GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:3606
ANSWERED ON:16.04.2010
RATING OF LOAN ASSETS
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Will the Minister of FINANCE be pleased to state:

(a) whether the internal risk-based model for banks' capital adequacy under Basel-II jacks up the importance of Credit Rating Agencies (CRAs) as all loan assets have to be compulsorily rated; and

(b) if so, the details thereof?

Answer

The Minister of State in the Ministry of Finance (Shri Namo Narain Meena)

(a) & (b): All commercial banks in India (excluding Local Area Banks and Regional Rural Banks) have migrated by March 31, 2009 to Basel II framework in terms of Reserve Bank of India's extant guidelines. The Basel II framework offers three distinct options for computing capital requirement for credit risk, which are based on increasing risk sensitivity and allow banks to select an approach that is most appropriate to the stage of development of bank's operations. The options available for computing capital for credit risk are Standardised Approach, Foundation Internal Rating Based Approach (FIRB) and Advanced Internal Rating Based Approach (AIRB).

Keeping in view Reserve Bank's goal to have consistency and harmony with international standards, it has been decided that all commercial banks in India should adopt Standardised Approach (SA) for credit risk. Under the SA, the rating assigned by the eligible external credit rating agencies will largely support the measure of credit risk. As expected under the Basel II Framework, the Reserve Bank has accredited the external credit rating agencies that meet the eligibility criteria specified under the Framework. Banks have been advised to rely upon the ratings assigned by the external credit rating agencies identified by Reserve Bank for assigning risk weights for capital adequacy purposes as per guidelines.