REUTERS

#BUSINESS NEWS

JULY 17, 2017 / 1:54 PM / A DAY AGO

New rules for banks may make crises worse, stability agency says

FRANKFURT (Reuters) - New accounting rules for banks risk exacerbating economic crises by making them reluctant to lend if the economy suddenly worsens, the European Union's financial stability watchdog said on Monday.

The European Systemic Risk Board gave a broadly positive assessment of the new International Financial Reporting Standards (IFRS 9), which are intended to make banks safer and avoid a new financial meltdown.

But it warned about the possible side effects of requiring banks to set aside money for expected credit losses (ECL), instead of after a loan has soured, if the economy suddenly contracts.

"In a scenario where many banks face a simultaneous increase in ECLs, (it) may result in a system-wide reduction in bank lending and de-leveraging pressures," the ESRB, chaired by European Central Bank President Mario Draghi, said in a report.

To mitigate this effect, the ESRB said, supervisors should be prepared to reduce other capital requirements for banks, such as the counter-cyclical capital buffer, in a downturn.

European banks expect new accounting rules due to take effect next year to eat into their capital and push up the amount of money they must set aside against bad loans by nearly a fifth, a survey by the EU's banking watchdog showed last week.

The new rules go into effect on Jan. 1, 2018, but heavy resistance by the banking lobby, particularly in Italy, has led European lawmakers to consider phasing them in over several years.

Reporting By Francesco Canepa, editing by Larry King

#BUSINESS NEWS