Superintendencia de Bancos de Panamá

TRANSLATION

April 13, 2020
Circular N° SBP-DR-0120-2020

General Manager

Subject: COVID-19 and IFRS 9

It has been evident the concern by banks on a global scale about the upcoming increase of IFRS provisions as a consequence of the deepening economic crisis triggered by COVID-19.

The Superintendency is authorized to establish or interpret accounting standards that, from the promulgation of Rule 6-2012, belong to the International Financial Reporting Standards (IFRS). These standards are of compulsory use for reporting entities to report financial statements.

However, due that the use of these standards have an impact on the capital adequacy of the reporting entities, a basis for the security and soundness of our banking system, we deemed it important to issue the following comments, according to similar comments made by first-class international banking regulators.

1. IFRS 9 on Financial Instruments referring to loan deterioration, is an accounting standard that resulted from the G20 and other entities' requirements as a consequence of the 2008 financial crisis and it considers the reporting of timely and transparent information on credit risk changes, a key for the stability of the financial system, among others.

2. The Superintendency empathizes with bankers' concern on the results but, at the same time, the Superintendency considers that the application of this standard is key for the stability and solvency of the banking system. The flexibility of its use during a critical time does not contribute to the aforementioned soundness and could result in the lack of confidence by banks.

Having said that, we wish to make some comments on the standard we recommend to be considered for the upcoming calculation of expected loan provisions.

First, IFRS 9 establishes provisions for expected losses for the pass portfolio for the next 12 months. At the moment there is a significant increase of loan credit risk, the bank must provide a figure equal to the amount of expected losses during the asset lifecycle. This is known also as going from Stage 1 to Stage 2 or 3.

As other regulators have already said, including IFRS Foundation, the extension of loan payment or modified loans established by means of Rule 2-2020 does not automatically translate into the increasing loan risk these loans have suffered. This does not imply the increasing follow-up and analysis of credit risk for this type of loans. This means, banks should be able to separate their portfolio


Av. Samuel Lewis, Plaza Canaima, planta baja - Tels.: (507) 506 7800 / (507) 506-7900 - Fax (507) 506-7700 / 506-7703
Apartado postal 0832-2397 W.T.C. Panamá, República de Panamá - www.superbancos.gob.pa - email: superbancos@superbancos.gob.pa

from top to bottom to know who is recovering after this crisis and who did not recover and to estimate the significant risk increase.

The other aspect that is being treated globally, is that banks must make their estimate of expected losses based on the best information available of past events, current conditions and scenario-based future economic outlooks. As for the outlooks, these must include COVID-19 effects, according to the publicly available information, and the support measures implemented by the government. We recognize that it could be difficult to obtain this information now and that due to changing current conditions, adjustments to the models and scenarios in the near future would be required.

We kindly request you to meet with your external auditors to discuss the impact of the IFRS 9 application in the financial statements and the resulting affectation to capital adequacy that would require a lot of thought. Additionally, as models, scenarios, provisions and capital adequacy data are updated we recommend you to contact us to keep us informed.

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

Best regards,

Amauri A. Castillo
Superintendent

ARV/yg