



EUROPEAN CENTRAL BANK
BANKING SUPERVISION

PRESS RELEASE

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ECB updates manual for Asset Quality Review of banks

- Now incorporates effect of new accounting standard IFRS 9
- Reflects increased importance of business models focused on investment services

ECB Banking Supervision has updated its manual for the Asset Quality Review (AQR) of euro area banks. The manual contains the methodology for assessing the valuations of bank assets from a prudential perspective. The update incorporates the implications of the entry into force of the new accounting standard IFRS 9. In addition, the revised manual reflects the increased importance for ECB Banking Supervision of business models focused on investment services.

The revised manual takes into account the new approach set out in IFRS 9 to impairments of bank assets and classifying financial instruments. The assessment of provision levels on credit exposures follows the IFRS 9 staging model, which introduces the concept of “significant increase in credit risk since initial recognition” of a financial instrument, and the related newly introduced forward-looking approach to provisioning.

To better assess risks related to bank business models focused on investment services, the updated manual broadens the scope of the fair value exposures review. Beyond level 3 assets, the manual includes complex and illiquid level 2 assets in the scope of the review and introduces some new methodological elements.

The manual increases the transparency for both supervisors and investors. Using the same methodology for reviewing asset valuation for all institutions becoming subject to direct supervision by the ECB ensures a consistent approach across the euro area.

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