



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

26 April 2019

CIRCULAR

No. 06 of 2019

**SUPPLEMENT TO CIRCULAR NO. 04 OF 2018 ON THE
ADOPTION OF SRI LANKA ACCOUNTING STANDARD - SLFRS 9:
FINANCIAL INSTRUMENTS IN LICENSED BANKS**

1. On 31 December 2018, the Central Bank of Sri Lanka (CBSL) issued Guidelines to licensed banks on SLFRS 9 to be adopted within the requirements of SLFRS 9, promoting consistent and prudent application of same in the banking sector.
2. The Monetary Board, considering the representations made by licensed banks and the Report of the Working Group on high market interest rates and issues faced by Small and Medium Enterprises (SMEs) has decided that licensed banks may adopt the following as an interim measure in respect of the adoption of SLFRS 9 during a transitional period with the approval of their Board of Directors.
 - (i) With reference to the requirements set out in Section 1.2 of Annex I to the Guidelines to Licensed Banks on the Adoption of Sri Lanka Accounting Standard - SLFRS 9: Financial Instruments issued by CBSL on 31.12.2018, licensed banks may rebut the 30-day rebuttable presumption on significant increase of credit risk to 60 days subject to internally approved procedures laid down by the Board of Directors, for a temporary period between 01.01.2019 to 30.06.2020 with respect to credit facilities granted to SMEs up to an aggregate loan limit of Rs. 25 million per SME.
 - (ii) With reference to Sections 1.2(b) and 1.3(b) of the Annex I of the above Circular, licensed banks may exempt credit facilities granted to SMEs up to an aggregate loan limit of Rs. 25 million per SME, which are subsequently restructured between 01.01.2019 to 30.06.2020.
 - (iii) Further, it is reiterated that in terms of the above guidelines a credit facility shall be considered as restructured only if, original repayment terms have been amended due to a deterioration in credit quality, while the respective credit facility remained as performing in terms of CBSL Directions (including Temporary Overdrafts). An extension of the facility is possible without having to incur an impairment charge if there was an underlying business case and there was no significant increase in credit risk. The internal policies of the bank approved by its



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Board of Directors should set out the factors to be considered in assessing the credit risk when the original repayment terms are changed or extended.

- (iv) During the interim period up to, 30.06.2020, licensed banks may take steps to analyse and back test their portfolios of advances to the SME sector and develop models to compute the expected loss provisions for this segment or any sub segment thereof.
- (v) Further, in lieu of Temporary Overdrafts, the licensed banks may devise products to facilitate short-term revolving funding to SMEs assessing the risk and pricing of such products at reasonable rates.

A handwritten signature in blue ink, consisting of stylized cursive letters.

Director of Bank Supervision