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Mumbai

Finance Minister launches CRISIL Complexity Levels

The first set of CRISIL Complexity Levels was announced here today, at the launch of the service by Honourable Finance Minister Shri P Chidambaram. This service from CRISIL, a global first, classifies financial instruments and products into three categories: simple, complex, and highly complex. Aimed at improving transparency for investors in financial markets, the service is free and is being offered on a voluntary and pro-bono basis.

Speaking at the launch function, **the Finance Minister observed:** *“Innovation can be either good or bad, depending upon the context, the country, and the state of financial advancement in that country. It is wise to proceed cautiously in this behalf and say that in a developing country where financial markets and financial instruments are not very well and very widely understood, products should be as simple as possible.”*

In his budget speech for financial year 2008-09, the Finance Minister announced that the government will encourage development of a market-based system for classifying financial instruments based on their complexity and implicit risks.

Research by CRISIL reveals that many investors do not fully understand the intricacies and risk elements of all financial products in the market, especially the relatively new and complex ones such as capital protection-oriented mutual fund schemes and equity-linked debentures. A subsequent survey by CRISIL of retail and institutional investors, seeking their perspective on their ease of understanding various financial products, validated the research. The survey also revealed that the most vulnerable are the retail investors, who do not always have access to sophisticated market tools and information.

CRISIL Complexity Levels will reflect the ease of understanding and analysing the risk elements in various kinds of financial products. **Says CRISIL’s Managing Director and Chief Executive Officer, Ms. Roopa Kudva,** *“CRISIL Complexity Levels bring in much-needed transparency, by allowing investors to gauge the level of sophistication and due diligence required before investing in any financial product. With the introduction of this service, investors have a basis for making better-informed decisions.”*

To determine the complexity of a financial product, CRISIL uses four parameters: ease of calculation of payout and returns, clarity on timing of cash flows, number of counterparties involved in the transaction, and familiarity of market participants with the product. Complexity Levels will be updated every six months, to bring in new products, or change classifications of products.

Apart from the obvious benefits to investors, Complexity Levels will assist the market in various ways. They will be a useful tool for issuers and financial intermediaries in deciding the target segment for each product, and directing selling efforts accordingly. Thus, the problem of mis-selling can be addressed to a large extent. Complexity levels will also help regulators—over time—in determining the maximum complexity levels that are appropriate for a particular class of investors, such as pension funds or insurance companies.

Media Contact	Analytical Contacts	CRISIL Rating Desk
<p>Ramya Krishnan Anil Head, Market Development & Communications CRISIL Phone: +91-22-6758-8051 Mobile: +91 98203 42671 Facsimile: +91-22-6758-8088 Email: RamyaKA@crisil.com</p>	<p>Roopa Kudva Managing Director and Chief Executive Officer CRISIL Limited Tel: +91-22-6691 3062 E-mail: rkudva@crisil.com</p> <p>Raman Uberoi Senior Director, CRISIL Ratings Tel: +91-11-4250 5100 E-mail: ruberoi@crisil.com</p>	<p>Tel: +91-22-6691 3047/6691 3064 Email: CRISILratingdesk@crisil.com</p>

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