



Mario Draghi
Chair of the ESRB

Mr Roberto Gualtieri
Chair of the ECON Committee
European Parliament
60, rue Wiertz
B-1047 Brussels

29 February 2016
ESRB/2016/0104

Financial stability implications of the introduction of International Financial Reporting Standards 9 (IFRS 9) – request for analysis

Dear Mr Gualtieri,

Thank you very much for your letter and for giving me the opportunity to provide input on the effects of introducing IFRS 9 on financial stability.

While I appreciate that the ECON Committee wishes to receive a reaction from the European Systemic Risk Board (ESRB) at an early stage, I would like to signal that, although several member institutions of the ESRB have already taken a public stance on the issues you raise, the ESRB has not yet assessed the impact of the new accounting standards on the financial sector as a whole (not only on banks, but also on the insurance sector and the financial markets in general), owing to the poor quality of the data available and uncertainty as to whether – and if so how – capital regulation might change in the light of the new accounting rules.

To date, the ESRB's member institutions have provided support to the European Financial Reporting Advisory Group (EFRAG) on the technical elaboration of the new rules. In this respect, several ESRB member institutions have signalled that they support the timely implementation of IFRS 9 rules in the EU legal framework. However, they have also highlighted the need to conduct more medium-term investigations on the impact of the rules once the terms of their practical implementation are known. It should be noted that a timely endorsement of IFRS 9 is a necessary condition for entities to make significant progress on its implementation. This may, in turn, result in the more reliable data needed for this project.

Indeed, there are significant interplays between accounting and regulation, and the ESRB is interested in how these might impact on financial stability, for example in terms of pro-cyclicality of impairment and measurement requirements and the broader effects of fair value accounting. Therefore, at the next meeting of the ESRB's Steering Committee on 1 March 2016, I will ask it to open a new work stream on the subject with a view to ensuring that our work will be sufficiently detailed and apply to the financial system as a whole. To this end, I have already ensured that the ESRB's Advisory Scientific Committee will be actively involved.

Given the need to fully understand the macroprudential implications, consider factual developments, including progress made on implementation, and involve the ESRB membership

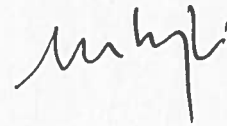
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in a necessarily ample discussion, the ESRB may therefore respond to the ECON Committee in the course of 2017.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'M. G. P.', written in a cursive style.