PRESS RELEASE

ESRB publishes a report on the financial stability implications of IFRS 9

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The European Systemic Risk Board (ESRB) has today published a report on the financial stability implications of IFRS 9. The ESRB's work on this topic was requested by the European Parliament in January 2016.

The ESRB concludes that IFRS 9 represents a major improvement in comparison with IAS 39 and is expected to bring substantial benefits from a financial stability perspective. Together with the greater clarity and certainty associated with its principles-based approach to the classification and measurement of financial instruments, the earlier and fuller recognition of impairment losses under the new expected credit losses model is expected to have positive effects on financial stability.

The ESRB report also contains policy considerations to prevent or mitigate any potential negative financial stability implications of IFRS 9. It identifies potential channels and developments through which IFRS 9 may interact with various players involved, regulation and the evolution of the aggregate economy. This interaction might influence the net impact of IFRS 9 on financial stability. These channels and developments include the usage of fair value and four areas related to the new expected credit loss model: modelling risk, lending behaviour, procyclicality, and considerations regarding less sophisticated banks.

These policy considerations should not be understood as formal ESRB warnings or recommendations, as defined by Article 16 of the ESRB Regulation[1] .

The ESRB report is accompanied by the ESRB Occasional Paper No 12 "Assessing the cyclical implications of IFRS 9 – a recursive model". This paper describes a model for assessing different approaches to the accounting of credit impairment losses, developed by Javier Suárez and Jorge Abad. In particular, it compares the impact of a crisis on banks assuming four such different approaches, including the current approach in IAS 39 (incurred losses) and the solutions adopted under IFRS 9 and in the United States respectively.

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[1] Regulation (EU) No 1092/2010 of the European Parliament and of the Council of 24 November 2010 on European Union macro-prudential oversight of the financial system and establishing a European Systemic Risk Board (OJ L 331, 15.12.2010, p. 1).

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