Comments on Revisions to the Standardized Approach for Credit Risk

Q 1. 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 or the leverage ratio? Do respondent agree that it is necessary to require calculations in accordance with Basel III in order to ensure a consistent implementation.

- **Instead of one single global minimum CET1 ratio, BIS may fix higher CET1 ratios for risky countries based on sovereign rating**
- **CET1 ratio is superior to other ratios as the items included in the numerator (Common Equity Tier 1 capital) are more conservative than Tier 1 ratio. Leverage or leverage ratio are not a true representation risk bearing by the banks.**

Q 2. Do respondents believe the net NPA ratio is an effective measure for distinguishing a bank exposure's credit risk?. What alternative assets quality measure, if any, should be considered by the Committee?

- **Yes. As proposed in the lookup table in the annexure 1 – 4 is an effective measure for distinguishing a bank exposure's credit risk. However, higher risk weight may be prescribed for Banks with higher NPA i.e. the lookup table may include addition risk weight slabs with higher risk weight (net NPA Above 3% to less than 5%. 5% to less than 7% and above 7% etc.). Further, existing table may be revised instead of a liner increase of 15% or 20% increase on net NPA % in commentate with the higher risks for banks with higher NPAs.**

Q 3. Do respondents have views on the proposed treatment for short-term interbank claims?

- **Short term interbank claims may be considered on residual maturity basis instead of present contractual maturity.**

Q 4. 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 exposure to bank not subject to Basel III in a consistent and risk sensitive manner?

- **Country risk is highly relevant while considering the risk on banking exposures. Banks which are not subject to Basel III standards may engage Rating Agencies (ECAI) to calculate CET1 and Net NPA ratios. In absence of these, higher risk weight may be considered for the exposure**.

Q 5. 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 with the ratio? Would other risk drivers better reflect the credit risk of the corporate exposures?

Q 6. Do respondents think that the risk sensitivity of the proposal can be further increased without introducing excessive complexity?

- **It is true that Revenue and Leverage having a high level of explanatory power as it is the major operating and financial indicator of a business entity. However, risk assessment on an exposure to an entity based two factors "Revenue" and "Leverage" appears to be unrealistic though it is simple. Besides, both these indicators especially leverage can be manipulated by the borrower.**

- **Comparing revenues of across the industry is not realistic. Revenue of retail chain with an engineering, logistic operators, manufacture of electronics, pharmaceuticals is not realistic as risk involved in the business is widely varies. For example, a study by Central Bank reveals that 27% of exposure to Aviation, 23% of exposure of Textiles, 19.4% of exposure power and 15.6% of exposure to Iron & Steel are stressed assets of particular country.**

- **Assets and Liabilities structure are also vary across the industry to industry. A Trading entity can generate higher Revenue/Asset ratio than a manufacturing company. So comparing Revenue and leverage (Assets size in numerator) of for risk weight always give an advantage to trading company. The lookup table includes a matrix of Revenue, Industry, Profitability and Leverage for risk weight computation.**

- **A table proposed risk weight large corporates are finished as under:**

Amount in Euro Million

Company	Revenue	Profit	Margin	Total Assets	Equity	Leverage	Risk Weight
Arcelor	73,383	(902)	-1.2%	91,800	38,955	2.4	60%
LG Electronics	49,730	336	0.7%	31,222	10,768	2.9	60%
Bunge	52,908	432	0.8%	19,837	7,818	2.5	60%
BP	327,263	3,705	1.1%	263,153	160,003	1.6	60%
Johnson	688,027	15,109	2.2%	121,364	64,562	1.9	60%
Wal-Mart	440,858	14,830	3.4%	189,518	70,582	2.7	60%
Eni	148,058	6,325	4.3%	176,445	74,243	2.4	60%
BASF	68,796	4,771	6.9%	66,050	25,625	2.6	60%
Hyundai Motor	75,180	6,189	8.2%	124,007	48,287	2.6	60%
Exxon Mobile	364,784	30,101	8.3%	323,491	161,424	2.0	60%
Chevron Corporation	185,577	17,809	9.6%	246,234	143,494	1.7	60%
McDonalds	25,399	4,404	17.3%	31,730	11,897	2.7	60%

Pfizer	45,914	8,455	18.4%	156,680	65,996	2.4	60%
Novartis	49,644	9,515	19.2%	116,058	65,501	1.8	60%
Infosys	7,635	1,621	21.2%	8,814	7,343	1.2	60%
Apple	169,195	36,570	21.6%	214,590	103,248	2.1	60%
Micro Soft	80,373	20,432	25.4%	159,559	83,104	1.9	60%
Hyundai Engineering	14,645	354	2.4%	15,532	4,585	3.4	70%
A T & T	122,593	5,761	4.7%	271,043	79,944	3.4	70%
Pepsi	61,722	6,028	9.8%	65,263	16,270	4.0	70%
Uniliver	54,249	6,177	11.4%	53,791	15,289	3.5	70%
Coca Cola	42,576	6,570	15.4%	85,176	28,064	3.0	70%
Hewlett Packed	10,602	4,640	43.8%	95,527	24,742	3.9	70%
Sony Electronics	69,810	(1,153)	-1.7%	137,815	20,296	6.8	90%
Amazon	82,367	(223)	-0.3%	50,450	9,942	5.1	90%
Carrefour	74,757	1,260	1.7%	46,574	9,273	5.0	90%

General Motors	144,328	3,655	2.5%	164,458	32,819	5.0	90%
Jacob Engineering	11,750	304	2.6%	7,825	928	8.4	90%
UPS	53,900	2,806	5.2%	32,832	1,982	16.6	90%
Galxo	33,203	3,977	12.0%	58,669	6,152	9.5	90%
IBM	85,889	11,128	13.0%	108,788	10,985	9.9	90%

- **The above table indicates that some of the best companies attract higher risk weight compares low rated companies.**

- **Considering all type of exposure to individuals as retail exposure would not be realistic and as major portion of retail exposure are backed with assessment of repaying capacity of borrower and formal norms approved by individual banks/central banks. Hence only that exposure to individuals which are granted for business purpose against cash flows needs to be considered to classify as retail. All others may be considered 100% risk weight.**

Q 7. Do respondents have views on the appropriateness of the proposed treatment especially with regard to SMEs? And about more lenient treatment for startup companies.

- **Lenient treatment may be given for startup companies for one/two years.**

Q.8 . Do respondents agree that introduction the specialized lending category enhances the risk sensitivity of the standardized approach and its alignment with IRB.

- **Yes. Financing to SPV and Non-Banking Financing Companies (especially companies engaged in vehicle financing) may also be added to the category.**

Q.9. Can respondents suggest and provide evidence on how to increase risk sensitivity of the regulatory retail exposure treatment either by differencing certain product subcategories or 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 exposure?

- **Personal loans may be included higher risk weight category. Study conducted by Central Bank of India indicate personal loans accounts highest NPA rate at 7.7% followed by housing loans 5.5% (Source RBI report Re-emerging Stress in the Asset Quality of Indian Banks: Macro-Financial Linkages Feb.2014)**

Q.10. Do respondents agree that LTV and or DSC ratios (as defined in Annexure 1 Paragraphs 40 and 41) having sufficient predictive power of loan default and or loss incurred for exposure secured on residential real estate.

- **Yes. .**

Q 11. Do respondents have views about the measure of the LTV and DSC ratio? (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)?

- **Of which, LTV having higher predictive power of loan default. Debt Service coverage ratio is unpredictable to a large extent as real estate loans are long term in nature.**

Q.12. Do respondents have views on whether the use of a fixed threshold for the DSC ratio is an appropriate way for differentiating risk and ensuring comparability across jurisdiction? If not what reasonably simple alternatives or modifications would respondents propose while maintaining consistent outcomes?

- **No comments**

Q13. Do respondent propose any alternative/additional risk drivers for the Committees' consideration in order to improve the risk sensitivity in this approach without duly increasing complexity.

- **Exposure may also be considered for risk weightage (Higher amount of exposure attract higher risk weight).**

Q.14. Which of the two options above is viewed as the most suitable for determining the risk weight treatment for exposure secured on commercial real estate.

- **Risk weight based on LTV appears to be more suitable. However, valuation of property should be based strict conditions.**

Q.15. what other options might prudently increase the risk sensitivity of the commercial real estate treatment without unduly increasing the complexity.

- **No comments.**

Q.16. Do respondent agree that a risk weight add-on should be applied to only retail exposure and exposures secured by residential real estate? What are other options for addressing this risk in simple manner?

- **Risk weight add-on should be applied all exposure with currency mismatch. Borrower may enter hedging contract with lending bank.**

Q.17. Do respondents consider the categories for which a CCF is applied under the standardized approach to be adequately defined.

- **Yes. CCF may be fixed unutilized portion of OD and undrawn balance under credit facilities.**

Q.18 Do respondents agree that instruments allocated 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.

- **No comments.**

Q.19. What are respondent's views on the alternative treatments currently envisaged for past due loans?

- **Add on to applicable risk weight may be proposed. Un-provided portion of past dues more than 2 years may be fully deducted from bank's equity. No CRM on collaterals for past dues over 5 years.**

Q.20. Do respondents agree with the proposed treatment of MDBS?

- **No comments.**

Q.21 What exposure would be classified under "Other Assets" . Is a 100% risk weight appropriate? (Please provide evidence where possible).

- **Lower risk weight may be considered for tangle assets(land & building held by Banks for their operational purpose).**

Q.22. What respondents' view on the above alternative ways to define eligible financials collateral.

- **No comments.**

Q.24 What are respondents' views on the recalibrated supervisory haircuts shown Table 4. What are respondents' views on how to eliminate reference to rating from the supervisory haircuts table? We could be the implication of eliminating reference to external Rating.

- **No comments.**

Q.25. What are respondents' views on the proposed corporate guarantor eligibility criteria?.

- No comments.