INDIAN BANKS' ASSOCIATION

Comments on BCBS Consultative document on Revisions to the Standardised Approach for Credit Risk

The Indian Banks' Association ("Association") thanks the Basel Committee on Banking Supervision (BCBS) for seeking inputs on the Consultative document on Revisions to the Standardised Approach. The proposals seek to improve upon the existing Standardised approach by:

- Reducing reliance on external credit ratings to avoid mechanistic reliance on external ratings and to better assess large externally unrated portfolios
- Increasing risk sensitivity
- Aligning, to the extent possible, the Standardised & IRB approaches.

It is worth noting that during the 2008 crisis, external ratings failed to adequately capture the risk of securitization exposures. However, external ratings for corporate exposures, where the risk assessment is typically based on a 'scorecard approach', performed reasonably well. Considering this aspect, the objective of reducing reliance on external ratings for the corporate and bank portfolio may not be justified. Further, any capital adequacy framework should ideally meet three key objectives – it must be risk sensitive, be forward looking to the extent possible and must not introduce pro-cyclicality in the risk assessment.

Further, we would like to highlight the following issues with respect to the proposed consultative document. These have been bucketed into three categories – conceptual, calibration and definitional. Further, detailed comments (against each question in the consultative document) have been provided in Annexure 1.

Conceptual issues

- The traditionally accepted approach to credit risk assessment includes an evaluation of factors such as financials, industry, management, business, country of incorporation etc. in case of corporate entities, and the CAMEL[1] parameters in case of banks. The 2 'risk-driver' based approach (for the bank and corporate portfolios) is believed to be inadequate in capturing all risks, not accounting for factors like management/industry risk and jurisdictional differences. Moreover, these 2 drivers by themselves may not reflect even the overall financial risk of the entities.

[1] Capital adequacy, Asset quality, Management, Earnings stability and Liquidity

- Not considering these factors may lead to an incomplete recognition of risk of the exposure and assigning RWs based on the proposed framework may provide 'false comfort' with respect to riskiness of the portfolio.
- This particularly holds for emerging economies, wherein imperfections exist in the markets with respect to accounting & disclosures standards. Further, a number of large corporate groups are 'owner-driven', with risk appetite and strategy primarily based on the owner of the group, as well as the consolidated financial standing and business strengths of such corporate groups (conglomerates).
- The use of measures like 'revenue' and 'net NPA' reflect the position of the counterparty at a given point-in-time and results in pro-cyclical capital adequacy assessment. On the other hand, inadequate consideration for factors such as industry risk, management risk, facility characteristics and tenor risk etc. limits risk-sensitivity.
- As a result, the proposed framework is likely to be less risk-sensitive than the existing framework as it does not capture the effects of all risk factors, especially in the context of emerging markets.

- The risk drivers do not reflect facility structure, and hence do not consider the loss given default (LGD) and tenor risk. The existing Standardised framework is based on external ratings that are typically issue specific and capture transaction characteristics.

Calibration issues

Given the proposed RW structure, capital requirements are expected to increase significantly for higher quality exposures on account of the floor RWs (the floor RW increases 1.5x and 3x for the bank and corporate portfolios respectively). Capital requirements may remain neutral, or even decrease for borrowers with a lower credit rating. Such a 'shift' in RWs will have significant implications for risk sensitivity and portfolio management, as outlined below:

- With the increase in capital requirements for higher quality borrowers, the return on capital for such exposures would reduce significantly. This could lead to either of the following consequences:

  - Movement of capital allocated away from such exposures towards borrowers with a lower credit rating in search of higher returns.
  - An increase in pricing to borrowers with a better credit rating in search of adequate return on the capital employed, which is typically unlikely and unsustainable in most markets**,** and would result in strangulating availability of credit to the economy, which could hurt most in the case of emerging economies.

  The increase in capital requirements for banks would also have adverse implications for trade finance portfolios that operate on thin margins.

- A majority of the largest corporate exposures would be assigned to the highest 'revenue' bucket. An analysis of the top 500 companies in the order of revenue in India shows an increase in the risk weightage more than 50% for almost all the borrowers with external credit ratings of 'AAA', 'AA' and 'A' which attract RW of 20%, 30% and 50% in the existing regime. Consequently, the range of applicable RWs would be narrow (60% to 90%), as opposed to existing approach where the potential range of RWs is much wider. Further, given the RW of 300% for exposures with negative equity, 'cliff effects' may be observed as exposures move from the highest 'leverage' bucket into the 300% RW bucket, or back.
- The aforementioned implications for risk sensitivity and portfolio management would be particularly pertinent for banks migrating to advanced approach, since the BCBS consultative document on capital floors proposes to use the revised Standardized approach when calibrating the floor capital requirement.
- In general, under the IRB approach, capital requirements are observed to be lower for better rated entities and higher for lower rated entities when compared to the existing Standardised approach, e.g., An 'AAA' rated corporate borrower, risk weighted at 20% under the existing Standardised approach would receive a ~15% RW using the IRB formula.[2] Similarly, a 'B' rated corporate borrower, risk weighted a 150% under the existing Standardised approach, would receive a ~200% RW using the IRB formula. The increase in capital requirements for higher quality borrowers between the advanced approaches and the revised Standardised approach is sharper.

Definitional issues

- Bank portfolio : Clarifications are required with respect to the definition of 'Bank' exposures. The existing definition would exclude financial institutions. Classification of the same as 'Corporate' would attract a high RW on account of high 'leverage' of such counterparties. Further, "revenue" in the context of financial institutions would also need to defined. Moreover, whether the two factor look up table would equally apply to trading companies which typically have higher leverage needs to be examined.

- Corporate portfolio : Detailed operating guidelines may be required for identification of Specialized Lending exposures and 'Start-ups' to ensure consistent interpretation and application across jurisdictions.

The Association believes that the proposed framework might be used to complement the existing approach i.e. the capital adequacy assessment be based on external ratings, while risk-drivers be employed to determine the applicable risk weights for entities that are externally unrated.

[2] Using CRISIL 1-year default rates over a 10 year period, an LGD of 45% and an average maturity of 2.5 years. Since the observed default rate of CRISIL AAA borrowers was 0.00%, a floor PD of 0.03% has been employed. *(Data source: CRISIL Annual Default and Ratings Transition Study – 2013)*

Annexure 1

Exposures to banks

Q1. What are respondents' views on the selection of the capital adequacy ratio? In particular, is the CET1 ratio superior to the Tier 1 ratio or the Leverage ratio? Do respondents agree that it is necessary to require calculations in accordance with Basel III in order to ensure a consistent implementation?

The CET1 ratio may be a reasonable estimator of credit risk with reference to bank counterparties. The Association concurs with the view that it is necessary to standardize calculations in accordance with Basel III for ensuring a consistent implementation. However, the following additional points may be noted in this regard:

- Different banks report capital adequacy ratios based on different approaches i.e. Standardised approach, the IRB approach etc. Further, some banks also report capital adequacy based on multiple approaches. Clarifications may be required with respect to capital adequacy ratio for final RW application.
- Treatment of exposures in countries that have not adopted Basel standards presents further challenges. Consolidation of data for such banks would be operationally challenging and the RW of 300% in such a scenario, too punitive.
- The AT-I instruments are pseudo – equity in nature, i.e. equity like features but without any management construct. In the event of absorbing loss, there will not be any distinction between AT-I instrument and common equity.

As a result, the Association believes that the Tier 1 ratio may be employed instead of the CET1 ratio. The Tier 1 ratio adequately reflects bank solvency, particularly after the enhancements made under the Basel III framework. The use of this measure would ensure wider applicability.

Given the absence of risk sensitivity in leverage ratio, this ratio is inferior to both CET1 and Tier 1 in this context.

Q2. Do respondents believe the net NPA ratio is an effective measure for distinguishing a bank exposure's credit risk? What alternative asset quality measure, if any, should be considered by the Committee?

The net NPA ratio is a lagged post event indicator of credit risk and its use may increase pro-cyclicality in the assessment of capital requirements. As a result, this risk driver may not be appropriate when determining the risk weight of the counterparty.

Further, net NPA by itself serves only a limited purpose, as other risks of the Bank have not been captured.

Q3. Do respondents have views on the proposed treatment for short-term interbank claims?

The Association concurs with the view that short-term interbank claims be accorded a lower RW. However, this treatment may be extended to all exposures and not just be limited to exposures where the RW is below 100%. Further, the Committee may consider increasing the applicability of this treatment to claims with an original maturity of six months or lower (instead of the current proposed threshold of three months). Additionally, operational guidelines / objective criteria may need to be outlined for identifying the exposures which are 'expected to be rolled over'.

Q4. Do respondents have suggestions on how to address these concerns on the treatment of exposures to banks? In particular, do respondents have views on how to treat exposures to banks not subject to Basel III in a consistent and risk-sensitive manner?

The Association believes that the Tier 1 ratio may be employed instead of the CET1 ratio. The Tier 1 ratio adequately reflects bank solvency, particularly after the enhancements made under the Basel III framework. Further, the use of this measure ensures wider applicability.

In respect of banks that are not yet under Basel III, their AT1 and consequently Tier I capital may not be in accordance with Basel III. For such banks, the committee could look at the overall Basel II CRAR being referenced to for the purpose with appropriate calibrations.

Exposures to corporates

Q5. Do respondents have views on the selection of risk drivers and their definition, in particular as regards leverage and the incorporation of off-balance sheet exposures within the ratio? Would other risk drivers better reflect the credit risk of corporate exposures?

The traditionally accepted approach to credit risk assessment includes an evaluation of factors such as financials, industry, management, business, country of incorporation etc. in case of corporate entities. The two-'risk-driver' based approach (for the bank and corporate portfolios) is believed to be inadequate in capturing all risks, not accounting for factors like management and industry risk.

With reference to the leverage ratio, the Association concurs with the definition of the measure, in particular, the inclusion of off-balance sheet assets.

The following points may be further noted in this regard:

- A "one-size-fits-all" approach may not be suitable considering the diversity across jurisdictions and industries.

- With reference to emerging economies, imperfections exist in the markets with respect to accounting and disclosures standards, making the blanket application of the two-factor method less effective.
- Further, a number of large corporate groups are 'owner-driven' wherein the risk appetite and strategy is primarily based on the owner of the group. This key risk driver does not get captured in the two-factor approach (Further a linkage to an absolute revenue number, could result in requirement of periodic calibration and thereby operational and cost of implementation issues).

- The proposed framework is expected to increase capital requirements. Further, given the proposed RW structure, the increase in capital requirements is expected to be greater for higher quality exposures (the floor RW increases 3x). Capital requirements may remain neutral, or even decrease for borrowers with a lower credit rating.

- With reference to the leverage ratio, the first bucket, ranging from a leverage of 1x to 3x appears to be too large, and fails to differentiate between firms with little/no leverage and those with relatively higher leverage. With reference to the 'revenue' measure, the framework penalizes smaller firms, which may otherwise be of a high credit quality, by stipulating higher RWs for lower revenues.

- Further, the risk drivers do not reflect facility structure, and hence do not consider the loss given default (LGD) or tenor risk. The existing Standardised framework is based on external ratings that are typically issue specific and capture transaction characteristics. Preferential treatment may be provided given certain security structures (say, fully secured by plant and machinery) or short-term claims, in line with the approach for short-term claims on bank counterparties.

If the objective is to completely eliminate usage of external ratings then the Association feels that while the committee is right in its attempt of keeping the risk drivers simple, it believes that the two suggested risk drivers alone may not be sufficient to bring risk differentiation across borrowers. At a minimum some measure of profitability such as Interest coverage ratio and EBITDA could be considered to get meaningful differentiation across the borrowers.

Deterioration in the performance of a borrower would take a really long time to reflect in the absolute revenue and leverage measure. In some cases the deterioration in the risk profile may not impact the revenue and leverage risk driver at all. This may make the RWs inconsistent with the risk profile of the borrowers.

If the objective is to reduce reliance on external ratings and not eliminate its usage, then the Association feels that the additional risk drivers can be used to supplement the external rating to arrive at the risk weight. The external ratings have proved to have good risk differentiation in markets like India and capture a multitude of risk factors impacting the risk profile which cannot be captured in two simplistic risk drivers alone.

Q6. Do respondents have views on the appropriateness of the proposed treatment, especially with regard to SMEs? And about the more lenient treatment for start-up companies?

The observations outlined in Q5 with respect to the use of the two risk-driver framework may be referenced. Further, the framework penalizes smaller firms, which may otherwise be of a high credit quality, by stipulating higher RWs for lower revenues.

The Association concurs with the approach to provide more lenient treatment for start-up companies. However, a 'start-up' would need to be clearly defined to ensure consistent application of the proposed framework.

With regards to the proposed treatment of SME i.e. risk weight based on lookup table of revenue and leverage, the Association believes that the risk weights are on the higher side. Given the granularity of the SME portfolio and the role of these entities in fuelling the growth engine of economy, a preferential risk weight should be assigned to these exposures. A large of exposures to these SMEs is currently classified as regulatory retail (based on turnover criteria and exposure criteria) under the Standardised approach and attracts a lower risk weight. Under the IRB approach also SMEs receive a preferential risk weight based on the lower correlation factor.

Q7. Do respondents think that the risk sensitivity of the proposal can be further increased without introducing excessive complexity?

Retaining the existing Standardised approach, while applying the proposed 'risk-driver' based framework only to unrated exposures, may be a more suitable approach. This would reduce operational challenges related to procuring data for all exposures, while also addressing the issue of large externally 'unrated' portfolios. In the event that this alternative approach is adopted, a scoreboard-like structure is suggested that addresses some of the critical shortcomings of the proposed two-risk driver framework. The outcome of this approach may be used to adjust upwards or downwards the current standardized approach risk weights for unrated exposures.

Q8. Do respondents agree that introducing the specialized lending category enhances the risk sensitivity of the standardised approach and its alignment with IRB?

Introduction of the specialized lending category increases alignment with the IRB approach. However, the increase in risk-sensitivity on account of this change is limited since range of RWs that may be applied is narrow and limited (RW of 120%, 130% or 300% in case of Project Finance and 150% or 300% in case of CRE).

Alternatively, the supervisory slotting criterion for specialized lending exposures proposed under the IRB approach is a better option, since it provides four slots of risk weights.

	Strong	Good	Satisfactory	Weak
RW	70%	90%	115%	250%

However, detailed operating guidelines would be required for identification of specialized lending exposures.

The Association feels that the proposed guidelines reduce the risk sensitivity as a flat risk weight is getting applied for SL exposures. The current approach is more risk sensitive as the external rating is based on the assessment of all relevant risk factors for such exposures.

Retail portfolio

Q9. Can respondents suggest, and provide evidence on, how to increase the risk sensitivity of the regulatory retail exposures treatment, either by differentiating certain product subcategories for which a specific risk weight may be appropriate; or by suggesting simple risk drivers that could be used to assess the risk of all retail exposures?

The DSC ratio, estimated at the time of loan origination, may be employed as a risk driver for retail exposures. A key criticism of such a DSC ratio is that its efficacy would reduce over the life of the loan, particularly so for products of longer maturity e.g. real estate loans. However, given the relatively shorter maturities of other retail loans, the estimate would perform reasonably well as a risk driver. Additionally, the nature of product (secured vs. unsecured) may also be considered when determining suitable risk weights.

Thresholds may need to be calibrated based on country-specific dynamics, accounting for factors such as inflation, income growth, demographic profile & presence of effective credit bureaus and their implications for debt serviceability.

Claims secured by real estate

Q10. Do respondents agree that LTV and/or DSC ratios (as defined in Annex 1 paragraphs 40 and 41) have sufficient predictive power of loan default and/or loss incurred for exposures secured on residential real estate?

The LTV and the DSC ratio may be reasonable predictors of loan default/loss incurred for residential real estate exposures. However, the use of these risk drivers presents challenges that would need to be addressed:

- LTV as a risk driver: housing market dynamics differ for different countries. As a result, LTV thresholds proposed may not be applicable to all jurisdictions.
- Debt Service Coverage (DSC) ratio as a risk driver: Estimation of the ratio is a challenge in cases where a loan has been jointly availed by two individuals.

Thresholds may need to be calibrated based on country-specific dynamics, accounting for factors such as inflation, income growth, demographic profile & presence of effective credit bureaus and their implications for debt serviceability.

Q11. Do respondents have views about the measurement of the LTV and DSC ratios? (In particular, as regards keeping the value of the property constant as measured at origination in the calculation of the LTV ratio; and not updating the DSC ratio over time.)

Measurement of LTV

Keeping the value of property constant measured at origination in the calculation of LTV is a prudent assumption and reduces operational complexity. However, given the tenor of the exposure, the value of the underlying may change significantly and determining the LTV may be too conservative. Alternatively, the ratio may be estimated by adjusting the denominator for an index-based market value.

However, for emerging economies like India, Real Estate index may not be available addressing following issues:

- Value of property, particularly in metro cities, various hugely from one area to another and it will be practically difficult to capture this issue in one Index or creating different indexes for different areas may also not be operationally viable.
- Valuation of two properties in a particular area may differ significantly due to difference in age.

Therefore, revaluation of property may be used to calculate LTV for better assessment of inherent risk. During revaluation, Valuers consider different factors like land value, age, rental value affecting the value of property.

Measurement of DSC ratio

While operational challenges do exist with the periodic updating of DSC, its efficacy as a risk driver is reduced, if it is not done, particularly in cases of real estate exposures, where the ratio may change materially over the life of the loan. However, the operational costs associated with periodic updation may outweigh its benefits.

Q12. Do respondents have views on whether the use of a fixed threshold for the DSC ratio is an appropriate way for differentiating risks and ensuring comparability across jurisdictions? If not, what reasonably simple alternatives or modifications would respondents propose while maintaining consistent outcomes?

For long tenor products (such as home loans) where the ratio can change significantly over the life of the loan, its efficacy as a risk driver may be limited. However, given the relatively shorter maturities of other retail loans, the estimate would perform reasonably well as a risk driver.

The Association does not believe in having a fixed threshold for DSC ratio especially for loans to self-employed, given that in India for small businesses the ratios computed from the financial statements don't reveal the health of the business, therefore we propose the committee should allow different jurisdictions to define the thresholds.

Q13. Do respondents propose any alternative/additional risk drivers for the Committee's consideration in order to improve the risk sensitivity in this approach without unduly increasing complexity?

Days Past Due (DPD) is a readily available metric and is observed to be a significant risk driver and differentiator. Increased RWs may be stipulated for exposures where DPD exceeds a pre-determined number of days. However, guidelines on computation of DPD may be required to ensure uniform application across jurisdictions.

The Association believes that for the retail exposures the committee should consider the nature of the collateral in arriving at the risk weights for e.g., Auto loans should have lower risk weight than unsecured loans. Under the current and the proposed guidelines all exposures irrespective of the collateral attract the same risk weight. Further the local regulators across different jurisdictions can also consider using industry standard bureau scores to increase risk sensitivity.

Q14. Which of the two options above is viewed as the most suitable for determining the risk-weight treatment for exposures secured on commercial real estate?

Recognition of the real estate collateral and consequent treatment of the exposure as a secured exposure is preferred, i.e. Option B. In order to ensure that the collateral mitigates risk, operational requirements may be stipulated.

Further, the range of RWs is similar between the two options - 60% to 130% under Option A as against, 75% to 120% under Option B. Interestingly, the lowest RW for an unsecured exposure (hence Option A) is lower than a secured exposure (hence Option B). The observations under Q10 with respect to use of LTV as a risk driver may also be referenced in this context.

Q15. What other options might prudently increase the risk sensitivity of the commercial real estate treatment without unduly increasing complexity?

Option B outlined for the CRE portfolio is a reasonably prudent approach to estimate the RW. The committee should consider the nature of commercial activity and/or strength of the lessee (based on lookup table as defined for corporates) for determining the risk weights.

Risk weight add-on for exposures with currency mismatch

Q16. Do respondents agree that a risk weight add-on should be applied to only retail exposures and exposures secured by residential real estate? What are other options for addressing this risk in a simple manner?

A currency mis-match, as defined in the consultative document, can exist in case of retail or non-retail exposures. Accordingly, a RW add-on may be considered for all counterparties.

Off-balance sheet exposures

Q17. Do respondents consider the categories for which a CCF is applied under the standardised approach to be adequately defined?

Yes. The Association considers categories for application of CCF under the Standardised approach to be adequately defined.

Q18. Do respondents agree that instruments allocated to each of the CCF categories share a similar probability of being drawn and that the probabilities implied by the CCFs are accurate? Please provide empirical support for your response.

The Association concurs with the allocation of different instruments to CCF categories. Further, the Association is also in favour of alignment of applicable CCFs for different facilities between the Standardised approach and the Foundation IRB approach.

However, the use of a single CCF (i.e. 75%) for undrawn facilities appears to be less risk-sensitive. Alternatively, the CCF under the Foundation IRB approach may be aligned with that prescribed under the Standardised approach.

Further, the Committee may consider retaining the 0% CCF on such unconditionally cancellable exposures may be retained.

The Association believes that for short tenor undrawn exposures the CCF of 75% are harsh as empirical studies are likely to demonstrate lower CCFs. Empirical experience has shown that for certain products like mortgages, commercial vehicle financing, credit cards etc. the CCFs are much lower than the proposed CCFs.

Past-due loans

Q19. What are respondents' views on the alternative treatments currently envisaged for past-due loans?

The following may be noted with respect to treatment for past-due loans:

- The RWs (capital requirements) applicable to the residual exposure (exposure net of provisions) reduces under the existing Standardised approach. The same holds true under the IRB approach as well. As a result, this approach may be retained.

- A significant increase in capital requirements is observed with respect to defaulted exposures when comparing the Standardised approach and the IRB approach. This increase is on account of the following difference in approaches:

    - **Standardised approach:**

        - Non-performing assets

            - 150% RW on the residual exposure where provisioning less than 20%
            - 100% RW on the residual exposure where provisioning is greater than or equal to 20% and lower than 50%
            - 50% RW on the residual exposure where provisioning is greater than or equal to 50% and lower than 100%
            - 0% RW on exposures where the provisioning equals 100%

        - Restructured accounts:

            - 150% on the residual exposure for exposures rated 'BB and below'
            - 125% on the residual exposure for other exposures.

    - IRB approach: capital requirement on a 'defaulted' exposure to equal LGD minus the Best Estimate of Expected Loss (BEEL). For Banks migrating to FIRB, BEEL equals the LGD estimate, e.g. consider a secured corporate exposure of ` 100 that turns non-performing.

    - Standardised approach: provide 15% (as per extant RBI guidelines) and RW the same at 150%, or a capital requirement of 13.5% (150%*9%)
    - FIRB: provide 15% (as per extant RBI guidelines) and, considering an LGD 60%, the impact on capital would be 45% (60% minus 15%)

    A significant increase in capital may be observed (45% as against 13.5%). This difference reduces as provisioning on an exposure increases.

Consequently, the approach under the Standardised and IRB approaches may be aligned, particularly for exposures where provisioning requirements are lower. Given the likely impact of this alignment, the same may be phased-in over a period of time.

The Association believes that the existing framework for risk weighting past due loans basis specific provision is appropriate, however the regulator should define past due loans criteria as different jurisdictions may have different past due definition for similar facilities.

Exposures to Multilateral Development Banks (MDBs)

Q20. Do respondents agree with the proposed treatment for MDBs?

Treatment of 'other' MDBs, as corporate exposures may need to be re-considered in light of the proposed risk driver approach. Since the structure of an MDB, akin to other financial institutions, would result in a high leverage ratio, a punitive capital requirement may be applicable. Alternately, all MDBs may be risk weighted based on external ratings.

Other assets

Q21. What exposures would be classified under "Other assets"? Is a 100% risk weight appropriate? (Please provide evidence where possible).

'Other assets' include assets such as leased assets and fixed assets, Stationery and Stamps, Claims not acknowledged as debt , as well as other exposures that cannot be classified into any of the other defined categories. In this regard, with reference to assets such as fixed assets, land and buildings, the periodic reduction in value of the asset is already charged to the P&L statement in the form of depreciation. The question that arises is where is the credit risk in such assets? At best there could be operational risks. As such, there exists no risk of unexpected losses from such assets over and above the depreciation charged to P&L (akin to expected losses). As a result, application of a 100% RW may not be suitable. Other exposures that cannot be classified under defined categories, but pose credit risk, may be risk weighted at 100%.

Eligible financial collateral

Q22. What are respondents' views on the above alternative ways to define eligible financial collateral?

Eliminating reference to external ratings may pose operational challenges, in line with those outlined in responses to previous questions. The proposed approach may be adopted in conjunction with the existing approach that is based on external ratings.

Q23. What are respondents' views on the recalibrated supervisory haircuts shown in Table 4? What are respondents' views on how to eliminate references to ratings from the supervisory haircuts table? What could be the implications of eliminating references to external ratings?

With references to elimination of external ratings, the proposed approach may pose operational challenges, in line with those outlined in responses to previous questions. The proposed approach may be adopted in conjunction with the existing approach that is based on external ratings.

However in line with our suggestion highlighted in point 5 above, since in markets like India external ratings have proved to have good risk differentiation, the haircut applicability based on external ratings could continue being applicable.

Eligible credit protection providers

Q24. What are respondents' views on the proposed corporate guarantor eligibility criteria?

No comments.

The Association concurs with the proposals. However, general comments with respect to use of external ratings may be referenced.
