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Indian norms on PCA, capital are conservative, rule-based: SBI report

BY PTI | NOV 07, 2018, 06.05 PM IST

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Indian regulations on capital requirements, provisioning for sour assets and [prompt corrective action](#) (PCA) restricting regular activities by lenders are conservative and rule-based, [SBI's research](#) wing has said in a report.

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It did not call for any relook in the report which comes amid a heated debate between the Government and the RBI over such aspects.

"Whether a rule-based or a discretion-based approach works better remains a matter of empirical debate till date," it said, while commenting on the PCA and provisioning norms.

It compared the Indian PCA framework -- which was set in last year and has impacted 11 state-run lenders so far which have a high net non-performing-assets ratio, negative return on assets or lower capital buffers -- with the US' FDIC.

The report, released Monday, said being traditionally more conservative helps in withstanding crisis and early recognition of the problem leads to timely corrective measure.

"While it may be difficult to vouch for either a rule- based approach or a discretion-based approach to policy making, empirical research does suggest (Greg Mankiw) that discretion-based approach could also serve the desired purpose if the regulator has credibility," it said.



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Many countries, including India have also asked banks to maintain capital at levels higher than the Basel-III floor, it said, pointing out US has set the capital buffer level at 5 per cent and 6 per cent for systemically important entities.

RBI has asked banks to keep capital at 9 per cent.

It can be noted that the Government is pitching for a relaxation on this front, so that it becomes on par with global experience. The RBI has rejected the demand citing the higher incidence of NPAs in India.

On provisioning, the [SBI report](#) said Indian banks are required to set aside money in a rule-based fashion and end up holding more provisions, while in the US, the norms are purely discretion-based with banks having to provide as per estimated/judgemental/modelling credit losses associated with the loan portfolio.

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