



**MONETARY BOARD
CENTRAL BANK OF SRI LANKA**

07 July 2022

CIRCULAR

No. 02 of 2022

**CONCESSIONS TO AFFECTED BORROWERS AMIDST THE PREVAILING
EXTRAORDINARY MACROECONOMIC CIRCUMSTANCES**

With a view to meeting the challenges faced by businesses and individuals engaged in various economic sectors due to the prevailing extraordinary macroeconomic circumstances, the Central Bank of Sri Lanka (CBSL), requests licensed commercial banks and licensed specialised banks (hereinafter referred to as licensed banks) to provide the following concessions, to affected borrowers, on a need basis.

These concessions are granted to devise suitable repayment arrangements based on the new repayment capacities of the borrower, on a case-by-case basis, while preserving banking sector stability by preventing any elevated strain on the financial system. Accordingly, this Circular is issued to provide broad guidelines with prudential requirements for consistent implementation across all licensed banks. Licensed banks may consider implementing these concessions through the Post COVID-19 Revival Units which have already been established in terms of the Circular No. 01 of 2022 issued on 24 March 2022.

1 Concessions for performing credit facilities

- 1.1 Licensed banks are required to provide appropriate concessions (i.e., grace period for capital or interest or both capital and interest or part of the capital or interest, re-structuring of credit facilities, or any other concession) for performing credit facilities of individuals or businesses (hereinafter referred to as borrowers) whose income or business has been adversely affected by the current macroeconomic conditions including those borrowers who were already subject to COVID-19 moratoriums. These concessions are expected to be provided to affected borrowers in all economic sectors, including but not limited to tourism, transportation, and Micro, Small and Medium scale Enterprises (MSME) engaged in business sectors such as manufacturing, services, agriculture, and construction on a case-



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by-case basis, for a period of six months from the date of this Circular, based on the new repayment capacity/ viability of the borrower.

- 1.2 In the case of regular installment loans, the licensed banks shall devise a mechanism to structure the repayment plan not exceeding the contracted instalment value of the existing credit facility or facilities, with an extended tenure, to match with the repayment capabilities of the borrowers. In the case of other credit facilities, the licensed banks shall devise a suitable mechanism to structure the repayment plan.
- 1.3 In the case of Rupee facilities considered for the concessions, the interest rate applicable for the concessionary period (including the recovery period) shall not exceed the latest contracted rate of interest or the Standard Lending Facility Rate applicable on the date of this Circular (15.5%), whichever is higher, and shall be charged only on the amount considered for the concession. In the case of foreign currency facilities, licensed banks may charge a concessionary rate of interest rate as mutually agreed with the customer.

2 Applicability of Concessions for Credit Facilities Granted under Refinance/Interest Subsidy Schemes

- 2.1 Licensed banks shall seek necessary guidelines from the relevant agencies, and government authorities with regard to extending these concessions for credit facilities granted under various refinance or interest subsidy schemes, introduced by the government or other agencies.

3 Facilitating Early Settlements

- 3.1 In the case where any borrower wishes to fully settle any of the existing credit facilities, such borrower shall be given the opportunity to do so, without charging any additional fee, such as early settlement charges. In the case of lease facilities, recovery of future interest shall also be waived off.



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- 3.2 Licensed banks may also consider providing rebates for such early settlements, on a case-by-case-basis.
- 3.3 Any borrower who is willing for an early settlement of credit facilities shall make a request to the respective licensed bank on or before 30.09.2022.

4 Concessions for Non-performing Credit Facilities

- 4.1 Licensed banks may consider providing appropriate concessions, including rescheduling for existing non-performing credit facilities over a longer period, on a case-by-case basis, considering the future repayment capacity/viability of such individuals and businesses/projects.
- 4.2 Licensed banks shall devise a suitable mechanism to structure the repayment plan.
- 4.3 In the case of Rupee facilities, interest rate applicable for concessions granted to non-performing credit facilities, shall not exceed the latest contracted rate of interest or the current Standard Lending Facility Rate applicable as at the Circular date (15.5%), whichever is higher¹. In the case of foreign currency facilities, licensed banks may charge a concessionary rate of interest rate as mutually agreed with the customer.
- 4.4 Licensed banks shall suspend recovery actions including parate execution and forced repossession of leased assets against all credit facilities that have been classified as non-performing on or after 01.01.2020, until 31.12.2022 in order to enable the borrowers to arrange timely repayments.
- 4.5 In the case of recovery actions against SME paddy millers, banks may suspend recovery actions including parate execution against any non-performing credit facilities, until 31.12.2022, provided that an agreement is reached between the borrower and the licensed bank on diverting sales proceeds of the upcoming harvesting season directly to the banks

¹ The explanation on non-performing loans provided in the attached Guidelines of CASL states that “the revised interest rate cannot exceed 14.5%”. However, licensed banks should adhere with Section 4.3 of this Circular.



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via a suitable mechanism to settle the existing pledge loans in full and/ or existing non-performing credit facilities (part or full settlement).

- 4.6 In case where a licensed bank has commenced or given notice of recovery action under the provisions of the Recovery of Loans by Banks (Special Provisions) Act, No. 04 of 1990 or Mortgage Act. No. 06 of 1949, as amended, or Finance Leasing Act, No. 56 of 2000, or any other relevant Act, in this regard, such recovery actions shall be suspended until 31.12.2022, on condition that the concerned licensed bank and the borrower reach a debt repayment agreement.
- 4.7 Licensed banks shall defer passing new resolutions under the above Acts, for recovery of such loans and advances until 31.12.2022, on condition that the concerned licensed bank and the borrower reach a debt repayment agreement. In instances where resolutions for recovery actions have already been passed, auctioning of assets shall be suspended until 31.12.2022.
- 4.8 In instances where there are on-going litigations in Courts relating to recovery, the borrower shall enter into an agreement in the Courts to avail these concessions.
- 4.9 However, willful defaulters, defaults due to diversion of funds, defaults due to mismanagement and/ or frauds in the business and unviable projects shall not be considered for any of the above concessions.
- 4.10 Licenced banks may continue the routine collection procedure/ recovery follow up without excessively contacting, visiting, or forcing the borrower.

5 Reporting to the Credit Information Bureau

- 5.1 Licensed banks shall not decline new loan applications from borrowers solely based on adverse CRIB records.
- 5.2 Licensed banks shall develop a reporting modality, in consultation with CRIB, to report concessions granted to affected borrowers, if necessary.



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6 Accounting Treatment and Impairment

- 6.1 Licensed banks shall adhere to Sri Lanka Accounting Standards and the attached Guidelines read with the Addendum issued by the Institute of Chartered Accountants of Sri Lanka (CASL) with regard to accounting for the facilities considered for concessions.
- 6.2 Licensed banks may seek advice from CASL and Auditors for additional guidance/clarifications in this regard.

7 Transparency of the Concessions

- 7.1 Eligible borrowers may request for the above concessions on or before 31 July 2022 in writing or through electronic means.
- 7.2 Licensed banks shall make the decision on whether to accept or decline the request made by the borrower within one month of the receipt of the request and duly inform the borrower of such decision.
- 7.3 In the case of a rejection of request, licensed banks shall inform the borrower the reasons for such rejection and shall advise the borrower by and through the same letter that there is an opportunity for the borrower to appeal against such rejection to the Director, Financial Consumer Relations Department of the Central Bank of Sri Lanka.
- 7.4 Licensed banks shall ensure that the borrowers are made aware of the structure of the deferment or restructuring of credit facilities and the applicable interest rate prior to approval and the consent of the borrower shall be obtained in writing or through electronic means.



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8 Reporting Requirement

Licensed banks shall report the details of concessions availed by their borrowers to the Bank Supervision Department, as at each month end, within 15 working days, commencing from 31 July 2022. A reporting format will be issued in due course.

A handwritten signature in blue ink, appearing to read 'Dr. P Nandalal Weerasinghe'.

Dr. P Nandalal Weerasinghe
*Chairman of the Monetary Board and
Governor of the Central Bank of Sri Lanka*

28th June 2022

Mrs. V. A. A. N. De Silva,
Director Bank Supervision,
Central Bank of Sri Lanka,
P O Box 590,
Colombo 01.

Dear Ms. De Silva,

Re: Clarifications on Accounting Treatments

We refer to your letter dated 13th June 2022 on the above heading. At the outset, I wish to extend my appreciation to the Central Bank of Sri Lanka (CBSL) for referring the "*Draft Guidelines to the licensed banks on providing concessions to affected borrowers*" and requesting to clarify the accounting treatment as per SLFRS 9 - *Financial Instruments*.

Please find below the clarification you sought as per the recommendation made by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

Issue 1: Interest Recognition

CA Sri Lanka does not provide any specific additional guidance on interest recognition and modification since specific provisions are available in SLFRS 9 - *Financial Instruments*.

Please refer to SLFRS 9.5.4.1, SLFRS 9.5.4.2, SLFRS 9.5.4.3, SLFRS 9.3.3.2 and SLFRS 9.B3.3.6.

Accordingly, Interest income can be recognised by the banks by using the Effective Interest Rate (EIR) applied to the gross carrying amount or the net carrying amount considering the stage into which that loan belongs at the time of the modification. In the event of modification (after the test of 10% assessment), the interest will be recognised based on the initial contractual rate while in the case of derecognition (due to substantial modification), interest will be recognized based on the new contractual rate. Thus, modification gain or loss has to be charged to profit or loss.

Issue 2: Assessment of impairment and staging for performing facilities and non-performing

As per the draft guideline, Banks would do their own assessment of granting concessions to affected borrowers' considering the prevailing extraordinary macroeconomic conditions. Accordingly, CA Sri Lanka recommends the banks to carryout assessment of Significant Increase of Credit Risk (SICR) within Banks' own assessment (*the internal risk management, policies, and methodologies*) taking into the consideration of the number of restructurers/ re-schedulements, number of counts for the assessment of SICR, staging the loans into stages 1 to 2 and 2 to 3 in line with the standard as well as the CBSL Directive 13 and 14 and relevant sections of SLFRS 9. The proposed restructure/ reschedulement should not be excluded from the count.

The relevant sections of SLFRS 9 - *Financial Instruments* are provided in SLFRS 9.5.5.9 - SLFRS 9.5.11.

Further, CA Sri Lanka recommends the banks to revise their existing risk management considerations to assess SICR considering the prevailing economic conditions and potential deterioration without continuing to use the existing policies which were built on pre COVID trends and factors when economic factors had not deteriorated significantly.

In addition to that, the following considerations are to be placed on performing loans and non-performing loans by banks.

For Performing Loans:

- It is a rebuttable presumption that the current economic condition together with the requirement of further moratorium would indicate the Significant Increase in Credit Risk (SICR).
- It is necessary to consider the financial strength of the borrower.
- It is necessary to consider number of restructures including previous moratoriums into the account of the proposed restructure.
- The increased economic uncertainty about potential future economic scenarios and their impact on credit losses may require banks to explicitly consider additional economic scenarios when measuring ECLs [SLFRS 9.B5.5.42].
- Existing ECL models use historical experience to derive links between changes in economic conditions and customer behaviour, and ECL parameters such as loss rates, probabilities of default and loss given default. These historical relationships are unlikely to remain stable in times of increased economic uncertainty.

For Non-Performing Loans:

A staging issue would not arise since the category of loans is already in stage 3. However, if the bank is extending the repayment plan based on its own assessment, that could result in additional impairment, given that the revised interest rate cannot exceed 14.5% and recovery action cannot be taken until 31st December 2022.

Issue 3: Recommendation on section 6. 2

As per CBSL draft guideline, section 6.2 has been drafted as *"Licensed banks are required to provide a minimum impairment charge of 2.0% on top of existing Stage 1 or 2 impairments for credit facilities that are considered as modifications"*. Due to the ambiguity of the wording, CA Sri Lanka is to seek clarification from CBSL on the wording relating to this requirement. Nevertheless, CA Sri Lanka commented section 6.2 of the proposed guideline under two scenarios as below:

Scenario 01:

Based on assessment of SICR/default if the loans to be restructured/ rescheduled are moved to stage 2 from 1 or Stage 3 from stage 2 the impairment against such loans will increase compared to existing impairment against the respective loans. If such increase is 2% higher than existing impairment such increase to be considered as normal change in impairment and recognized in the Profit or Loss statement.

Scenario 02:

If the banks are required to record additional 2% over and above the increase recorded as per scenario 1 even after stage shifting, Accounting Standards does not permit recording such impairment.

This explanation is provided purely based on the limited facts and information provided by you and as such the Institute of Chartered Accountants of Sri Lanka takes no responsibility if the explanation would have been different had more information been available. Further, the application of the Sri Lanka Accounting Standards requires exercise of judgement, therefore, the ultimate responsibility for the recognition, measurement, presentation and disclosures of any transaction rests with the preparers of the financial statements. In providing this clarification. We have exercised due care and diligence and therefore we believe that the clarification given herewith is appropriate.

Thank you,
Yours sincerely,

**THE INSTITUTE OF CHARTERED ACCOUNTANTS
OF SRI LANKA**



Manil Jayasinghe
CHAIRMAN - ACCOUNTING STANDARDS COMMITTEE

6th July 2022

Mrs. V. A. A. N. De Silva,
Director Bank Supervision,
Central Bank of Sri Lanka,
P O Box 590,
Colombo 01.

Dear Ms. De Silva,

Re: Clarifications on Accounting Treatments

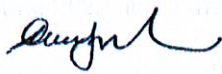
This is in reference to the letter that CA Sri Lanka sent to Bank Supervision at the Central Bank of Sri Lanka on 28th June 2022 about the aforementioned subject.

Hereby we need to clarify that re-profiling of performing loans where the quantum of the loan repayment is not less than what was there before the re-profiling would not generally cause a Significant Increase of Credit Risk. However, it is necessary to evaluate the condition of the underlying business if these loans have been under moratorium.

This explanation is provided purely based on the limited facts and information provided by you and as such the Institute of Chartered Accountants of Sri Lanka takes no responsibility if the explanation would have been different had more information been available. Further, the application of the Sri Lanka Accounting Standards requires exercise of judgement, therefore, the ultimate responsibility for the recognition, measurement, presentation and disclosures of any transaction rests with the preparers of the financial statements. In providing this clarification. We have exercised due care and diligence and therefore we believe that the clarification given herewith is appropriate.

Thank you,
Yours sincerely,

**THE INSTITUTE OF CHARTERED ACCOUNTANTS
OF SRI LANKA**



Manil Jayasinghe
CHAIRMAN - ACCOUNTING STANDARDS COMMITTEE