

# Meaning and applicability of 'SO', 'CE' symbols

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## Criteria contacts

**Somasekhar Vemuri**

Senior Director

Rating Criteria and Product Development

Email: [somasekhar.vemuri@crisil.com](mailto:somasekhar.vemuri@crisil.com)

**Ramesh Karunakaran**

Director

Rating Criteria and Product Development

Email: [ramesh.karunakaran@crisil.com](mailto:ramesh.karunakaran@crisil.com)

**Chaitali Nehulkar**

Associate Director

Rating Criteria and Product Development

Email: [chaitali.nehulkar@crisil.com](mailto:chaitali.nehulkar@crisil.com)

**Wazeem M A**

Manager

Rating Criteria and Product Development

Email: [wazeem.a@crisil.com](mailto:wazeem.a@crisil.com)

In case of any feedback or queries, you may write to us at [Criteria.feedback@crisil.com](mailto:Criteria.feedback@crisil.com)

## Executive summary

CRISIL used to apply an 'SO' suffix (indicating structured obligation) for instruments that were backed by credit enhancement structures or mechanisms. The 'SO' suffix was used to highlight the credit uplift enjoyed by the instrument, over and above the issuer's rating, due to presence of the credit enhancement structure. Such credit enhancement supporting the payment of interest and principal on the instrument, may have been internal, emanating from structural covenants, built into specific transaction structures, or external, backed by explicit contractual commitments for support from third parties.

However, the SEBI circular on 'Guidelines for Enhanced Disclosures by Credit Rating Agencies (CRAs)', dated June 13, 2019, restricts the use of 'SO' on instruments having a credit enhancement / structure around cash flows that leads to the instrument being bankruptcy remote from the issuer / originator. The circular mandates the use of a new symbol, namely 'CE' suffix (indicating credit enhancement), for the rating of an instrument, backed by credit enhancement mechanism that is external (or from a third party / parent / group company), but the instrument is not bankruptcy remote from the issuer / originator.

The SEBI circular also stipulates the following:

- Disclosure of unsupported rating, without factoring the explicit credit enhancement, along with the supported rating, after factoring the explicit credit enhancement, to enable investors understand the extent of credit enhancement provided by third party/parent/group company.
- Development of models for assessment of adequacy of credit enhancement structures under various scenarios, including stress scenarios. Such an assessment should be articulated in the rating rationale.

In line with the SEBI circular, CRISIL will henceforth apply the 'CE' suffix to the rating of an instrument that is backed by explicit external credit enhancement from a third party/parent /group, where the instrument is not bankruptcy remote from the issuer / originator. However, the 'CE' suffix will be applied only if the credit enhancement mechanism results in a credit uplift for the instrument, over and above the unsupported rating of the issuer.

## Scope

This document outlines the guiding principles behind the application of 'CE', 'SO' suffixes, and types of instruments which may be assigned 'CE' or 'SO' ratings. In case of 'CE' ratings, the distinction between supported and unsupported ratings, and the models used for assessing the adequacy of the credit enhancement structure are also outlined in the document.

## Guiding principles behind application of ‘SO’, ‘CE’ suffixes

The application of ‘CE’ or ‘SO’ suffix to a rated instrument will be driven by the following principles:

Sr. No.	Instrument type	Application of suffix to rating
1	Instrument having no explicit credit enhancement or payment mechanism / structure	No ‘SO’ or ‘CE’ suffix
2	Instrument having internal credit enhancement mechanism (due to payment mechanism/structure around cash flows), but the instrument is not bankruptcy remote from the issuer/originator	No ‘SO’ or ‘CE’ suffix
3	Instrument having credit enhancement / structure that leads to the instrument being bankruptcy remote from the issuer / originator	‘SO’ suffix
4	Instrument having credit enhancement that is external (or from third party), but the rated instrument is not bankruptcy remote from the issuer / originator	‘CE’ suffix
5	Instrument having external credit enhancement through guarantees or other structures, but the CRA believes that the structure does not enhance the rating of the instrument (over and above the issuer’s credit profile)	No ‘SO’ or ‘CE’ suffix

## Debt facilities/instruments where ‘SO’ or ‘CE’ suffix applies

Following are the typical instruments, which will have a ‘CE’ suffix, ‘SO’ suffix, or no suffix at all, based on principles outlined above:

SO suffix – securitised, asset-backed transactions with credit enhancement structures that lead to the instrument being bankruptcy remote from the issuer/originator	CE suffix – instruments backed by external credit enhancement from third party / parent / group company, but instrument not bankruptcy remote from the issuer/originator	No SO or CE suffix – instruments having internal credit enhancement mechanisms, but the instrument is not bankruptcy remote from the issuer/originator*
<ul style="list-style-type: none"> <li>Asset Backed Securitisation (ABS)</li> <li>Mortgage Backed Securitisation (MBS)</li> <li>Collateralised Debt Obligations (CDO)</li> <li>Covered bonds, where primary recourse to pool of loans housed in a trust, with secondary recourse to issuer</li> <li>Capital protection oriented funds</li> </ul>	<ul style="list-style-type: none"> <li>Guaranteed bond/loan; Shortfall undertaking backed bond/ loan or other such third-party credit enhancement</li> <li>Debt backed by pledge of shares or other assets</li> <li>Commercial mortgage backed securities (CMBS) like structures</li> <li>Partially guaranteed bond</li> <li>SBLC backed commercial paper or other instruments/ facilities</li> <li>Covered bonds with primary recourse to issuer</li> <li>Guaranteed pooled loans issuance (PLI) /Pooled bond issuance (PBI), not through a trust</li> </ul>	<ul style="list-style-type: none"> <li>Debt backed by payment waterfall /escrow, DSRA (either in the form of cash/FD or in the form of bank guarantee)</li> <li>Debt backed by escrow of future flows (such as debt backed by annuities, take-or-pay obligations, etc.)</li> <li>Debt backed by lease rental discounting</li> <li>Government of India (GoI)-fully serviced bonds</li> <li>Debt raised by real estate investment trusts (REIT) and infrastructure investment trusts (INVITs)</li> </ul>

SO suffix – securitised, asset-backed transactions with credit enhancement structures that lead to the instrument being bankruptcy remote from the issuer/originator	CE suffix – instruments backed by external credit enhancement from third party / parent / group company, but instrument not bankruptcy remote from the issuer/originator	No SO or CE suffix – instruments having internal credit enhancement mechanisms, but the instrument is not bankruptcy remote from the issuer/originator*
	<ul style="list-style-type: none"> <li>• Obligor/Co-obligor structures or cross-default guarantee structures</li> <li>• Debt backed by payment waterfall /escrow, debt service reserve account (DSRA) etc., but with full guarantee or DSRA Replenishment Guarantee from a third party</li> <li>• Debt backed by letter of comfort</li> </ul>	

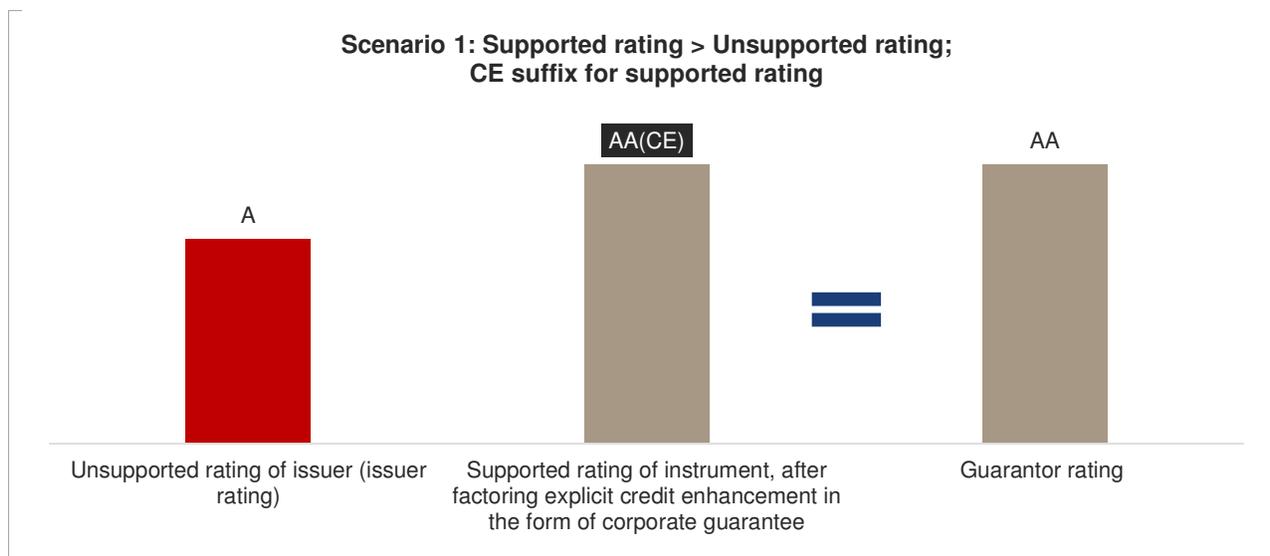
The 'CE' suffix is used only if the presence of the credit enhancement structure or mechanism results in a credit uplift for the instrument, over and above the unsupported rating of the issuer.

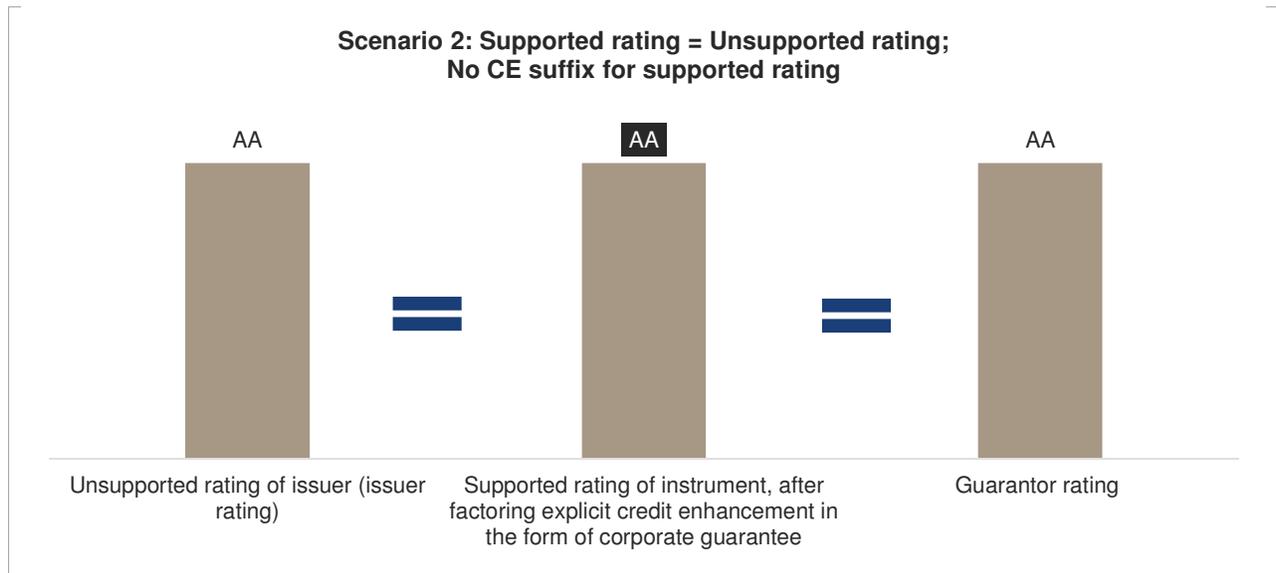
## Supported versus unsupported ratings for 'CE' structures

Supported ratings factor in the explicit credit enhancement. Unsupported ratings do not factor the credit enhancement from a third party. Though explicit external credit enhancement is not factored in the unsupported rating, any implicit support from, say, a parent or group company, will be factored in.

The supported rating on a credit-enhanced instrument will be assigned the 'CE' suffix only if it is higher than the unsupported rating of the issuer. In other words, 'CE' suffix will be applied only if the external credit enhancement structure provides a credit uplift over and above the unsupported issuer rating. In the absence of any credit uplift, the credit enhancement structure does not add any enhancement to the instrument's rating.

### Illustration: Supported and unsupported ratings for debt backed by corporate guarantee from the parent





CRA's need to disclose the unsupported rating for all CE transactions. CRISIL's endeavour would be to arrive at such ratings and monitor the same with high level of analytical rigour, as is done in case of any other rating exercise. However, it may be noted that the ability to do so will be subject to receipt of good quality, and frequent information about the issuer. In case of absence of such information, unsupported ratings will be arrived at on a best effort basis, and ability to monitor the same will also be limited.

## Assessment of adequacy of 'CE' structures

The financial position of the third party providing the credit enhancement, and the impact of extending payment support to the issuer, are assessed to determine the ability of the structure to ensure full debt repayment. Several situations, including stress scenarios, are considered.

For instance, in the case of corporate guarantees, the impact of the guaranteed liabilities on the guarantor's credit profile, which, in turn, determines the supported rating of the guaranteed instrument, is considered. Scenarios corresponding to various stress levels on cash flows are also considered.

CRISIL also scrutinises contractual agreements underpinning the structure to assess the legal risks involved. Legal opinions are sought, wherever required, to confirm the adequacy of the legal provisions in the transaction documents.

For instance, in the case of corporate guarantees, their unconditionality, irrevocability, and enforceability are assessed, among other considerations, while rating a guaranteed instrument. Timelines for guarantee invocation and subsequent payment by the guarantor are viewed, with respect to the typical response time of the guarantor to assess the adequacy of the timelines to ensure timely debt servicing.

## Conclusion

CRISIL applies the 'SO' suffix to securitisation or asset-backed transactions, backed by credit enhancement structures that lead to the instrument being bankruptcy remote from the issuer/originator. On the other hand, the 'CE' suffix is applied to the ratings of instruments, backed by explicit credit enhancements that are external, or from third parties / parents / group companies, but the instrument is not bankruptcy remote from the issuer/originator. The 'CE' suffix is applied only if the supported rating after factoring the explicit credit enhancement structure is higher than the unsupported rating without factoring the structure, thereby implying a credit uplift provided by the structure. The adequacy of the 'CE' structure to ensure full and timely debt repayment is evaluated under various scenarios, including stress scenarios.

## About CRISIL Limited

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better. It is India's foremost provider of ratings, data, research, analytics and solutions, with a strong track record of growth, culture of innovation and global footprint.

It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers.

It is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

## About CRISIL Ratings

CRISIL Ratings is part of CRISIL Limited ("CRISIL"). We pioneered the concept of credit rating in India in 1987. CRISIL is registered in India as a credit rating agency with the Securities and Exchange Board of India ("SEBI"). With a tradition of independence, analytical rigour and innovation, CRISIL sets the standards in the credit rating business. We rate the entire range of debt instruments, such as, bank loans, certificates of deposit, commercial paper, non-convertible / convertible / partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 24,500 large and mid-scale corporates and financial institutions. CRISIL has also instituted several innovations in India in the rating business, including rating municipal bonds, partially guaranteed instruments and microfinance institutions. We also pioneered a globally unique rating service for Micro, Small and Medium Enterprises (MSMEs) and significantly extended the accessibility to rating services to a wider market. Over 1,10,000 MSMEs have been rated by us.

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