

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF ECONOMIC AFFAIRS

LOK SABHA
UNSTARRED QUESTION NO. 4649
TO BE ANSWERED ON FRIDAY, 23RD MARCH, 2018/ CHAITRA 2, 1940 (SAKA)

WORKING OF PRIVATE CREDIT RATING AGENCIES

QUESTION

4649. SHRIMATI DARSHANA VIKRAM JARDOSH:

Will the Minister of Finance be pleased to state:

- (a): the action taken by his Ministry to monitor/keep a vigil on working of Private Credit Rating agencies, as based on credit ratings, banks/financial institutions are lending money to corporate and if so, the details thereof;
- (b): whether the Government has approached or propose to approach Securities and Exchange Board of India (SEBI)/Reserve Bank of India (RBI) on the above said matter; and
- (c): if so, the details thereof and if not, the reasons therefor?

ANSWER

**MINISTER OF STATE IN THE MINISTRY OF FINANCE
(SHRI SHIV PRATAP SHUKLA)**

(a) to (c): Securities and Exchange Board of India (SEBI) regulates the Credit Rating Agencies (CRAs) in India and has issued Regulations and circulars/guidelines pertaining to their activities which, inter-alia, prescribe various transparency and disclosure norms for enhancing the governance, accountability and functioning of CRAs to impart higher credibility to the processes and procedures associated with such credit ratings and to address issues of conflict of interest. Compliance of CRAs with the SEBI Regulations / circulars / guidelines is checked by the CRA's internal auditors every half – year, and also by SEBI, during its periodic inspections.

Further, CRAs which are recognized and regulated by SEBI are also accredited by Reserve Bank of India (RBI) for the specific purpose of rating bank loans and other bank facilities and RBI issues instructions to such accredited CRAs from time to time in respect of the same. Banks in India are presently under Standardised Approach (SA) for capital computation under Basel framework. Under this approach, banks use ratings assigned by accredited CRAs for assigning risk weights for computation of their credit risk capital for corporate exposures (fund based and non-fund based). These bank loan ratings are issued by CRAs upon solicitation i.e., CRAs rate clients based on the request received from the client. CRAs do not issue 'unsolicited' ratings. A borrower can also choose to remain unrated and for such cases RBI prescribes appropriate risk weight to be taken for capital computation. There is no mandatory requirement prescribed by RBI to obtain external credit rating in a borrower account.
