vehicles (SPVs) to the trust, raising of the proposed capital etc.

Normally, BWR would assign provisional ratings when key steps or documentation are pending in case of instruments / facilities backed by credit enhancement mechanisms such as guarantees and letters of comfort, debt backed by co-obligor structures, escrow mechanism, DSRA, securitization transactions, REITs/InvITs pending formation of trust etc. However, even in such circumstances, BWR may assign a final rating even if certain actions/ documents are pending, depending on its assessment of the credit profile of the entity.

**Mutual fund schemes and capital protection-oriented schemes:** In respect of ratings of the mutual fund schemes that are yet to be launched or are yet to invest in the underlying securities or capital protection-oriented schemes that are yet to firm up their investment portfolio, BWR may initially assign a provisional rating based on the expected credit quality and the tenor of the securities in the mutual fund portfolio or on the proposed mix of investment in debt instruments and in equity and subsequently convert into a final rating upon launching of the scheme and investments made.

## **B. Non-applicability**

BWR shall not assign a rating, including provisional rating, to an issuer/entity evaluating strategic decisions such as funding mix for a project, acquisition, debt restructuring, scenario-analysis in loan refinancing, etc, where a scenario-based rating assignment is involved.

## **Rating Symbols**

When BWR assigns provisional ratings, its existing long-term and short-term rating symbols will be prefixed with the term 'Provisional' in all communications viz. rating letter, press release / rating rationale, etc. For example, 'Provisional BWR AAA' or 'Provisional BWR A1+'.

## **Validity Period**

Post assigning a provisional rating, BWR shall closely follow up with the issuer/client for confirmation of completion of pending steps and/or executed transaction documents and issuance/raising of debt/borrowings. The issuer/entity should keep BWR informed about the completion/execution of appropriate transaction related formalities and issuance/raising of debt/borrowings. The provisional rating shall be converted into a final rating following receipt of confirmation of completion of pending steps and/or executed transaction documents, as applicable, and after vetting by BWR legal officer, within 90 days from the date of issuance of the debt instrument/availment of borrowings. The final rating assigned by BWR shall be dependent on the available documents or completed actions, as applicable. In case of pending steps / documentation at the end of 90 days from the date of issuance of debt instrument/availment of borrowings, BWR may grant an extension of up to 90 days from the expiry of the above-mentioned validity period, based on the status/progress of the pending steps/documentation of the transaction, on a case-to-case basis. If such an extension is approved, there would be no requirement to do a press release.

At the end of 180 days from the date of issuance of the instrument/availment of borrowings, an outstanding provisional rating shall necessarily be converted into a final rating that is consistent with the available documents or completed actions, as applicable. BWR shall not assign any provisional ratings upon the expiry of 180 days from the date of issuance of the instrument/availment of borrowings.

**Provisional Ratings assigned to securitisation transactions:** If the pending actions/documents are not completed/executed within 180 days of assignment of the provisional rating, BWR would withdraw the provisional rating, even if the instrument has been issued.

### **Conversion of Provisional Rating to Final Rating**

BWR's communications for 'Provisional' rating viz., Rating Letter and Press Release/Rating Rationale, shall mention the pending conditions/steps/documentation, based on which the provisional rating is assigned. Upon receipt of confirmation of the completion of the pending actions and/ or execution of the pending documents, as applicable, and after vetting by BWR legal officer, the provisional rating shall be converted into a final rating, in line with the validity period for provisional ratings, as mentioned above, and the prefix 'Provisional' shall be removed.

In case the pending actions/ documents are completed for only a portion of the rated amount, the rating for such portion alone shall be converted into final. The rating for the remaining portion of the rated amount would continue to remain provisional.

The final rating may be the same as the provisional rating in case the completed steps/documentation are consistent with the expectations/assumptions based on which the provisional rating was initially assigned. The final rating may differ from the provisional rating in case the completed actions/executed documents are not in conformity with those envisaged initially. To elaborate, BWR would take rating action as follows:

i) In case there are material changes in the terms of the transaction after the initial assignment of the provisional rating and when the debt issuance /borrowing is yet to happen.

In such cases, upon being intimated of the material changes by the issuer/entity, BWR shall withdraw the existing provisional rating as the instrument/facility is yet to be issued/raised, duly stating that the provisional rating is being withdrawn as there are material changes in the terms of the transaction after the initial assignment of the provisional rating.

ii) In case there are material changes in the terms of the transaction after the initial assignment of the provisional rating and post the completion of the debt issuance/borrowing (corresponding to the part that has been issued/availed).

When the terms of the transaction undergo a material change and are not in accordance with the premise on which the provisional rating was initially assigned, BWR would withdraw the existing provisional rating and concurrently assign a fresh final rating basis the revised terms of the transaction. Both the withdrawal of the initial provisional rating and the concurrent assignment of the fresh final rating would reflect in the same press release/rating rationale.

However, in cases where the material changes have occurred due to failure of the structure to work in the manner it was designed to or on account of factors beyond the control of the issuer/ entity, BWR would revise the existing provisional rating based on best available information, irrespective of whether the debt issuance/availment of borrowings has taken place or not.

In the case of REITs/InvITs, if there are changes in key assumptions, BWR shall obtain a declaration from the issuer that the changes in key assumptions are consistent with its filings with SEBI and revise<sup>2</sup> the provisional ratings appropriately. Such declaration shall also be disclosed in the press release.

### **Non issuance of debt or non availment of borrowings**

In cases where the documentation has not been completed and the instrument/facility has not yet been issued/raised even at the end of 6 months from the date of assignment of provisional rating, BWR may continue the Provisional Rating for another six months, upon receipt of a written request from the issuer / entity for continuance of the rating in view of their intention to complete the documentation and the fundraising within the next six months. BWR may grant a maximum of two extensions of six months each, based on specific written requests for each extension from the issuer/entity i.e., for a maximum of 18 months from the date of assignment of Provisional Rating. If after the expiry of such extensions, the debt is not yet issued/availed, then BWR would withdraw the rating.

In the absence of such written requests for extensions, the rating shall be placed on a Notice of Withdrawal for 15 days on BWR website, whereafter the rating shall be withdrawn.

If at any point in time, the entity informs BWR that it does not intend to issue the proposed debt instrument/ avail the proposed borrowing, the provisional rating shall be withdrawn. In the case of REITs/ InvITs, if the sponsors do not intend to go ahead with the REIT/ InvIT formation, the provisional rating assigned earlier shall be withdrawn.

However, in case of any material developments affecting the credit profile of the entity being rated, BWR may review/revise<sup>2</sup> the provisional/final rating, irrespective of the status of the steps/documentation/debt issuance or the validity period as mentioned above.

### **Additional disclosure requirements for Provisional ratings**

In accordance with the stipulations of the aforesaid SEBI circular dated April 27, 2021, additional disclosures shall be made in the press release / rating rationale pertaining to Provisional Ratings as well as in the disclosures relating to Unaccepted Provisional ratings. Details of such disclosures are given below:

#### **Disclosures in the Press Release / Rating Rationale**

BWR's press release / rating rationale for Provisional Ratings would also disclose the following:

- a) Pending steps / documentation considered while assigning the Provisional Rating.
- b) Risks associated with the provisional nature of credit rating, including those on account of absence of completed documentations / steps.
- c) Rating that would have been assigned in the absence of pending steps / documentations which were considered while assigning the provisional rating. In cases where the absence of said steps/documentation would not result in any rating being assigned by BWR (e.g., securitisation transactions or proposed REIT/InvIT), the same would be specified in the press release.
- d) Validity period for conversion of a provisional rating into final rating, in the case of issued debt/availed borrowing.
- e) Disclosures related to REIT or InvITs, wherever applicable:

1. the broad details of the assets that are proposed to be held by REIT / InvIT, the proposed capital structure, etc.

Receipt of an undertaking from the sponsor stating that the key assumptions (relating to the assets, capital structure, etc.) are in consonance with the details filed by the sponsor with SEBI.

In case of change in provisional rating due to change in aforesaid assumptions, the press release shall state that the rating is based on a declaration from the issuer that similar changes have been made in the filing with SEBI.

### **Unaccepted Provisional Rating**

BWR would provide the following supplementary disclosures:

1. Details of the steps taken for assigning the provisional rating (the steps / documentation pending which provisional rating was assigned).
2. In case of REITs/InvITs, the broad details of the assets to be housed under the Trust, the proposed capital structure, etc.
3. Rating that would have been assigned in absence of the said steps / documentation.

*<sup>1</sup>This policy is applicable with immediate effect for all new rating assignments. The outstanding provisional ratings shall be aligned with this revised policy by December 31, 2021.*

*<sup>2</sup>Any review or revision of rating refers to the likelihood of appropriate rating action which may mean an upgrade, downgrade, change in outlook, placement of rating on credit watch etc.*