

BANK OF BOTSWANA

CIRCULAR TO BANKS: NO. 1/2020

ISSUE DATE: April 1, 2020

SUBJECT: CIRCULAR TO BANKS ON GUIDANCE ON THE REGULATORY TREATMENT OF IFRS 9 IN THE CONTEXT OF COVID-19

1. Introduction

1.1 The Bank of Botswana (Bank) recognises the challenges in the current environment characterised by uncertainty around the duration, spread and impact of COVID-19 pandemic, including the likely business disruptions and consequent adverse impact on borrowers' ability to repay their loan obligations. Therefore, the contemplated loan modification initiative of the banking industry should mitigate the adverse effects of the pandemic on the economy, at large, and individual borrowers, in particular.

2. Guidance on Regulatory Treatment and Risk Management

2.1 The Bank acknowledges the granting by banks of moratoria on good quality assets with a positive repayment history for a period of three months with a possibility of a further three months extension if the crisis continues. In this context, the Bank wishes to guide as follows:

- (a) A bank shall comply with the accounting treatment of the modified financial instrument as required by the IFRS 9 method. That is, provisions of IFRS 9 should be followed in the treatment of modified financial instruments;*
- (b) In applying the IFRS 9, a bank should correctly attribute loan quality ranking using its best judgement and understanding of the customer's risk profile and the general economy;*
- (c) A bank should ensure that the classification of exposures, accurately and timely reflects deterioration of asset quality. In addition, a bank's loan classification criteria should be forward looking;*
- (d) A bank should employ strong credit risk management practices to avoid unintended consequences such as liquidity stress and capital erosion;*
- (e) A bank shall closely monitor loans that are subject to the moratorium. Where the credit quality of the loan clearly changes for reasons not related to COVID-9 pandemic, such loan quality deterioration should not be misclassified as COVID-9 related; and*
- (f) A bank shall not consider credit risk mitigants in the assessment of the credit risk of an exposure.*

3. *Regulatory treatment of provisions for loans qualifying for the repayment moratorium*

3.1 *All loans meeting the qualifying criteria for the three-month moratorium shall not be recognised as non-performing. Therefore, for regulatory reporting requirements purposes, a bank shall not raise specific provisions against such loans, except if, for accounting and tax purposes such as provision is required.*

4. *Consumer protection*

4.1 *A bank should ensure that customers fully understand the measures being taken and that there are no hidden charges associated with the initiatives under consideration.*

5. *Effective date of the circular*

5.1 *This circular is effective April 1, 2020.*



Moses D Paelo
GOVERNOR