

# IFRS9 IMPLEMENTATION AND THE IMPACT ON CAPITAL REQUIREMENTS

**Mr. Fernando Vargas**

Accounting Experts Group Chair  
Basel Committee on Banking Supervision

FSI HIGH-LEVEL CONFERENCE

Madrid Spain  
18 and 19 October

# 1. A QUOTE AND SOME INITIAL COMMENTS



**“Accounting does not make corporate earnings or balance sheets more volatile. Accounting just increases the transparency of volatility in earnings.”**

*Diane Garnick*



## 2. CAPITAL REQUIREMENT IMPLICATIONS OF THE IFRS9 STANDARD, ITS IMPLEMENTATION AND IMPLEMENTATION CHALLENGES



- **The standard: conceptual issues:**
  - ECL and EL. Should they be different? Is there double counting?
  - Standardised approach (SA) and Internal ratings based approach (IRBA)
- **The accounting standard and/or its implementation**
  - Level playing field.
  - Cliff effects and increased volatility of capital
  - Procyclicality
- **Examples of Implementation Challenges**
  - Significant Increase in Credit Risk (SICR)
  - Multiple scenarios
  - Use of overlays

### 3. THE ROLE OF THE BASEL COMMITTEE ON BANKING SUPERVISION (BCBS)



- **The quality of implementation starts with banks and external auditors**
- **Basel issued guidance to set out its high-level expectations on a high quality implementation: G-CRAECL**
- **The AEG is studying the range of practice of banks' ECL implementation**
- **Assessing impacts: review of disclosures and impact analyses on regulatory capital**
- **Reviewing the current regulatory treatment of provisions under the IRBA and SA**
- **Considering possible policy options in response to the outcomes of the new accounting standards, which depends on banks' implementation**

## 4. THE BCBS AND ROBUST AUDIT STANDARDS



- **Guidelines for Audit Committees and internal auditors – BCBS guidelines, contribution to IOSCO paper**
- **The standard for the audit of estimates: ECL and banks (ISA 540)**
- **The Standards for professional scepticism**
- **Engagements with auditors: the auditors Global Public Policy Committee (GPPC) and their internal guidance**
- **The independence and governance of international audit standard setting: from industry self-regulation to public-private cooperation. The Monitoring Group Consultative Paper 2018.**

## 5. SOME QUESTIONS AND ANOTHER QUOTE.



- **Could high quality implementation by banks mitigate the impact on capital and reduce the need to apply prudential tools?**
- **What will be the impact of banks behavioral reaction to IFRS9 (term, pricing, business models) on the impact on capital?**
- **Should prudential regulation be used to reduce unlevel playing field concerns?**

**“Accounting is highly dependent on the exercise of judgment and is therefore more an art than a science... For accounting standards to do their job properly, we need management to own up to the facts – and auditors, regulators and investors to be vigilant.” (Hans Hoogervorst)**



GRACIAS

BANCO DE **ESPAÑA**  
Eurosistema