



Policy Statement – Withdrawal of Impairment Provisioning and Disclosure Guidelines

28 November 2017

IFRS 9 ‘Financial Instruments’ becomes effective from 1 January 2018. It introduces an Expected Credit Loss Model (ECL) approach to accounting for provisions, replacing IAS 39 ‘Financial Instruments: Recognition and Measurement’ and the Incurred Loss Model.

As a result, the Central Bank of Ireland will withdraw the [Impairment Provisioning and Disclosure Guidelines](#) (‘Impairment Guidelines’)¹ effective 1 January 2018.

The Central Bank issued the Impairment Guidelines to support Covered Institutions² in the development and application of their impairment provisioning frameworks for financial reporting purposes in accordance with IAS 39.

Credit institutions should take into account, inter alia, the following documents in their preparation for and implementation of IFRS 9:

- The SSM report ‘[SSM Thematic Review on IFRS 9 - Assessment of institutions’ preparedness for the implementation of IFRS 9](#)’ (SSM Thematic Review on IFRS 9);
- The [EBA Guidelines on Credit Institutions’ Credit Risk Management Practices and accounting for Expected Credit Losses](#); and
- [The ECB Guidance to Banks \(significant institutions³\) on Non-Performing Loans](#) (‘ECB Guidance on NPLs’)⁴.

In particular, specific attention should be given to the following regulatory expectations:

1. The definition of default for accounting purposes should be based on the EBA definition of non-performing exposures⁵ with institutions classifying such non-performing exposures as stage 3.

¹ 2013 Impairment Provisioning and Disclosure Guidelines, 2011 Impairment Provisioning and Disclosure Guidelines and Part 2 of the 2005 Regulatory Document ‘Impairment Provisions for Credit Exposures’.

² Allied Irish Banks plc, The Governor and Company of Bank of Ireland, permanent tsb plc.

³ Guidance on NPLs for less significant institutions, which may be developed in the future, should also be taken into account.

⁴ Note: on 4 October 2017, the ECB also issued a [public consultation on a draft addendum to the ECB guidance on non-performing loans](#) for comment until 30 November 2017.

⁵ As defined in the EBA ITS on supervisory reporting on forbearance and non-performing exposures.



2. Forbearance measures should be recognised as a backstop indicator of a significant increase in credit risk (SICR).
3. The baseline scenario used in the ECL calculation should be consistent with relevant inputs to other estimates in the financial statements and used for budgeting/forecasting purposes more generally.
4. Institutions should consider all of the available and relevant internal and external data when estimating ECL, ensuring that the estimates are robust, unbiased and reflective of banks' current exposures.
5. Institutions should consider multiple forward-looking economic scenarios to ensure the ECL is unbiased, in particular taking account of non-linear relationships between different possible scenarios and their associated credit losses.
6. The determination of collateral valuation is important in the calculation of impairment loss provisions under the ECL model. Expected cash-flows from collateral realisation should be based on observed reliable market valuations and appropriately reflect the inherent uncertainty associated with distressed property liquidation. As specified in the SSM Thematic Review on IFRS 9, any increased valuations to date should be backed by solid evidence that such increases are sustainable. Furthermore, Chapter 7 of the ECB Guidance on NPLs provides additional regulatory expectations in relation to the forward-looking projection and estimation of the market value of property collateral.
7. The existence of ECL's equal to zero should be rare even in the case of exposures with low credit risk.
8. The validation framework should cover model inputs, design and performance. Back-testing should be performed regularly.

In the event of queries, institutions should contact Financial Risks and Governance Policy Division at governancepolicy@centralbank.ie.