## Accepted Manuscript

Title: The impact of loan loss provisioning on bank capital requirements

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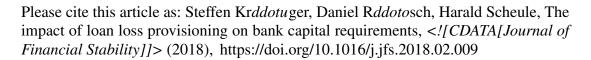
PII: S1572-3089(17)30386-8

DOI: https://doi.org/doi:10.1016/j.jfs.2018.02.009

Reference: JFS 608

To appear in: Journal of Financial Stability

Received date: 29-5-2017 Revised date: 19-2-2018 Accepted date: 20-2-2018



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## ACCEPTED MANUSCRIPT

The impact of loan loss provisioning on bank capital requirements<sup>☆</sup>

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Abstract

This paper shows that the revised loan loss provisioning based on the International Financial Reporting Standards (IFRS) and the US Generally Accepted Accounting Principles (GAAP) implies a reduction of Tier 1 capital. The paper finds in a counterfactual analysis that these changes are more severe (i) during economic downturns, (ii) for credit portfolios of low quality, (iii) for banks that do not tighten capital standards during downturns, and (iv) under a more lenient definition of significant increase in credit risk (SICR) under IFRS. The provisioning rules further increase the procyclicality of bank capital requirements. Adjustments of the SICR threshold or capital buffers are suggested as ways to mitigate a regulatory pressure that may emerges due to the reduction of regulatory capital.

JEL classification: C51, G28, M48

Keywords: GAAP 326, IFRS 9, lifetime expected loss, loan loss provisioning, regulatory capital, SICR

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<sup>&</sup>lt;sup>☆</sup>The authors gratefully acknowledge financial support of the German Academic Exchange Service (DAAD). We are grateful to helpful comments from two anonymous referees and participants of the internal research seminar of the Finance Discipline Group at the University of Technology, Sydney, the IFABS conference, the Banking and Financial Stability Meeting of ANU and FIRN, and the CREDIT conference.

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