BANK OF MAURITIUS

Transitional Arrangements for Regulatory Capital Treatment of IFRS 9 Provisions under Expected Credit Losses

January 2021

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Introduction

With a view to alleviating the impact of the COVID-19 pandemic on provisioning levels of financial institutions, the Bank of Mauritius is introducing transitional arrangements for regulatory capital treatment of IFRS 9 provisions for expected credit losses.

These transitional arrangements are in line with guidance issued by the Basel Committee for Banking Supervision on “Regulatory treatment of accounting provisions – interim approach and transitional arrangements” of March 2017 and on “Measures to reflect the impact of Covid-19” of April 2020.

These transitional arrangements apply to all banks and non-bank deposit taking institutions licensed by the Bank of Mauritius, hereinafter referred to as financial institutions, and shall come into effect on 13 January 2021.

Transitional arrangements for regulatory capital treatment of IFRS 9 provisions for expected credit losses (ECL)

1. A financial institution shall inform the Bank on whether it is electing to apply the transitional arrangements no later than 15 February 2021. Financial institutions electing to apply the transitional arrangements shall implement the requirements set out in this Guidance.

2. During the transitional period, a financial institution may elect to opt out of the transitional arrangements but may not elect to apply the transitional arrangements again after opting out of it. A financial institution opting out of the transitional arrangements shall immediately inform the Bank of its decision on same.

3. A financial institution electing to apply the transitional arrangements, shall refrain from paying dividends and making other transfers from profit until the end of the transitional period or until it opts out of the transitional arrangements.

4. A financial institution shall add back a proportion of Stage 1 and Stage 2 provisions under IFRS 9 to its Tier 1 Capital. Banks shall add the provisions back to Common Equity Tier 1 (CET1) Capital and non-bank deposit taking institutions (NBDTIs) shall add the provisions back to Tier 1 Core Capital.

5. The amount of Stage 1 and Stage 2 provisions to be added back to CET1 Capital or Tier 1 Core Capital shall be calculated as follows:

$$Add\ back = max[0, (P_{current} - P_{baseline}) \times f]$$

where $Add\ back$ is the amount of Stage 1 and Stage 2 provision to be added back to CET1 Capital or Tier 1 Core Capital

$P_{current}$ is the amount of Stage 1 and Stage 2 provision at end of reporting period

$P_{baseline}$ is the amount of Stage 1 and Stage 2 provision as at 31 December 2019

f is the transition factor as stipulated in paragraph 6

6. The transition factor shall be as follows:

	f
From 1 January 2021 to 31 December 2021	100%
From 1 January 2022 to 31 December 2022	75%
From 1 January 2023 to 31 December 2023	50%
From 1 January 2024 to 31 December 2024	25%
From 1 January 2025 onwards	0

7. Examples of calculation of the transitional arrangements are provided in Annex 1.

8. Stage 1 and Stage 2 provisions eligible for inclusion under Tier 2 Capital:

   Stage 1 and Stage 2 provisions which have been added back to CET1 Capital or Tier 1 Core Capital should not be included under Tier 2 Capital. Only the amount of Stage 1 and Stage 2 provisions not added back to CET1 Capital or Tier 1 Core Capital may be included in Tier 2 Capital subject to section 16(d) of the Guideline on Scope of Application of Basel III and Eligible Capital or section 9(b) of the Guidelines on Capital Adequacy Ratio for Non-Bank Deposit Taking Institutions.

9. A financial institution shall disclose publicly, at least in its audited annual financial statements, whether it is applying the transitional arrangements.

10. Financial institutions shall report to the Bank the amount of provisions added back to their regulatory capital, as well as their regulatory capital without applying the transitional arrangements. The reports shall be submitted on a quarterly basis, together with the Returns on Statement of Capital Adequacy Calculation for banks and with the Returns on Capital adequacy calculation for NBDTIs, as per reporting template at Annex 2 for banks and Annex 3 for NBDTIs.

Bank of Mauritius
13 January 2021

Annex 1 - Example of calculation of transitional arrangements

Details of transitional arrangement by quarter

Reporting period	**Proportion of impact by IFRS 9 Stage 1 and Stage 2 provisions to add back to CET1/Tier 1 Core Capital**
31 March 2021, 30 June 2021, 30 September 2021, 31 December 2021	100%
31 March 2022, 30 June 2022, 30 September 2022, 31 December 2022	75%
31 March 2023, 30 June 2023, 30 September 2023, 31 December 2023	50%
31 March 2024, 30 June 2024, 30 September 2024, 31 December 2024	25%

Assumptions

		31-Dec-19 (Baseline)	**31-Mar-21**	**31-Mar-22**	**31-Mar-23**	**31-Mar-24**	**31-Mar-25**
A	Stage 1 and Stage 2 provision	100	150	100	200	50	200
B	Total risk weighted assets	10000	10000	10000	10000	10000	10000

Calculations

			31-Mar-21	**31-Mar-22**	**31-Mar-23**	**31-Mar-24**	**31-Mar-25**
C	Baseline: Stage 1 and Stage 2 provisions as at 31 -Dec-2019 [A]		100	100	100	100	100
D	Stage 1 and Stage 2 provisions as at end of reporting period [A]		150	100	200	50	200
E	Increase in Stage 1 and Stage 2 provisions compared to baseline [D-C]		50	0	100	-50	100
F	Transitional adjustment amount [max(0,E)]		50	0	100	0	100
G	Proportion of impact by IFRS 9 Stage 1 and Stage 2 provisions to add back in CET1/Tier 1 Core Capital [as per table above]		100%	75%	50%	25%	0%
H	Add back amount [F*G]		50	0	50	0	0

			31-Mar-21	31-Mar-22	31-Mar-23	31-Mar-24	31-Mar-25
I	Maximum amount of provision eligible as Tier 2 Capital as per section 16(d) of the Guideline on Scope of Application of Basel III and Eligible Capital or section 9(b) of the Guidelines on Capital Adequacy Ratio for Non-Bank Deposit Taking Institutions [1.25% of B]		125	125	125	125	125
J	Stage 1 and Stage 2 provision deducted from CET1 Capital [D-H]		100	100	150	50	200
K	Amount of Stage 1 and Stage 2 provision eligible to be added to Tier 2 Capital [min(I,J)]		100	100	125	50	125

Annex 2 - Return for transitional arrangements for banks

Reporting period	

Reporting period	**Proportion of impact by IFRS 9 Stage 1 and Stage 2 provisions to add back to CET1**
31 March 2021, 30 June 2021, 30 September 2021, 31 December 2021	100%
31 March 2022, 30 June 2022, 30 September 2022, 31 December 2022	75%
31 March 2023, 30 June 2023, 30 September 2023, 31 December 2023	50%
31 March 2024, 30 June 2024, 30 September 2024, 31 December 2024	25%

	Amount (in reporting currency millions)
Add back	
Baseline: Stage 1 and Stage 2 provisions as at 31 -Dec-2019	
Stage 1 and Stage 2 provisions as at end of reporting period	
Increase in Stage 1 and Stage 2 provisions compared to baseline	
Transitional adjustment amount	
Proportion of impact by IFRS 9 Stage 1 and Stage 2 provisions to add back to CET1 (See table above)	

	Before Transitional Arrangement Amount (reporting currency million)	After Transitional Arrangement Amount (reporting currency million)
CET1 Capital		
o/w Amount Add back		
Tier 1 Capital		
Tier 2 Capital		
o/w Provisions or loan loss reserves		
Total Capital		
Total risk weighted assets		

	Before Transitional Arrangement	After Transitional Arrangement
CET1 Capital ratio		
Tier 1 Capital ratio		
Total Capital Adequacy Ratio		

Annex 3 - Return for transitional arrangement for non-bank deposit taking institutions

Reporting period	

Reporting period	**Proportion of impact by IFRS 9 Stage 1 and Stage 2 provisions to add back to Tier 1 Core Capital**
31 March 2021, 30 June 2021, 30 September 2021, 31 December 2021	100%
31 March 2022, 30 June 2022, 30 September 2022, 31 December 2022	75%
31 March 2023, 30 June 2023, 30 September 2023, 31 December 2023	50%
31 March 2024, 30 June 2024, 30 September 2024, 31 December 2024	25%

	Amount (in reporting currency millions)
Add back	
Baseline: Stage 1 and Stage 2 provisions as at 31 -Dec-2019	
Stage 1 and Stage 2 provisions as at end of reporting period	
Increase in Stage 1 and Stage 2 provisions compared to baseline	
Transitional adjustment amount	
Proportion of impact by IFRS 9 Stage 1 and Stage 2 provisions to add back to Tier 1 Core Capital (See table above)	

	Before Transitional Arrangement Amount (reporting currency million)	After Transitional Arrangement Amount (reporting currency million)
Tier 1 Core Capital		
o/w Amount Add back		
Tier 2 Supplementary Capital		
o/w Provisions or loan loss reserves		
Total Capital		
Total risk weighted assets		

	Before Transitional Arrangement	After Transitional Arrangement
Tier 1 Core Capital ratio		
Total Capital Adequacy Ratio		