



EUROPEAN CENTRAL BANK
EUROSYSTEM

Mario DRAGHI

President

Ms Martina Anderson
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt, 18 February 2014

L/MD/14/105

Re: Your letter

Dear Ms Anderson,

Thank you for your letter, which was passed on to me by Ms Sharon Bowles, Chairwoman of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 23 January 2014.

I understand that you are referring to the existing approach under the International Financial Reporting Standards (IFRS), which only requires appropriate provisioning for incurred credit losses, i.e. credit losses that have already materialised. Expected credit losses however – losses which are likely to occur in the future but have not materialised yet – are generally not taken into account for accounting purposes under the current standards. Thus, banks act in accordance with these standards when recognising losses only once they materialise.

The financial crisis has shown that this approach increases the pro-cyclicality of accounting, *inter alia* by incentivising disorderly bank deleveraging in a downturn. Therefore, the G20 and other stakeholders, including the ECB, have repeatedly urged international accounting standards setters to develop a global standardised accounting model taking into account expected credit losses. The International Accounting Standards Board is expected to finalise its new model by the end of the second quarter of 2014.

The ECB supports the introduction of an expected credit loss accounting model. This is likely to lead to an earlier recognition of credit losses, in particular of those that have not materialised yet, and thus to less pro-cyclical accounting standards.

Yours sincerely,

[signed]

Mario Draghi