Superintendencia de Bancos de Panamá

TRANSLATION

September 22, 2020
Circular N° SBP-DR-0294-2020

General Manager

Subject: COVID-19 and IFRS 9

Dear General Manager:

We refer to Circular SBP-DR-0120-2020 dated April 13, 2020, which communicated some initial comments on the application of IFRS 9 "Financial Instruments" regarding to the provisions for expected credit losses. These remarks were made according to the communiqués issued by international regulators (Bank of England, EBA, ESMA, OSFI, IOSCO) endorsed by the international regulator of accounting standards.

The recommendations issued at the international level sent the double message of the importance for the stability of banking systems represented by the timely and transparent accounting of losses in the quality of banks' assets and the need to assess in a fair and balanced way how to mitigate those losses in the face of unprecedented circumstances, and that somehow IFRS 9 was flexible enough to achieve this without setting the standard aside.

Throughout the past months, since Rule 2-2020 was approved, we have held meetings in which we have reviewed, along with you, the actions taken against the current situation, especially the modified portfolios and their conditions, the interest receivable, the valuations of guarantees, the provisions and the impact of the modification of Rule 2-2020 approved on September 11, 2020.

Therefore, the Superintendency of Banks has deemed it convenient to develop some guidelines to assist banks in the analysis of their loan portfolio and the corresponding evaluation of the potential increase in credit risk, as well as the calculation of expected credit losses. These guidelines are not intended to be a procedure manual for conducting this process, they are intended to achieve a certain degree of consistency between banks and independent audit firms and to help prevent banks from recognizing inappropriate or inconsistent levels of provisions for expected credit losses.

We are concerned that some entities have not made the requested calculations, nor increased provisions, therefore, in addition to the amendment to Rule 2-2020, we have prepared the guidelines in the Annex attached hereto, taking into consideration the International Financial Reporting Standards (IFRS). However, it is the responsibility of banks to ensure that their provisions for expected credit losses comply with these standards and of their auditors to ensure through audit procedures that this occurs.

…/…

Taking into consideration the accounting close of December 31, 2020, it is important that this process is made as soon as possible, if it has not yet been done, and that to have preliminary calculations of the effects of COVID-19 on the loan portfolio and assess its impact on the income statement before the final closing of books. These estimates must be available to the Superintendency of Banks and to the external auditors no later than November 15, 2020.

We kindly request you again to meet with your external auditors to coordinate these activities.

We would greatly appreciate your providing the necessary instructions to your staff for compliance with these provisions.

Best regards,

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Amauri A. Castillo
Superintendent

Enc.: A/s

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