

6 April 2020

## Circular to Credit Institutions on IFRS9 in the context of the coronavirus (COVID-19) pandemic

Reference is being made to the [ECB Banking Supervision Press Release](#) published on 20 March 2020, whereby the ECB advised banks to avoid procyclical assumptions in their models to determine provisions, and banks that have not done so should opt for the IFRS 9 transitional rules. Reference is also being made to the [EBA statement](#), issued on 25 March 2020, on the application of the prudential framework regarding Default, Forbearance and IFRS 9 in light of COVID19 measures, wherein the EBA highlighted that when applying the IFRS 9 international accounting standard, credit institutions are expected to use a certain degree of judgement.

Pursuant to such publications, the [ECB Banking Supervision issued a letter](#) addressed to all banks that are directly supervised by the ECB, to provide further guidance on and references to the use of forecasts to avoid excessively procyclical assumptions in their expected credit loss (ECL) estimations during the COVID-19 pandemic. The IFRS 9 standard requires credit institutions to estimate the ECL by taking into account *“reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions”* (IFRS 9, paragraph 5.5.17 (c)). In this respect, the ECB notes that the current context of pronounced uncertainty leaves credit institutions with very little reasonable and supportable forward-looking information, rendering the task of producing long-term detailed forecasts exceptionally challenging.

The guidance in the annex to the ECB letter details the considerations that banks directly supervised by the ECB are expected to take into account when using forecasts to estimate the ELC. Summarily, this guidance covers:

- (i) the collective assessment of the significant increase in credit risk (SICR);
- (ii) the use of long-term macroeconomic forecasts; and
- (iii) the use of macroeconomic forecasts for specific years.

In view of this and in the current circumstances, the MFSA deems it necessary that all credit institutions licensed in terms of the Banking Act (Chapter 371 of the Laws of Malta) are guided by the contents of the aforementioned letter on IFRS 9 published by the ECB. The MFSA will continue to follow the ECB's recommendations together with EBA measures and guidance, and provide support to credit institutions accordingly.

The above-mentioned guidance is without prejudice to any other applicable laws, regulations and Rules.