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Credit rating agencies seek action on cos hiding information

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RBI sought details of companies withholding information.

Banks use ratings from external agencies to decide the risk weight on loans as per regulatory guidelines. These risk weights determine how much capital will be consumed for a specific loan. The higher the perceived risk, the higher its risk weightage.

"We have to spend time and resources on these ratings even as the companies do not respond to requests for data," said the first person.

The second person said that the agencies had approached both markets regulator Sebi and RBI, but given that most of these non-cooperative ratings pertain to loans and not bonds, they are now focused on convincing the central bank.

Bankers denied they are holding back withdrawal of ratings. According to two senior bankers who also spoke on condition of anonymity, many companies want to change their rating agency in search of better rating since it allows them to raise cheaper funds. They said banks give NOCs on a case-by-case basis.

Emails sent to Crisil Ratings, Care Ratings, India Ratings and Research, RBI and Sebi remained unanswered. A spokesperson for Icra declined to comment.

Sankar Chakraborti, managing director and chief executive officer, Acuité Ratings & Research, said a rating agency cannot stop covering a rating even when the issuer is not cooperating. "Both rating industry and banks need to work closely to find a solution to this problem," he said.

RBI had reportedly sought details of firms withholding information. REUTERS

Experts said Sebi guidelines mandate rating agencies to carry out periodic review of the securities they have rated. "In case of non-cooperation by the issuer, CRA (credit rating agency) is required to carry out the review on the basis of best available information," said Shrishail Kittad, a partner at law firm IndiaLaw LLP.

Others said companies might conceal risks from rating agencies by selectively presenting financial data, downplaying potential vulnerabilities, or omitting pertinent information.

"They could also employ complex financial structures to obscure risks or misrepresent their financial health. Additionally, companies may attempt to influence the rating process through lobbying, providing incentives, or withholding critical information," said Jidesh Kumar, managing partner, King Stubb & Kasiva, Advocates and Attorneys.

When companies stop sharing data that rating agencies require to maintain a watch over their credit ratings, they are termed non-cooperative.

"The submission of rating agencies is that when a listed company is non-cooperative, a rating agency can still look at data available in the public domain," said the first person. "But most of the issuers are unlisted and, hence, there is not enough data available publicly to carry out meaningful surveillance."

The first person added that rating agencies are now hoping they can move INC (issuer not cooperating) ratings out of their remit by withdrawing the ratings, when they have been classified as non-cooperative a couple of years ago.

"Currently, lenders can give an NoC to the CRAs to withdraw the rating, but most lenders are not giving it and there should be some regulatory nudge that would tell lenders that you either get the issuer to cooperate or give an NoC. Failing to do neither should result in some penal charges," said the first person.

As per RBI guidelines, unrated corporates attract a lower risk weight of 100% than those rated BB and below. However, corporates and non-bank financiers, except core investment companies, which were rated earlier and then turned unrated, will attract a risk weight of 150% if the overall debt from banks is more than Rs 100 crore. For exposures higher than Rs 200 crore, the risk weight on all unrated corporates is 150%.

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Our Partner Shrishail Kittad quoted in livemint

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Rating firms press for RBI action on cos hiding info

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Credit rating agencies are looking to the central bank for a decision on their demand to penalise banks that do not share no-objection certificates (NOCs) required to withdraw ratings of companies that withhold key information, two rating agency officials said.

The issue gains significance considering that at present, more than 60% of all rated issuers or companies are estimated to be non-cooperative, and rising, they added.

According to the officials, who spoke on condition of anonymity, discussions with the RBI were initiated by the Association of Indian Rating Agencies (AIRA) to better manage the issue of non-cooperative issuers.

The officials said rating agencies are yet to hear from the regulator on their proposal to raise risk weights on loans where companies are not cooperating with rating agencies, adding that the problem of non-cooperation was more prevalent with smaller companies than the bigger ones.

The Economic Times had reported in June 2023 that

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Full Coverage- https://www.livemint.com/industry/banking/rating-agencies-look-to-rbi-for-curbing-non-cooperation-by-companies/amp-11718187218755.html