

IFRS 9 RELATED FREQUENTLY ASKED QUESTIONS (FAQs)

Provision on Portfolio / Segment Basis or Obligor Basis:

Question 1: In terms of Annexure C of the IFRS 9 application instructions, it has been specified that the provision to be made at stage 3 is the higher of IFRS 9 ECL or PR requirements. Clarification is required as to whether the FIs apply the “higher of” rule at a segment level or on a portfolio basis?

Response 1: Under the “higher of” rule, the FIs shall calculate the ECL against corporate/commercial /SME loan portfolios at the borrower/ facility level, whereas against the retail borrowers at segment/product basis.

Basel and IFRS 9 Treatment on Transitional Arrangement:

Question 2: Under the Standardized Approach of the existing Basel regulatory capital framework, the exposures are measured net of specific provisions. The FIs are allowed to include general provisions in Tier 2 capital up to 1.25% of total credit risk-weighted assets (CRWAs). Is the same treatment/ benefit also available in IFRS 9 or not?

Response 2: The amount of Stage 1 and Stage 2 provisions that have not been added back to CET1 Capital may be included in Tier 2 Capital and vice versa, subject to instructions outlined in Chapter 2 of the “Basel III Implementation in Pakistan” issued vide BPRD circular no. 6 of 2013.

DPD Used for Microfinance Bank Loans:

Question 3: In terms of Annexure-C of the IFRS-9 application instructions, the criteria for all Microfinance loans have been set as 30 Days Past Due (DPD) for Stage-2 and 60 DPD for Stage-3 classification. In the same Annexure, higher DPDs have been assigned for stage allocation for various segments like consumer, agriculture, housing, SMEs etc. Is the segment based stage allocation also applicable on lending to various microfinance segments (microenterprises, housing and general loans, etc.)?

Response 3: It is clarified that Annexure ‘C’ of the IFRS 9 application instructions is applicable to all FIs including Microfinance Banks. As such, all FIs shall follow relevant sections of the Annexure ‘C’ for DPD based stage allocation of various loan segments e.g. consumer, agriculture, housing, SMEs etc.