



# مصرف الإمارات العربية المتحدة المركزي CENTRAL BANK OF THE U.A.E.

Notice No. : CBUAE/BSN/N/2020/2016

Date : 22 April 2020

Class. : Classified

To : All Banks and Finance Companies operating in the UAE

Subject : Regulation Regarding Accounting Provisions and Capital Requirements - Transitional Arrangements

CBUAE/BSN/N/2020/2016 : إشعار رقم

22 أبريل 2020 : التاريخ

محظور : التصنيف

إلى : كافة البنوك وشركات التمويل العاملة في دولة الإمارات

الموضوع : نظام بشأن المخصصات المحاسبية ومتطلبات رأس المال - ترتيبات إنتقالية

After greetings,

بعد التحية،

Please be informed that the Board of Directors of the Central Bank has issued Decision No. 49/3/2020 dated 5<sup>th</sup> April 2020, regarding the Targeted Economic Support Scheme (TESS), to contain the repercussions of the COVID-19 pandemic in the UAE.

نرجو إعلامكم بأن مجلس إدارة المصرف المركزي قد أصدر القرار رقم 2020/3/49 المؤرخ 5 أبريل 2020، بشأن خطة الدعم الاقتصادي الموجهة لاحتواء تداعيات وباء كوفيد-19 في دولة الإمارات.

Arising from this, the Central Bank is issuing the attached "Regulation Regarding Accounting Provisions and Capital Requirements - Transitional Arrangements".

وتبعاً لذلك، يصدر المصرف المركزي "نظام المخصصات المحاسبية ومتطلبات رأس المال- ترتيبات إنتقالية" المرفق طيه.

This Regulation provides for a "Prudential Filter" that permits Banks and Finance Companies to add back increases in IFRS 9 provisions to the regulatory capital over a transition period of 5 years, on a proportionate basis.

وينصّ النظام المشار إليه على آلية تقييم احترازي تسمح للبنوك وشركات التمويل بإعادة الزيادات في مخصصات المعيار الدولي لرفع التقارير المالية-9 إلى رأس المال الرقابي، على مدى فترة إنتقالية مدتها 5 سنوات، على أساس تناسبي.

The increase in IFRS 9 provision requirements is determined by calculating the difference between the IFRS 9 provision as at 31/12/2019 and the IFRS 9 provision as at of the respective reporting date.

وتتحدد الزيادة في مخصصات المعيار الدولي لرفع التقارير المالية-9 باحتساب الفرق بين مخصص المعيار الدولي لرفع التقارير المالية-9 كما في 2019/12/31، ومخصص المعيار الدولي لرفع التقارير المالية-9 كما في تاريخ رفع التقارير ذي الصلة.

The proportion of the increase in IFRS 9 provisions that is permitted to be added-back to regulatory capital from 1 January 2020 onwards will decline over a 5-year transition period (100%, 100%, 75%, 50%, 25% for the years 2020-2024).

وسوف تتناقص نسبة الزيادة في مخصصات المعيار الدولي لرفع التقارير المالية-9 المسموح بإعادة إضافتها لرأس المال الرقابي على مدى فترة إنتقالية قدرها 5 سنوات (100%، و100%، و75%، و50%، و25% للسنوات 2020-2024).



United Arab Emirates

مصرف الإمارات العربية المتحدة المركزي  
CENTRAL BANK OF THE U.A.E.

This Regulation is effective immediately.

يسري مفعول هذا النظام على الفور.

Any queries you may have should be submitted via the following email address:

يمكن تقديم أية استفسارات، إن وجدت، من خلال عنوان البريد الإلكتروني التالي:

[bsed.basel@cbae.gov.ae](mailto:bsed.basel@cbae.gov.ae)

Please bring this Notice to the attention of the board of directors of your institution at the next board meeting.

يرجى إطلاع مجلس إدارة بنكمم على محتوى هذا الإشعار في الاجتماع القادم لمجلس الإدارة.

Yours faithfully,

وتفضلوا بقبول فائق الاحترام،

عن/ نائب المحافظ لشؤون الرقابة على البنوك

For/ Deputy Governor for Banking Supervision

Encl.

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مصرف الإمارات العربية المتحدة المركزي  
CENTRAL BANK OF THE U.A.E.

نظام بشأن  
المخصصات المحاسبية ومتطلبات رأس المال - ترتيبات انتقالية  
Regulation Regarding  
Accounting Provisions and Capital Requirements -  
Transitional Arrangements

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**Circular No:** 04/2020

**Date:** 7 April 2020

**To:** All Banks and Finance Companies

**Subject:** Regulation Regarding Accounting Provisions and Capital Requirements -  
Transitional Arrangements

## Introduction

1. This Regulation is issued pursuant to the powers vested in the Central Bank of the UAE (the "CBUAE") under the Decretal Federal Law No.14 of 2018, Regarding the Central Bank & Organization of Financial Institutions and Activities.
2. The CBUAE recognizes that the International Financial Reporting Standard IFRS 9 has introduced fundamental changes in provisioning practices in qualitative and quantitative ways. The usage of economic models and economic forecasts can lead to higher volatility in the expected loss for the calculation of IFRS 9 accounting provisions. The change from incurred loss model to expected loss model has been advocated by the global regulatory community, but the regulators are also mindful of any unintended consequences. Arising from the Covid-19 developments, the CBUAE has decided to require a phasing-in of increases in IFRS 9 expected credit loss (ECL) provisions over a transition period.
3. This Regulation provides for a 'prudential filter', through transitional arrangements, to smooth the impact of ECL accounting on Capital, based on a 5-year transitional period to manage the regulatory impact. The transitional phase is implemented with immediate effect, with the initial application of the transitional arrangements commencing retroactively on 1 January 2020.
4. The portion of ECL provisions that can be included in Capital will decrease incrementally over time down to zero to ensure the full implementation of IFRS 9 by 1 January 2025.
5. The CBUAE has opted to adopt a "dynamic" approach for the transition arrangements. It is aimed to address the ongoing evolution of ECL provisions (e.g. rise in ECL due to unexpectedly worsening macroeconomic outlook) during the transition period.

## Article (1) Definitions

- a) **Bank:** Any juridical person licensed in accordance with the provisions of the Decretal Federal Law No. (14) of 2018 Regarding the Central Bank & Organization of Financial Institutions and Activities, to primarily carry out the activity of taking deposits, and any other Licensed Financial Activities.
- b) **Finance Company:** As defined in the "Finance Companies Regulation" (Circular 112/2018).
- c) **Capital:** CET1 for banks as defined in "Regulation re Capital adequacy Circular" (52/2017) and Aggregate Capital Funds as defined in Article 11 in "Finance Companies Regulation" (Circular 112/2018).


## Article (2) Scope of Application

6. This Regulation applies to all Banks, including branches of foreign banks, and Finance Companies operating in the UAE.
7. The 'prudential filter' only applies to IFRS 9 provisions and not to the CBUAE provisioning requirements contained in "Regulations for Classification of Loans and Determining their Provisions" (Circular 28/2010).
8. ECL provisions subject to phase-in arrangement are IFRS 9 provisions in Stages 1 and 2 only.
9. This Regulation amends the earlier provisions in relation to transitional arrangements contained in the CBUAE's "Guidance Note to Banks and Finance Companies on the Implementation of IFRS 9 (Financial Instruments) in the UAE", issued in March 2018.

## Article (3) Calculation of transitional adjustment amount

10. All Banks and Finance Companies must apply the transitional arrangements in accordance with this Regulation and add back to their Capital, a portion of the ECL provisions required under IFRS 9, in accordance with the following calculation:

**The IFRS 9 stage 1 and stage 2 provisions at the respective reporting date minus the IFRS 9 stage 1 and stage 2 provisions as at 31 December 2019.**



11. The amount to be added back to the Capital on each reporting period shall be multiplied by a designated factor for each year as stated below.

- 100% during the period from 1 January 2020 to 31 December 2020;
- 100% during the period from 1 January 2021 to 31 December 2021;
- 75% during the period from 1 January 2022 to 31 December 2022;
- 50% during the period from 1 January 2023 to 31 December 2023;
- 25% during the period from 1 January 2024 to 31 December 2024.

12. The amount of the capital relief that shall be added back to Capital calculated as

Partial add-back of ECL impact to Capital =  $(I - t) * K$ ;

where:

I = the amount calculated in accordance with paragraph 10

t = increase of Capital that is due to tax deductibility of the amounts in paragraph 10, if applicable

K = the applicable factor in accordance with paragraph 11

Partial add-back is only applicable for positive values calculated herein.

#### Article (4) Consequential adjustments due to transitional arrangement

13. All Banks and Finance Companies are required to recalculate the regulatory capital requirements which are directly affected by ECL, by making the following adjustments to regulatory capital:

- a) The amount of deferred tax assets that shall be deducted by Banks from Capital in accordance with regulatory adjustment and threshold adjustment or risk weighted as per Section 3.10 of the Tier Capital Supply Standard (contained in the "Standards for Capital Adequacy of Banks in the UAE" issued under the CBUAE Notice No. 1733/2020).
- b) The specific provision credit risk adjustments by which the exposure value is reduced under the Standardized Approach for credit risk should be reduced by a

factor, which has the effect of increasing the exposure value. This would ensure that Banks and Finance Companies would not benefit from both an increase in Capital due to transitional arrangements as well as a reduced exposure value.

- c) The amount of Tier 2 capital for Banks calculated as per Section 2.5 of the Tier Capital Supply Standard (contained in the "Standards for Capital Adequacy of Banks in the UAE" issued under the CBUAE Notice No. 1733/2020).
- d) Any other exposure or capital element which is directly affected by the ECL provision to ensure they do not receive an inappropriate capital relief.

### Article (5) Reference to the Capital Metrics

- 14. The adjusted figure obtained for Capital is to be used to calculate other measures of regulatory capital as well as related measures (e.g. regulatory capital ratios, leverage ratio and large exposure limits).

### Article (6) Transparency and Disclosure requirement.

- 15. Banks and Finance Companies are required to publicly disclose that the transitional arrangement is applied. Where there is a requirement to disclose Capital and other Capital related ratios (e.g. regulatory capital ratios, leverage ratio), comparative ratios to show the position had the transitional arrangements not been applied must also be disclosed. Banks should disclose this information as part of the Pillar 3 report and Finance Companies as part of the Annual report.

### Article (7) Interpretation of this Regulation

- 16. The Regulatory Development Division of the CBUAE shall be the sole reference for interpretation of the provisions of this Regulation, and its interpretations thereof shall be considered final.

### Article (8) Enforcement and Sanctions

- 17. Violation of any provision of this Regulation may be subject to supervisory action and sanctions as deemed appropriate by the CBUAE.



## Article (9) Application and Publication

18. This Regulation shall be communicated to whomsoever is concerned for implementation, and shall be published in the Official Gazette in English.



**Abdulhamid Saeed**  
**Governor of the Central Bank of the UAE**

Issued in Abu Dhabi on 14/04/2020

