**Ref. No.: 10/1/7702**

**Date: 6/6/2018**

**Instructions for Implementing IFRS (9)**

**No. (13/2018)**

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Based on the provisions of Article (99/b) and Article (42/a - 2, 3) of Banking Law No. (28) for the year 2000 and its amendments, and with reference to CBJ circular No. (10/1/7037) dated 18/5/2016 regarding the requirements of the general framework for the implementation of the IFRS (9), and Circulars No. (10/1/15583) dated 11/23/2017 and No. (10/1/1359) dated 25/1/2018 (through which the draft instructions of implementing the Standard are attached, and banks’ comments on this draft were requested), and following to the meeting held on 12/14/2017 (in the presence of the banks chairmen and CEOs), and the meeting held on 24/12/2017 (in the presence of risk managers and financial managers of the banks) to discuss implementation of the Standard and related requirements, we enclose herewith a CD that includes instructions of implementing the Standard. Furthermore, it should be noted that:

**First:**

The implementation of IFRS 9 implies in its content (in addition to the accounting framework) a risk management methodology -specifically credit risk management- to maintain the soundness of bank’s financial position. This would require the bank’s BoD and relevant committees to verify the presence and implementation/ functioning of appropriate policies of credit risk management, which in turn require effective internal control systems, internal credit rating systems, automated systems for calculating expected credit losses, and appropriate examination and verification procedures.

Where such mechanism shall ensure the bank’s ability to come up with the results that are necessary to hedge against expected credit risks. Hence, BoD shall ensure the appropriate governance structure for the proper implementation of the Standard.

**Second:**

1. Banks shall record the material impact resulting from the first- time implementation of the Standard on the opening balance of the equity (retained earnings item) as on 1/1/2018.
2. Banks shall transfer the accumulated balance of the general banking risk reserve as on 31/12/2017 to the retained earnings item, as follows:
3. Keeping the surplus balance of the general banking risks reserve (if any) restricted and may not be distributed as profit to shareholders, and may not be used for any other purposes without a prior approval of the CBJ.
4. For the purpose of calculating the regulatory capital (Tier 2), it is taken into account the equivalent balance of the required provisions against debt instruments/ credit exposures classified as (Stage-1) exposures, provided that it does not exceed (1.25%) of the total credit risk-weighted assets calculated according to the standardized approach. Such balance shall not subtracted from the amount of credit exposures (in the denominator of CAR), unless the remainder amount exceeding (1.25%) of the total credit risk-weighted assets calculated according to the standardized approach.
5. Sharia’ compliant banks are required to apply the above to finances and receivables (credit exposures) financed from the bank's own funds.

However, for finances and receivables (credit exposures) financed by the joint investment accounts, banks shall calculate the expected credit losses and submit CBJ with the results of calculation in order to take the appropriate decision.

1. Instructions No. (47/2009) dated 10/12/2009 and its amendments shall continue to be implemented, and the results shall be taken into consideration, booking whichever is more stringent [where the results are compared at each of the second and third stages separately (the total of each stage)]. Such procedure is done by mapping the results calculated based on IFRS (9) requirements (of the second stage and the third stage) with the provisions calculated based on the above mentioned instructions (of the watch-list credits and NPLs, respectively,).
2. Reclassifications of financial instruments between the three categories specified by IFRS (9) [at amortized cost, FVOCI, FVPL] may be carried out for one time at the beginning of 2018. This is to achieve proper implementation of the Standard.

Then banks shall abide to the requirements of the Standard and as stated in CBJ instructions regarding the transfers and reclassifications.

1. Any adjustment in the ECL balance resulting from a change in the methodology and systems applied at the bank, the difference shall be recorded within the retained earnings/equity balance.
2. It is the responsibility of the external auditor to verify the soundness of the bank’s procedures regarding the methodology and calculation of ECL, and to provide CBJ with a certificate regarding the soundness of the procedures and the adequacy of the ECL calculated by the bank along-side with each financial statements.
3. CBJ will take the necessary measures to verify the soundness of the methodologies and mechanisms applied by banks to calculate ECL through field visits to banks, where each bank will be informed of the subsequent arrangements.
4. Banks shall abide to the requirements of quantitative and qualitative disclosures attached to the instructions, to any other disclosures required under the IFRS, and to provide CBJ with the sheets/ statements attached to the instructions with each financial statements.

**Third:**

Circulars No. (10/1/1359) dated 25/1/2018 and No. (10/1/15583) dated 11/23/2017 are cancelled.

**Governor**

**Dr. Ziad Fariz**

* **Attached:**

1. **Instructions for Implementing (IFRS 9).**
2. **Required Quantitative and Qualitative Disclosures.**
3. **Sheets/Statements for the CBJ Purposes.**