

I. INDIA'S TRANSITION TOWARDS AN EXPECTED LOSS APPROACH: A STEP IN THE RIGHT DIRECTION?

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ABSTRACT

The Reserve Bank of India (“RBI”), as one of the nation’s financial and economic watchdogs, is aware of all pertinent elements, including the recent credit trends, which inform its policy decisions. In January 2023, the Reserve Bank of India published a discussion paper proposing a framework for adopting an anticipated credit loss approach for loan loss provisioning by banks in the event of bad loans. The discussion paper does an in-depth analysis of global experience with the adoption and implementation of International Financial Reporting Standard 9 – Financial Instruments (“IFRS 9”) accounting standard along with the Expected Credit Loss (“ECL”) approach and reasons for exiting from the current Incurred Loss Approach (“ILA”) method of loan loss provisioning. While the discussion paper has elaborately crucial elements involved in the very shift from ILA to ECL and related implications of the same, the authors believe that there are certain issues that were not addressed but are inevitable to arise once the shift takes place. The paper throws light on these potential problems that may arise and has tried to suggest measures to deal with them.

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I. INTRODUCTION

The Reserve Bank of India (“**RBI**”) is tasked with ensuring the effective management of financial institutions and preventing the deterioration of the Indian banking system. In the interest of the public, it has the authority to issue legally enforceable directions. As part of its supervisory role in monitoring credit risk and regulating banks’ capital adequacy, the RBI supervises swift and efficient loan loss provisioning. This is because timely recognition and provisioning for credit losses contribute greatly to the resilience and effectiveness of banking systems and play a crucial role in bank regulation.

During the financial crisis of 2007-2009, it was discovered that the delay in recognizing predictable losses under the ‘incurred loss’ technique exacerbated the deterioration.¹ Throughout the lead-up to and duration of the financial crisis, this strategy was a significant contributor to the decline in the clarity of banks’ financial statements.

Analysing and learning from what led to the global financial crisis, RBI has taken a step towards an expected credit loss (“**ECL**”) approach in order to increase the banking system’s resilience.² Under this approach, a bank is obligated, to estimate probable credit losses based on forward-looking estimates, rather than waiting until actual credit losses are recorded before making loss provisions.³ It is envisaged that the forward-looking ECL

¹ Enrico, Onali and Gianluca Ginesti, ‘New Accounting Rules for Loan Loss Provisions in Europe: Much Ado about Nothing?’ (2015) MPRA <https://mpra.ub.uni-muenchen.de/64266/1/MPRA_paper_64266.pdf> accessed 26 March 2023.

² Reserve Bank of India, ‘Discussion Paper on Introduction of Expected Credit Loss Framework for Provisioning by Banks’ (2022) <<https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/DPECL160012023AE79B7B546C94715AA8468B0811096F5.PDF>> accessed 26 March 2023.

³ *ibid.*

technique will significantly bolster the Indian financial system's resilience in conformity with internationally accepted norms. RBI has proposed to shift to the ECL method and adopt the International Financial Reporting Standard 9 – Financial Instruments (“IFRS 9”) accounting system to deal with financial instruments. The same provides for loan loss provisioning.

A ‘loan loss provision’ is a reserve money set aside by banks for loans that default. To cover losses in full or in part, banks set aside a part of the estimated debt payments from their overall loan portfolio. Instead of incurring a loss in its cash flows in the event of a bad loan, the lender can use its ‘loan loss reserves’ to offset the loss. Under the ECL method, a bank identifies anticipated credit losses based on ‘forward-looking estimations’ as opposed to waiting until actual credit losses are recorded before making loss provisions (as is the case in an incurred-loss approach).

Nonetheless, according to the International Monetary Fund, loss provisioning illustrates that rules alone, even complicated ones, are inadequate and must be backed by effective monitoring.⁴ In reality, as rule books become more comprehensive and sophisticated, the supervisory approaches and expertise necessary to enforce the regulations become increasingly difficult.⁵ Given the detailed manner in which RBI has approached this idea, while the shift to an ECL approach - in line with global trends - may appear to be a straight-jacket and clear shift, the method of transition and its efficacy as contemplated by RBI for the Indian banking system requires a closer look.

⁴ Ellen Gaston and In Won Song, ‘Supervisory Roles in Loan Loss Provisioning in Countries Implementing IFRS’ (2014) IMF Working Paper 14/170 <<https://www.imf.org/external/pubs/ft/wp/2014/wp14170.pdf>> accessed 27 March 2023.

⁵ José Viñals et al, ‘The Making of Good Supervision: Learning to Say “No,”’ (2010) IMF Staff Position Note SPN/10/08 <<https://www.imf.org/external/pubs/ft/spn/2010/spn1008.pdf>> accessed 27 March 2023.

II. LOAN LOSS PROVISIONING IN THE INDIAN LANDSCAPE

According to methods for loan loss provision, banking supervisors must review the efficiency of a bank's policies and practises for assessing credit risk and be satisfied with the bank's loan loss provisions, which must be produced in a timely and adequate manner.⁶ Prevalent methods of assessing credit risk are the incurred loss and expected loss approaches. The primary distinction between them arises at both the conceptual and operational levels.

Under the incurred loss framework, a bank is supposed to estimate impairment losses based on an evaluation of the occurrence of loss events or 'objective evidence.' In contrast, under the ECL approach, in addition to restrictions, the recognition of credit losses necessitates an evaluation of economic and financial situations as well as the borrower's ability to repay.⁷

A. Incurred Credit Loss Approach

Under the Incurred Loss Approach, the management estimates loan loss if a loss has already been incurred. In other words, no loss is reported on a loan until evidence of the suffered losses is obtained. The incurred loss approach has been criticised frequently as a major cause of the 2007-2010 financial crisis. It was blamed for delivering "too little, too late" loan loss provisions during the crisis and recession.⁸ Due to the delay in recognising loan losses in the event of a systemic rise in defaults, banks were forced to maintain larger levels of provisions, which reduced their capital right when

⁶ Basel Committee on Banking Supervision, Guidance on Credit Risk and Accounting for Expected Credit Losses (*Bank for International Settlements*, 2015) <<https://www.bis.org/bcbs/publ/d350.htm>> accessed 27 March 2023.

⁷ Gaston and Song (n 4).

⁸ Bert Loudis and Ben Ranish, 'CECL and the Credit Cycle' (2019) FRB <<https://www.federalreserve.gov/econres/feds/files/2019061pap.pdf>> accessed 27 March 2023.

they needed to grow it resulting in decreased resilience and high systemic risks. Furthermore, the banks' income was overestimated due to the delays in recognising loan losses. This, together with dividend pay-outs, had an impact on the capital base of the banks since internal accruals were lower.⁹

One of the main motivators was also to prevent a situation like the one that occurred during the global financial crisis when banks reported profits and gave out dividends and bonuses despite significant nested credit losses that were not recognised under incurred loss models. It subsequently threatened their ability to continue as going concerns.¹⁰

The ECL approach of loan loss provisioning on the other hand is anticipatory in nature. Owing to this attribute, it is expected to prepare the banks better in case of any looming economic downturn. Through its proposal to switch to this approach, the RBI attempts to adopt a more stable method of accounting and provisioning for defaults.¹¹

B. Expected Credit Risk Approach

Since risk consideration is at the core of the capital framework, which focuses on banks' going concern and solvency issues, it seems reasonable to advocate an ECL, which is a forward-looking approach that is largely based on foreseeing and calculating risks and losses that have not yet occurred but have a high likelihood of occurring. The International Accounting Standards Board ("IASB") and other accounting standard-setters establish guidelines

⁹ Committee on the Global Financial System. 'The Role Of Valuation And Leverage In Procyclicality CGFS Papers No 34' (*Bank for International Settlement* 2009)<<https://www.bis.org/publ/cgfs34.htm>> accessed 27 March 2023.

¹⁰ Anne Beatty and Scott Liao, 'Financial Accounting In The Banking Industry: A Review Of The Empirical Literature' (2014) JAE

¹¹ Robert M Bushman and Cristopher D Williams, 'Delayed Expected Loss Recognition and the Risk Profile of Banks' (2015)JAE..

based on accounting principles for how banks should recognise and account for credit losses for the purposes of financial statement reporting. IFRS 9 was issued by the IASB in July 2014, and it included an “expected credit loss” framework for the recognition of impairment.¹² IFRS 9 specifies how financial assets and liabilities should be classified and measured. Its scope encompasses impairment identification.

At every date of reporting, if the likelihood of default on a financial asset has not increased drastically since its initial detection, IFRS 9 mandates that a bank determines the loss allowance for that financial asset using a particular procedure. Therefore, RBI envisions a three-tier classification system for financial assets.¹³ Stage 1 consists of financial assets without a material escalation in credit risk since initial recognition or having a low credit risk at the reporting date. Stage 2 involves financial instruments with a substantial increase in credit risk since first recognition, but no objective proof of impairment. At the reporting date, Stage 3 consists of financial assets with objective evidence of impairment.

When one or more events have a detrimental influence on the expected future cash flows of a financial asset, the asset is considered to be “credit impaired”. This is relevant for our discussion because institutions are expected to identify ECLs at all times and revise the amount of ECLs recognised regularly.¹⁴ While assessing ECL, the bank must take into account past events, present situations, and projections of future events and economic conditions.

¹² PWC, ‘IFRS 9: Expected Credit Losses’ (PWC, August 2014) <<https://www.pwc.com/gx/en/audit-services/ifrs/publications/ifrs-9/ifrs-in-depth-expected-credit-losses.pdf>> accessed 29 March 2023.

¹³ RBI (n 2).

¹⁴ PWC (n 12).

Many countries have recently started adopting and switching to the ECL approach. In 2018, the European Union took an exit from the ILA to ECL with the implementation of accounting standard IFRS 9 on relevant financial instruments.¹⁵

III. KEY CONSIDERATIONS FOR AN EFFECTIVE TRANSITION TO AN ECL APPROACH

Besides the anticipated enhancements to banks' credit risk management, a timelier identification of credit losses is anticipated to contribute significantly to financial stability. In practice, however, this assumption is largely contingent upon the capacity of credit risk models (which, per the discussion paper, will be developed by the banks themselves) to forecast credit volatility and the borrowers who will be most adversely impacted by them.¹⁶ This, in turn, generates 'modelling risk', since the efficiency of such a "customized model for each bank" can vary from one institution to another.¹⁷ Therefore, the shift to this model can turn out to be challenging, particularly, for financial institutions.

Further, loan loss provisioning under the ECL approach can turn out to be abrupt in instances like creating larger loan loss provisions in the event of

¹⁵ 'Expected credit loss approaches in Europe and the United States: differences from a financial stability perspective' (*European Systemic Risk Board*, January 2019) <https://www.esrb.europa.eu/pub/pdf/reports/esrb.report190116_expectedcreditlossapproachesEuropeUS.en.pdf> accessed on 27 March 2023.

¹⁶ RBI (n 2) 40 – 42.

¹⁷ David Gruenberger, 'Expected Loan Loss Provisions, Business and Credit Cycles' (2012) SSRN.<

<https://deliverypdf.ssrn.com/delivery.php?ID=156082089114106065092095080114116102002054084092007058124025025088064094014091122096027019013002018046016031089064093072087117059084071008033069117011071095016004094019081083090004082004116103119101115019023083077111020119012095068087029072070102006067&EXT=pdf&INDEX=TRUE>> accessed on 27 March 2023.

an initial turning point in the business cycle to prepare for loan impairment in anticipation of future business cycle downturn.

These are a few potential issues that may arise after ECL comes into force that the discussion paper does not throw light on.

A. Capital Adequacy and Credit Shock

There are certain factors that need to be addressed before the implementation of the ECL approach. One such element is mitigating consequences arising out of procyclicality. Procyclicality is a significant issue that all financial institutions face, including banks. It is an economic concept wherein the market behaviour and overall economic indicator exhibit a positive correlation with the overall state of the economy. Any entity is considered pro-cyclical when it moves in tandem with the economic cycle.¹⁸ It results in broad fluctuation in financial variables in the economy.¹⁹ Procyclicality leads to an amplified financial cycle and exacerbated financial instability.

ECL entails doing away with concentrating loan loss provisions at the trough of the economic cycle at the cost of concentrating them during an initial downturn. Due to the forward-looking nature of IFRS 9, the impairment allowances made are large.

The increase in impairment allowance due to a recession will have a raw impact on the common equity tier 1 (“**CET1**”). CET1 constitutes the core

¹⁸ J P Landau, ‘Procyclicality – What It Means and What Could Be Done’ (*Bank for International Settlement*, 2009)< <https://www.bis.org/review/r090805d.pdf>> accessed on 27 March 2023.> accessed on 27 March 2023.

¹⁹ ‘Addressing Financial System Procyclicality: A Possible Framework’ (*Financial Stability Forum*, 2008)< https://www.fsb.org/wp-content/uploads/r_0904a.pdf> accessed on 23 March 2023.

capital of banks. It is one of the bank's three-tier capital structure and constitutes about one-third of a bank's fully-loaded capital conservation buffer ("CCB").²⁰ It is instrumental in absorbing losses immediately when they occur. The impact of ECL on CET1 and the resultant capital buffer will hence have possible implications on the overall financial stability.

The connection between the build-up of loan loss provisions and loan growth needs to be analysed to understand the possible consequences related to the transition from ILA to ECL. Loan loss reserves are recorded on the bank's balance sheet as a 'contra-asset' account after loan loss provisions accumulate over time. Higher provisioning for loan loss results in an increased loan loss reserve.

In the early stages of the economic cycle, IFRS 9 will focus on the effects of credit losses on profit and loss and CET1 ratio, increasing the likelihood that banks will need to be recapitalized on an annual basis.²¹ Insufficiently capitalised banks are more prone to deleverage or sell assets when under severe stress regarding solvency or liquidity. This can in turn lead to further issues in other parts of the interlinked financial system. If financial institutions exhibit such procyclical behaviour and become capital or risk-constrained, the downturn may be significantly amplified.²² The criteria may therefore restrict lending at banks where short-term capital constraints are severe, adding to procyclicality in the economy. Provisioning will continue to be procyclical

²⁰ Jorge Abad and Javier Suarez, 'Assessing the Cyclical Implications Of IFRS 9 – A Recursive Mode' (European Systemic Risk Board, 2017) <https://www.esrb.europa.eu/pub/pdf/occasional/20170717_occasional_paper_12.en.pdf> accessed on 23 March 2023.

²¹ *ibid.*

²² M Darracq-Pariès, S Fahr and C Kok, 'Macroprudential Space and Current Policy Trade-Offs In The Euro Area' (2019) (*Financial Stability Review*, May 2019) <https://www.ecb.europa.eu/pub/financial-stability/fsr/special/html/ecb.fsrart201905_3~f3ff5a969e.en.html>

despite ECL providing for loan loss reserves because recessions are typically characterised by worse-than-anticipated results.²³ The same needs to be countered by a macroprudential buffer system.

Proposed suggestion

The Bank of Italy conducted a study on the procyclical effects of IFRS 9.²⁴ The analysis stated that although it is anticipated that IFRS 9 will assist in reducing procyclicality in the economy, it may prove procyclical at the onset of a recession. This is possible if the redistribution of financial assets to stage 2 classification as per the ECL model is excessively high.²⁵ An economic shock leads to an irregular volatile development in the value of asset price and the development of financial aggregates.²⁶

It can be a problem for banks to bring in new capital in the middle of an economic fall and hence might require to either lessen giving out loans or liquidate their investments in order to meet the regulatory capital requirement.²⁷ In the case of multiple banks following this deleveraging

²³ A Kashyap and J Stein, 'Cyclical Implications of the Basel II Capital Standards' (2014) 28(1)FRB Chicago <<https://www.chicagofed.org/publications/economic-perspectives/2004/1qtr2004-part2-kashyap-stein>> accessed on 23 March 2023.

²⁴ Ezio Caruso et al, 'Accounting Provisioning Under the Expected Credit Loss Framework: IFRS 9 in Emerging Markets and Developing Economies - A Set of Policy Recommendations' (*World Bank Group*, 2021) <<https://openknowledge.worldbank.org/entities/publication/455393fb-803f-5461-93a3-5ed4551ad003>> accessed on 23 March 2023.

²⁵ European Systemic Risk Board, 'The Cyclical Behaviour of the ECL Model in IFRS 9' (2019) ESRB <https://www.esrb.europa.eu/pub/pdf/reports/esrb.report190318_reportonthecyclicalbehavioroftheECLmodel~2347c3b8da.en.pdf> accessed 20 March 2023.

²⁶ Federal Reserve Bank of New York, 'New Directions for Understanding Systemic Risk' (*Economic Policy Review*, 2007) <<https://www.newyorkfed.org/medialibrary/media/research/epr/2007/EPRvol13n2.pdf>> accessed on 23 March.

²⁷ V Constâncio, et al, 'Macroprudential Policy at the ECB: Institutional Framework, Strategy, Analytical Tools and Policies' (2019) Occasional Paper Series No 227.

process, it can result in a large-scale reduction in loans and an increase in asset price. This will worsen the economic slump leading to a more severe strain on the capital position of banks.

It is for the reasons mentioned above that after the implementation of the proposed shift to ECL through the IFRS 9 accounting system, there will be a need to incorporate mitigating measures like replenishing prudential buffers.

Prudential buffers refer to the mechanism of bolstering a bank's resilience and dealing with any anticipated market shock. Its focus is on financial safety. Basel III, which was developed in response to the 2007–2009 global financial crisis, provides the foundation for a resilient banking sector that can support economic growth throughout the business cycle.²⁸ One of the components of the Basel III regulatory system is the capital buffer mechanism for banks. Capital buffer is a type of broader prudential buffer mechanism. It involves maintaining capital reserves over and above the minimum capital requirements of a bank. The objective is to absorb any economic shock that may impact the bank's financial system. Capital buffers are crucial in this regard since, among other things, they are designed to reduce procyclicality by serving as shock absorbers during stressful times.

In case ECL does result in a procyclical capital loss, it will be important to address the same through a prudential measure. The European Central Board published the findings of a simulation-based investigation in July, 2020.²⁹ The results clearly demonstrate the benefits of using buffers,

²⁸ Basel Committee on Banking Supervision, *Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems* (Bank for International Settlement, 2011).

²⁹ Andrea Enria, 'The Coronavirus Crisis and ECB Banking Supervision: Taking Stock And Looking Ahead' (*European Central Bank*, 28 July 2020).

which increase lending and economic activity. As a result, banks' profitability would increase, primarily due to fewer credit losses.

The countercyclical capital buffer (“CCyB”) could be actively used by the national macroprudential authorities to counteract the negative effects of credit supply. The same is provided by the Basel III regulatory capital framework. Essentially, it is a method to accumulate more capital during times of excessive credit growth when it is perceived that the implications of system-wide stress are sharply increasing. When the credit cycle turns, this capital can then be ‘released’ to absorb losses and allow the banking sector to continue lending through the ensuing slump. It offers an extra advantage of achieving a broader macroprudential goal of limiting excessive lending during an economic boom. This indicates that while the impact will be significant, it will also be appropriately absorbable if the buffer is present when the shock hits.³⁰

B. Credit Risk Modelling by Banks-Limitations

RBI proposes to permit banks to adopt customised and unique credit risk models to calculate potential credit losses for different categories of instruments, based on the viability of such modelling methodologies and the availability of relevant data for the particular type of financial instruments.³¹ This method is consistent with the enhanced reporting discretion inherent in regulations mandating future loss estimation (such discretion arises from banks assessing credit risk based on their own models). Nevertheless, supervisory loan-level data from Germany demonstrates the limitations of the

³⁰ Jean-Stéphane Mésonnier and Allen Monks, ‘Did the EBA Capital Exercise Cause a Credit Crunch in the Euro Area?’ (2014) Working Paper No 491 Banque de France.

³¹ RBI (n 2) 40.

ECL approach when banks exercise their reporting discretion and alter their lending patterns.³²

Empirical models demonstrate that banks routinely change their internal ratings to avoid categorization of stage 2 loans before the new reporting rules go into effect.³³ Avoiding loans that were particularly susceptible to a stage 2 downgrade (a 3% decline in stage 2 loans) was an additional method employed by German banks to lower stage 2 provisions.³⁴ Therefore, while the conceptual support for customized credit risk modelling is ideal, outcomes clearly demonstrate the drawbacks of this method. Any policy that relies on the internal risk assessment of banks relies on forward-looking data, which is subjective and difficult to verify by its very nature. In a competitive market, banks are driven to use their discretion to limit loss recognition and, ultimately, capital requirements.

Two significant outcomes of the implementation of forward-looking loan loss recognition are supported by German bank behaviour evidence compatible with these incentives. First, banks modify their internal risk analysis of borrowers, particularly for borrowers near provisioning cut-offs, i.e., where the possibility of increasing loan loss recognition is highest. Second, banks restrict loans to customers whose debts are most likely to fall within this range of loans with potentially substantial loss provisions. The overall effect on the banking system therefore goes in opposite directions.

There are also other challenges to such credit-risk modelling. Firstly, management will be required to develop new models for determining ECL for

³² Jannis Bischof et al, 'Limitations of Implementing an Expected Credit Loss Model' (2022) Goethe University LawFin Working Paper 48 <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4325220> accessed 29 March 2023.

³³ *ibid.*

³⁴ *ibid.*

various time periods, including lifetime time periods. This will call for sophisticated assessments (for example, the definition of default, the definition of low credit risk and the behavioural life of revolving credit facilities). Therefore, the process of implementation will require a considerable amount of time before an organisation can comply with the requirements of the standard. Secondly, the majority of banks do not collect the required amount of credit information. To collect the necessary information, entities will need to change their existing credit and information systems significantly.³⁵ While transitions can be difficult, the RBI has considered comprehensive regulatory safeguards to facilitate the process.

Proposed Suggestion

After proposing the said approach of allowing banks to develop “customized approaches for ECL,” RBI has questioned whether the mitigants proposed to reduce the consequent inevitable variability between the entities are adequate.³⁶ We answer in the negative since RBI does not seem to have considered the impact of allowing banks to create unique credit risk models on their reporting behaviour. Since RBI intends to come up with a “more detailed proposal” concerning the fact that credit loss estimates generated by banks using their models will be accountable to a prudential floor mandated by RBI as a regulatory backstop,³⁷ we suggest that it can also come up with mitigation strategies for controlling bank behaviour.

First, to ensure transparency, RBI can implement stringent documentation requirements not only for banks’ risk management personnel

³⁵ Luca Serafini et al, *Expected Credit Loss Approaches In Europe And The United States: Differences From A Financial Stability Perspective* (European Systemic Risk Board 2019).

³⁶ RBI (n 2) 42.

³⁷ *ibid.*

but also for credit risk model developers and users. The mathematical calculations and quantification of any model typically involve the application of theory, the selection of inputs and exclusions, estimations, and application. It is crucial that these decisions be explained in the documentation and are transparent.³⁸ Banks must demonstrate how they have integrated such information into the ECL assessment procedure. RBI can require banks to implement and adhere to formal rules and regulations that require them to provide qualitative disclosures describing the procedures used in credit risk methodologies. Documentation must include concise explanations supporting the calculations, projections, and review.³⁹ Second, while core risk management employees may have primary authority for assigning credit risk grades and continuously refining their assessments, their decisions should also be evaluated by an independent mechanism.⁴⁰ This ensures that the credit risk rating process has internal checks and balances.

By mandating stringent procedures for these basic mechanisms in credit risk management, supervisors like RBI can keep a track of whether informed choices are being made in classifying financial assets based on these models. Issuing such suitable guidelines can discourage banks from engaging in altered reporting behaviour.

IV. CONCLUSION

The introduction of IFRS 9 was intended to address the problem of financial uncertainty and instability posed by IASB 39. However, there are certain unintended implications that can come out of the implementation of

³⁸ Office of the Comptroller of Currency, *Comptroller's Handbook on Model Risk Management* (OCC 2021) 28.

³⁹ Basel Committee on Banking Supervision (n 6) 9.

⁴⁰ *ibid* 13.

the IFRS 9 system of accounting. To enhance the effectiveness of the shift to the ECL approach, RBI must develop strategies to prevent Indian bankers from misusing their discretion. While banks can still be allowed to develop their own credit risk models, support from RBI can encourage bank behaviour to be transparent, thereby mitigating the associated economic effects of the same. Further, loan loss allowances are directly impacted by ECL, which in turn affects banks' earnings and capital. There are currently no proposals to alter bank capital rules in response to the shift from ILA to ECL. If regulatory filters do not ease or smooth out the cyclical effect of impairment allowances on CET1, IFRS 9 may cause banks to see more abrupt decreases in regulatory capital at the very end of expansionary periods of the credit or business cycle.⁴¹ It is important to consider the problems that may arise after the shift from ILA to ECL takes place. RBI has done justice by taking into account the fact that transitioning to the new approach will be time-consuming and gradual, and providing adequate time for banks to adjust to the new proposed changes.⁴²

⁴¹ Mésonnier and Monks (n 30).

⁴² RBI (n 2) 49.