

WORKSHOP ON INTERNAL RATING & BASEL - II

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A one – day training seminar-cum-workshop on “Designing & Mapping of Internal Rating & Basel-II” was held at the Learning Resource Centre, State Bank of Pakistan. The workshop was organized by PAF-Karachi Institute of Economics and Technology and Business Solutions.

Ms. Tahira Raza, Executive Vice President, National Bank of Pakistan facilitated the workshop. She said that credit rating is not a new phenomenon. S&P began rating the debt of corporate and government issuers more than 75 years ago. Since then, credit rating criteria and methodology have grown in sophistication and have kept pace with the introduction of new financial products.

In view of the significance and predictive power of a good rating system, which lies at the heart of effective credit risk management, rating has gained a lot of significance in the new system for assessing bank soundness developed by the Bank of International Settlements within the Basel II framework.

Mr. Raza maintained that developments within the rating industry are increasingly focusing on qualitative assessment factors.

Qualitative factors are adjuncts to quantitative factors, although they cannot be measured accurately, only subjective opinion can be formed. Nevertheless, without assessing qualitative factors, credit rating would not be complete. Banks need to realize that an undue reliance on quantitative measures alone is undesirable. Seeking to substitute experience and human judgment with quantitative inputs can have disastrous consequences.