Default rule splits local ratings firms

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A new Reserve Bank of India (RBI) rule linking banks' assessment of borrower risk to the past track record of local rating firms has split the credit rating industry down the middle, with smaller players warning it could severely hurt their business.

The guideline, issued in April, and applicable from April 2027, effectively penalizes rating agencies whose default rates breach prescribed thresholds for various categories of ratings. This means that if a rating agency's default rates exceed RBI thresholds, lenders will have to treat borrowers rated by it as riskier than their assigned ratings suggest, leading to higher borrowing costs.

The guideline is applicable from April 2027. REUTERS

For instance, the RBI has set an acceptable default rate of 0.2% to 0.4% for 'BBB'-rated borrowers. If a rating agency's default rate exceeds 0.4%, banks will treat its 'BBB' ratings as 'BB'—one bucket lower. This means banks would need to set aside more

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