



**CENTRAL BANK OF SRI LANKA  
BANK SUPERVISION DEPARTMENT**

**28 October 2020**

**CIRCULAR**

**No. 09 of 2020**

**Amendments to Circular No. 04 of 2018 on Guidelines to Licensed Banks on the  
Adoption of Sri Lanka Accounting Standards – SLFRS 9: Financial Instruments**

The Central Bank of Sri Lanka with a view to establishing consistent practices on the adoption of Sri Lanka Accounting Standards – SLFRS 9: Financial Instruments by licensed banks under COVID-19 environment, issues amendments to Circular No. 04 of 2018 dated 31 December 2018 as specified at Annex I. Further, the following clarifications are provided to licensed banks:

- (1) In the case where direct temporary restrictions on economic activities are in place due to COVID-19 outbreak, licensed banks may exercise judgment on case-by-case basis, to determine whether to classify facilities as Stage 3 facilities or not, considering the borrower's inability to revive the business and generate sufficient cash flows to repay the exposure once the restrictions on economic activities are removed;
- (2) Licensed banks may consult CA Sri Lanka and Auditors in order to obtain further guidance in respect of computing Probability of Default for Foreign Currency denominated Sovereign instruments; and
- (3) Licensed banks shall continue to follow the guidance prescribed in the Circular No. 04 of 2018 in respect to Loss Given Default (LGD) to be used when computing expected losses for exposures denominated in foreign currencies issued by sovereigns.

***Sgd. Director of Bank Supervision***



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**Annex I**

**Amendments to Circular No. 04 of 2018 on Guidelines to Licensed Banks on the  
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1. Guideline 4.8 shall be inserted immediately after Guideline 4.7 as follows:

Licensed banks shall with the approval of the Board of Directors of the bank include clear guidelines on staging of loans and advances for impairment purposes in the related policies, amidst the extraordinary circumstances caused by the COVID-19 outbreak.

2. Guideline 5.3 (a) and (b) shall be replaced with the following:

- (a) Licensed banks shall use forecasts and projections published by the Central Bank of Sri Lanka (CBSL) when adjusting credit provisioning models to reflect the economic conditions and forecasts, on a consistent basis.

- (b) If CBSL forecasts are not available, licensed banks shall use credible alternative sources on a consistent basis and shall maintain relevant documentary evidence.

3. Annex 1 Guideline 1.3 (b) shall be replaced as follows:

All restructured loans, which are restructured more than twice, other than credit facilities/exposures mentioned in 3.2 below.

Licensed banks may exercise judgment on case-by-case basis to determine whether to categorise such facilities as Stage 3 facilities or not, if a facility has been restructured more than twice due to adverse economic consequences of the COVID-19 outbreak or the Easter Sunday Attack.