Probability of Default benchmarks for Long-term ratings
(As prescribed by SEBI for Credit Rating Agencies)

Securities and Exchange Board of India (SEBI), as per its circular SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70 dated June 13, 2019 (Circular), has prescribed that credit rating agencies (CRAs) should disclose standardized and uniform probability of default (PD) benchmarks for each rating category on their website, for one-year, two-year and three-year cumulative default rates, both for short-run and long-run. The PD benchmarks as prescribed by SEBI are only for long-term ratings on a consolidated basis for all financial instruments based on methodology prescribed in the Circular.

CRISIL wishes to highlight that credit ratings are opinion on default risks: higher the rating, lower should be the probability of default. This inverse correlation between credit rating and default probability is desirable of rating agencies and is called the test of ordinality. Default risks are also linked to the level of activity in the economy - default rates tend to peak in the period of economic slowdown and come down in times to growth, and hence may vary year on year, and over a period of time or across regions.

It is, therefore, pertinent to note that past as well as future performance of ratings for a given period may be different from the standardised and uniform PD benchmarks and CRISIL disclaims any liability for variance in performance of ratings, if any, from these benchmarks.

In this context, it may be underscored that relative assessment across CRAs is another way to discern the performance of a CRA vis-à-vis other CRAs.

The standardised and uniform PD benchmarks are given below:

Rating Category	Long-run benchmarks		
	1-year	2-year	3-year
AAA	0%	0%	1.0%
AA	0%	2.0%	2.0%
A	3.0%	3.5%	5.4%
BBB	3.3%	6.0%	10.5%
BB	8.7%	14.4%	19.6%
B	17.2%	33.1%	45.3%
C	100.0%	100.0%	100.0%

Rating Category	Short-run benchmarks		
	1-year	2-year	3-year
AAA	0%	0%	1.0%
AA	0%	2.0%	2.4%
A	3.0%	4.3%	6.5%
BBB	3.9%	7.1%	12.1%
BB	10.5%	17.1%	23.2%
B	19.6%	35.3%	48.2%
C	100.0%	100.0%	100.0%

Notes:

1. The above PD benchmarks may be re-indexed from time to time by SEBI.
2. The disclosure of PD benchmarks ("Disclosure") is in line with Clause III. A. of the Circular. These PD benchmarks are standardized by SEBI for all the Credit Rating Agencies (CRAs) in India and the objective of the Disclosure is "to enable investors to discern the performance of a CRA vis-à-vis a standardised PD benchmark scale" as stated in the Circular.
3. CRISIL expressly disclaims any liability to any users of ratings from the use of the PD benchmarks and/or its ratings as,
   a. A credit rating is an opinion on the likelihood of a rated debt obligation being repaid in full and on time. It is not a recommendation to buy, hold, or sell a debt instrument.
   b. The standardised PD benchmarks as disclosed above do not reflect CRISIL Ratings actual or likely default rates for the various rating categories.
   c. The Disclosure is not intended to be a basis for any investment decision within the meaning of any law or regulation.