

WWZ Research Seminar

Faculty of Business and Economics, University of Basel

Tuesday, November 8, 2022, 12:30, S15, HG, WWZ and Zoom

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## "Accounting changes and enforcement of bank capital requirements in a crisis" (joint with Natalija Kostic and Viktoria Muthsam)

### Abstract

A common response to systemic shocks are accounting changes that reduce the impact of losses on banks' regulatory capital. We show that these accounting changes can increase banks' incentive to raise capital. Banks trade off the cost of raising equity and the cost of violating regulatory capital requirements. A systemic crisis weakens the enforcement of capital requirements, which reduces banks' incentives to bear the cost of recapitalization. Reducing the impact of fair value or expected credit losses on banks' regulatory capital lowers the required capital that banks have to raise to fulfill regulatory capital requirements, which can make it worthwhile for banks to avoid regulatory intervention. We discuss ex ante implications of relaxing regulatory accounting rules and differences to relaxing capital requirements.

*All seminars are open to the public and take place in hybrid format with the lecturer present. For updates (place, abstracts etc.) kindly visit <https://wwz.unibas.ch/de/researchseminar/> Non-faculty members, who would like to register for the seminars, please send an email to [forschungsseminar-wwz@unibas.ch](mailto:forschungsseminar-wwz@unibas.ch).*