

**APPROACH DOCUMENT FOR COMPUTATION OF  
AVERAGE RATING TRANSITION RATES FOR LONG TERM INSTRUMENTS**

As per SEBI's circular No. SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2018/ 140 dated November 13, 2018, CRAs are required to publish their average one-year rating transition rates over a 5-year period, on their respective websites. The average rating transition rates for long term instruments need to be calculated as the weighted average of transitions for each rating category, across all static pools in the 5-year period.

Accordingly, Infomerics has been calculating and publishing previous five years Average Rating Transition rates on its website.

**The Approach:**

**i. Static Pool:** Static Pool Approach is followed for computation of Transition Rates. Long term Ratings outstanding for each rating category at the beginning of a financial year are included in the Static Pool. Ratings that have been withdrawn or ratings of non-cooperative issuers during the year are excluded from the pool. Static Pools or Cohorts are formed for every Financial Year. Ratings downgraded to rating category "D" are treated as default for the rest of the period. Ratings which are upgraded from "D" are considered as new ratings for the relevant subsequent static pools.

**ii. Transition Rate:**

Changes in ratings during the subsequent period are tracked. One year transition matrix includes rating transitions during the next financial year. Transition Rates are the number of movements/transitions from each rating category to another, as at the end of the financial year, as a percentage of the total number of ratings in the static pool at the beginning of the period.

**iii. Averaging:**

Data from all individual static pools for different financial years are pooled together to calculate the average rating transition rates. All averaging across static pools for transition rate computations are based on the weighted average method where the weights are the number of issuers in each static period. Accordingly, issuer weighted average one year transition rates for each rating category, across all static pools in the five-year period are calculated to get the average rating transition rates for individual rating grades.

Since Infomerics commenced rating activities from February 2016, the first computation of Average transition rates (FY 2018-19) includes four years' period from FY2016 to FY 2019. Long term Ratings assigned and accepted by the issuers are considered for static pool. The data in the static pool is issuer-specific and not instrument specific. An issuer with the same long term ratings for multiple instruments, is included only once in the pool. In case, there are multiple ratings for different instruments issued by the same issuer, highest rating for the issuer is considered.

Average one-year rating transition rate over a five-year period are then published on Infomerics' website.

Rating transition matrix indicates as to how the ratings have changed over a period. The percentages across the diagonal of the matrix indicate stability of ratings.

As mentioned earlier, in the above-mentioned calculations the ratings that have been withdrawn or ratings of non-cooperative issuers during the financial year are excluded.

**iv. Average Rating Transition rates in respect of credit ratings of securities that are listed, or proposed to be listed, on a recognized stock exchange.**

SEBI, vide circular No. SEBI/HO/DDHS/DDHS-RACPOD2/P/CIR/2022/ 113 dated August 25, 2022, issued revised guidelines as regards publishing of average rating transition rates for long term credit ratings of securities that are listed, or proposed to be listed, on a recognized stock exchange.

As per the circular, in addition to the disclosure of rating transitions as mentioned earlier, from FY 2022-23, CRAs are also required to disclose two additional and separate long term rating transition matrices (limited to credit ratings of securities that are listed, or proposed to be listed, on a recognized stock exchange) using the following definition of static pool:

**(a) Static Pool:** Ratings outstanding for each category at the beginning of any financial year. It shall exclude ratings that have been withdrawn or ratings of non-cooperative issuers during the financial year. Ratings downgraded to D shall be treated as default for the rest of the financial year. Ratings which are upgraded from D shall be considered as new rating for the relevant subsequent static pools.

**(b) Static Pool:** Ratings outstanding for each category at the beginning of any financial year. It shall include ratings that have been withdrawn or ratings of non-cooperative issuers during the financial year. Ratings downgraded to D shall be treated as default for the rest of the financial year. Ratings which are upgraded from D shall be considered as new rating for the relevant subsequent static pools.

In the disclosure under (b) above, CRAs are required to include an additional column to indicate the proportion of ratings that were withdrawn during the financial year.

Accordingly, from FY 2022-23, the above-mentioned two additional Average Rating Transition Rates are computed and disclosed in respect of credit ratings of Securities that are listed, or proposed to be listed, on a recognized stock exchange.

All the above-mentioned Average Rating Transition Rates related disclosures are regularly made by Infomerics on its website.

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