Business Standard

Banks may delay IFRS implementation on capital worries: Fitch

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Migrating to the International Financial Reporting Standard (IFRS) format likely to be delayed in the domestic banking sector as lenders are finding it difficult to meet the Basel III capital requirement, according to Fitch.

"In India, it is possible that the local equivalent of IFRS 9 could be delayed. This is due to challenges faced by the banking system in meeting the capital required by end-March 2019 relating to the Basel III standards - currently estimated at around USD 90 billion," Fitch Ratings said in a report here today.

It said migration to IFRS 9, or its local equivalent, is likely to create operational challenges across many of Asia-Pacific's banking systems.

These issues would have a negative initial effect on capital, and potentially raise the volatility of earnings and regulatory capital ratios, it said.

The IFRS 9 reporting is one of the significant accounting changes that banks are facing, and will be implemented by 2018 in major Asia-Pacific (APAC) markets.

It requires banks to switch to recognising and providing for expected credit losses on financial assets, rather than the current practise of providing only when losses are incurred. It will also change the way that banks account for a wide range of financial assets.

Fitch expects the adoption of the new standard may lead to greater provisioning and earlier recognition of credit losses, which will have an impact on banks' financial statements and regulatory capital.

Banks will also need more data on how portfolios perform through the credit cycle, and will need to build complex models of expected losses, it said.

The transition is likely to be more operationally manageable in sophisticated banking systems where there is better access to robust data.