

First Conference on Financial Stability



BANCO DE PORTUGAL
EUROSYSTEM

Pedro Duarte Neves • Banco de Portugal Vice-Governor
Madrid, 24-25 May 2017

Thursday, 25 May 2017

Panel

Chair: **Javier Suárez** (CEMFI)

12:00-13:15

The countercyclical provisions of the Banco de España,
Jesús Saurina and **Carlos Trucharte** (Banco de España)

Discussants:

Richard Herring (The Wharton School)

Pedro Duarte Neves (Banco de Portugal)



- 1. Background: a timeline of events**
- 2. Some thoughts on countercyclical provisions, countercyclical capital buffers and IFRS 9**
- 3. Countercyclical provisions: an assessment**



1. A timeline of events

1992-1993

- Spanish banking crisis

2000

- Introduction of countercyclical provisions in Spain

2005

- Countercyclical provisions adapted to IAS

2008

- Lower limit was removed to enable release of provisions

2016

- End of countercyclical provisions
- Phase-in of countercyclical capital buffers

2018

- IFRS 9



2. Some thoughts on countercyclical provisions, CCB and IFRS 9

| | Spanish countercyclical provisions | Countercyclical capital buffer | IFRS 9 |
|-------------------------|--|---------------------------------|--|
| Type of tool | Provisioning (direct impact on P&L) | Capital buffer | Provisioning (direct impact on P&L) |
| Responsibility | Prudential authority | (Macro)prudential authority | Accountants/ auditors |
| Calibration | Fixed formula (bank level) | Time-varying (country level) | Time-varying (exposure level) |
| Rules versus discretion | Rules based | Guided judgment | Substantial discretion (own models) |



2. Some thoughts on countercyclical provisions, CCB and IFRS 9

| | Spanish countercyclical provisions | Countercyclical capital buffer | IFRS 9 |
|---|------------------------------------|--------------------------------|--------|
| Expected loss/forward looking approach | ✓ | X | ✓ |
| Avoid “too-little-too-late” | ✓ | ✓ | ✓ |
| Anchored on the aggregate evolution of credit (macro perspective) | ✓ | ✓ | X |
| Anchored on idiosyncratic risk | X | X | ✓ |



2. Some thoughts on countercyclical provisions, CCB and IFRS 9

| | Spanish countercyclical provisions | Countercyclical capital buffer | IFRS 9 |
|---------------------------------------|------------------------------------|--------------------------------|--------|
| Cyclicality: | | | |
| | | | |
| i) Expected behavior in booms | ↑ | ↑ | ? |
| | | | |
| ii) Expected behavior in busts | ↓ | ↓ | ↑ |
| | | | |
| Overall effect | countercyclical | countercyclical | ? |



On countercyclical provisions (what could not have been achieved...):

- Could we have expected countercyclical provisions to be a key element in limiting credit growth?
- Could we have expected countercyclical provisions to be a key element in affecting lending policies or credit standards?
- Could we have expected that countercyclical provisions would have worked alone without the use of other macro-prudential measures (LTV, LTI, DSTI, for instance)?



On countercyclical provisions (what has been achieved...):

- Were countercyclical provisions designed in the best possible way (calibration and definition of risk categories)?
(ex-post assessment)
- Did countercyclical provisions contribute to build a sizeable buffer in the Spanish banking sector?
- Were countercyclical provisions an innovative and relevant contribution to the international regulatory and supervisory community?

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