Item No. 14

New Credit Rating System for Infra Projects

1. The Budget Speech 2016-17 under Para 84 (iii), mentioned *"that a new **Credit Rating System** (CRS) for "**Infrastructure Projects**" based on emphasis to in-built Credit Enhancement Structures would be developed, as against the current standard of "Risk" perception which do not price the loans properly"*.

2. The Department of Economic Affairs (DEA) engaged Credit Rating Agencies from ICRA, CARE, CRISIL & India Ratings and Regulators from RBI, SEBI, IRDAI & PFRDA formulised a New CRS specific to "Infrastructure Bonds" issued by Infrastructure Projects. In addition, it was decided to develop the New CRS based on **Expected Loss Approach (EL)**, taking into consideration the "**Probability of Default**" approach and **additional Risk Assessment** for informed decisions.

3. The new CRS based on EL Approach provides a seven-point scale from "INFRA EL1" to "INFRA EL7" where instrument rated 'EL1' would have the lowest 'expected loss' and "EL7" would have the highest 'expected loss'. The Prefix INFRA was included to ensure that this methodology of evaluation applies specific to "Infrastructure Bonds" ONLY and should be applied with the existing Credit Rating based on Probability of Default approach.

4. IRDAI vide letter no: IRDA/INV/MOF/LR/001/2018-19 Dt. 1st May, 2018 conveyed its willingness to DEA, in respect of Bonds issued by Infrastructure Companies and would amend IRDAI (Investment) Regulations to the effect that the *"Infrastructure Bonds issued by Infrastructure Companies, having a rating of not less than "A" with an Expected Loss Rating of "EL1", would form part of "Approved Investments"*.

5. The matter was brought to the notice of the Authority in its 101st meeting held on 29th June, 2018 for information. A Circular is proposed to be issued to operationalise the new credit rating system.

Submission:

The draft circular on the subject, at Annexure - 1, is placed for approval of the Authority.