



EDBS/KH/C/56/2016
28th December, 2016

The Chief Executive Officer
All Banks and Financing Companies
Manama
Kingdom of Bahrain

Dear Sirs,

Re: Guidelines for IFRS9 ECL Implementation by Banks and Financing Companies

As you are fully aware, the IASB had published International Financial Reporting Standard (IFRS) 9 in July 2014, which will take effect on 1st January, 2018, with an option for an early adoption.

With the objective of facilitating smooth implementation by banks & financing companies (licensees), the CBB is hereby issuing the following general requirements:

- 1- Licensees must have in place a detailed and clear policy statement pertaining to ECL provisioning. The policy statement must be approved by the board of directors and submitted to the CBB for its review. The policy statement must include, but not limited to, the items stated in the enclosed Appendix.
- 2- Licensees shall continue to suspend interest/profit on credit facilities which are 90 days or more past due. Further rules and guidance would be issued upon the finalization of the BCBS's consultative document titled "Guidelines – Prudential Treatment of Problem Assets – Definitions of Non-performing Exposures and Forbearance".
- 3- On the subject of availability and quality of data, the following guidelines must be considered:
 - For corporate clients data, licensees must ensure that they have adequate historical data for estimating PDs and LGDs;
 - Models and systems used by licensees to develop PDs, LGDs, EADs and calculation of ECL must be subject to internal and external validation (once a year by the internal audit function and by an independent consultant); and

- In cases where licensees opt to utilize surrogate data, some adjustment will be required. In such cases, licensees must collaborate external data with internal data to derive point-in-time PD, using 99% confidence level.
- 4- As for the treatment of collective impairment provisions (CIP) for capital adequacy purposes, the CBB will allow banks to apply the current regulatory capital requirement, where CIP for Stages 1 & 2 will continue to be allowed to be included under tier 2 capital up-to 1.25% of total credit risk weighted exposures. During 2017 this matter will be further studied subject to the finalization of the relevant Basel Committee paper on the same.
- 5- Any resulting additional collective impairment provisions must be deducted at initial adoption from CET1 by locally incorporated banks. However, any bank facing difficulty in applying this requirement should approach the CBB for guidance.
- 6- Any excess amount in the level of CIP or specific provisions cannot be written back at the time of initial adoption of the standard.
- 7- Any upgrading of non-performing exposure to a performing status must be subject to a cooling off period of 12 months from the first date of becoming regular in repayment. Moreover, all restructured facilities for credit risk reasons must classified as stage 2 for a minimum period of 12 months from the date of restructuring. Further details on upgrading satisfaction criteria shall be issued upon the finalization of BCRB's consultative paper on regulatory treatment.

Yours sincerely,


Khalid Hamad

Appendix - IFRS 9 ECL Implementation Policy Statement Checklist

- Definition of default;
- Qualitative staging criteria and steps for staging determination;
- Portfolio segmentation;
- Classification and measurement;
- Impairment methodology;
- Estimation/calculation of ECL, PDs, LGDs and EADs;
- Validation/back-testing of ECL models (quantitative and qualitative);
- Management information system;
- Criteria for moving exposures between stages forward and backward;
- Development of forward looking scenarios model;
- Use of external data and required adjustments to the calculation of relevant factors;
- Collateralization and haircuts determination;
- Adjustment of haircuts subject to economic and market conditions;
- Assets which carry a loss provision under IFRS 9;
- Point in time PD and Through the Cycle PD estimation;
- Control and governance, including roles and responsibilities; and
- Public Disclosures

