

Oaktree effect: Sebi bars 'sales pitch' ratings



Sebi also said provisional rating should be made final within 90 days from the date of issuance of the debt instrument.

Synopsis

The Sebi moves come after Oaktree, one of the bidders for stressed home financier DHFL, had mentioned in its resolution plan that it received an AAA rating from credit rating agencies should it have won the bid.

MUMBAI: The **Securities and Exchange Board of India (Sebi)** on Tuesday said no credit **rating** agency (CRA) can assign a rating, including provisional decisions, to an issuer or client evaluating strategic decisions.

The Sebi moves come after **Oaktree**, one of the bidders for stressed home financier **DHFL**, had mentioned in its **resolution plan** that it received an AAA rating from credit rating agencies should it have won the bid.

In January, Sebi sought a response from DHFL's administrator regarding reports from a consultancy firm and credit rating agencies that supposedly backed Oaktree's plan, with rating decisions that could influence the committee of creditors and investors. Rules didn't allow indicative or advance ratings from credit rating agencies.

This loophole has now been plugged by Sebi, which defined strategic decisions as to the funding mix for a project, acquisition, debt restructuring, or scenario analysis in loan refinancing.

"This was long coming given the regulatory experience in certain matters where provisional ratings were used like a '**sales pitch**,'" said **Sumit Agrawal**, founder, Regstreet Law, and a former Sebi officer. "While the CRA Regulations prohibit advanced/indicative ratings, ... it is being used by competitive bidders under IBC Resolution process or debt-issuers in the guise of credit opinion discussions,

credit scenario analysis, indicative rating discussions and other make-believe documents,” Agrawal said. “While Sebi’s intent is to make the integrity and transparency of the rating process effective, this circular may not be sufficient to bell the cat.”

Sebi also said provisional rating should be made final within 90 days from the date of issuance of the debt instrument.