



CENTRAL BANK OF TRINIDAD & TOBAGO

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April 30, 2019

CIRCULAR LETTER TO:

ALL INSTITUTIONS LICENSED UNDER
THE FINANCIAL INSTITUTIONS ACT, 2008
AND INSTITUTE OF CHARTERED ACCOUNTANTS
OF TRINIDAD AND TOBAGO (ICATT)

REF: CB-OIFI-1020/2019

TREATMENT OF ESTIMATED CREDIT LOSSES FOR DETERMINING CAPITAL ADEQUACY REQUIREMENTS

The International Financial Reporting Standard, Financial Instruments (IFRS 9) became effective January 1, 2018. IFRS 9, which replaces IAS 39¹, addresses the recognition, measurement, impairment, de-recognition and general hedge accounting of financial instruments. One of the most material changes introduced under IFRS 9 is the approach to the determination of credit losses. IFRS 9 introduces an 'Estimated Credit Loss (ECL) Model' which, in addition to past and current events, incorporates a forward-looking estimation of credit losses thereby resulting in earlier and potentially larger impairment allowances.

Given the proposed changes to the accounting provisioning framework under IFRS 9, on 29 March 2017, the Basel Committee on Banking Supervision (BCBS) issued an interim standard entitled "*Regulatory treatment of accounting provisions – interim approach and transitional arrangements*" (BCBS interim treatment). Notably, despite the proposed IFRS 9 changes, the BCBS's interim treatment encourages national supervisors to retain their respective regulatory approaches for general and specific provisions. Further, the BCBS recommends that regulatory authorities provide guidance, as appropriate, on how they intend to categorize ECL provisions as either general or specific to ensure consistency in this categorization by the financial institutions within their jurisdiction.

In this regard, the Central Bank of Trinidad and Tobago ("Central Bank") has drafted a Guideline for the Treatment of ECLs for Determining Regulatory Capital Adequacy Requirements ("ECL Guideline"), which is being issued for your comments. The ECL Guideline provides guidance on the categorization of provisions under the ECL model as either general or specific provisions for determining regulatory capital adequacy requirements. In this regard, the Central Bank would appreciate your feedback to the attached ECL Guideline by **May 29, 2019**. Kindly direct any questions to

¹ IAS39: Financial Instruments-Recognition and Measurement which was released by the International Accounting Standards Board (IASB) outlined requirements for recognition and measurement of financial assets, financial liabilities, and some contracts to buy or sell non-financial items

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Mr. Kendall Cuffy, Manager – Banks and Non-Banks Supervision at 621-2288 extension 5198 or email kcuffy@central-bank.org.tt.

The Central Bank looks forward to your feedback on this very relevant topic.

Yours sincerely



Michelle Francis-Pantor
Deputy Inspector – Banks, Non-Banks & Payment Systems Oversight
FINANCIAL INSTITUTIONS SUPERVISION DEPARTMENT

Att.