



National Bank of Serbia

New bylaws Implementing IFRS 9

National Bank of Serbia

Administration for Supervision of Financial Institutions

Banking Supervision Department

Palić, 7 December 2017



Published in the RS Official Gazette No 101/2017 of 10 November 2017:

Reasons:

- Enabling IFRS 9 implementation;
- Collecting data for
 - researches,
 - analyses and
 - reporting to the NBS;
- Improvements based on identified needs in the implementation of regulations so far, other than IFRS 9.

Decision on Forms and Content of Items in Financial Statement Forms to Be Completed by Banks

Decision Amending the Decision on the Chart of Accounts and Contents of Accounts in the Chart of Accounts for Banks

Decision on Collection, Processing and Submission of Data on the Balance and Structure of Accounts in the Chart of Accounts

Decision Amending the Decision on Reporting Requirements for Banks

Decision Amending the Decision on the Classification of Balance Sheet Assets and Off-balance Sheet Items



Adoption process (1)

Working Group

- composition - representatives of NBS, ASB, banks and external auditors
- task - to identify the necessary amendments to the regulations under the competence of the NBS pertinent to bank operations to enable IFRS 9 implementation
- deadline - to prepare final draft regulations until the end of September 2017

Concept

- preservation of existing data series
- minimum amendments to the Chart of Accounts
- minimum implementation costs
- timely implementation in the short run
- applicable to all banks - differences in IT systems
- active involvement of banks and external auditors in the Working group
- external auditor's opinions in accordance with IFRS
- transparent process of the adoption of regulations



Adoption process (2)

Specific features

- first application of the Law on Banks, Article 50, paragraph 2
- no comparable practice and attitudes of global audit firms
- providing information on classification and measurement method in accounting records
- optional treatment of comparative information for the first IFRS 9 application
- adjusting to IT capabilities of banks, SBRA and NBS
- obligation to prescribe Chart of Accounts & form and contents of financial statements for general purposes
- obligation to submit financial statements to SBRA - formal and technical requirements
- use of Chart of Accounts and financial statements for banks by banks undergoing bankruptcy and liquidation, agencies and funds (+ 54 users)

Decision on Forms and Content of Items in Financial Statement Forms to Be Completed by Banks

- Codes: "consolidated", "newly consolidated", "status change", "bankruptcy", "liquidation", "new establishment", or "sale"
- When entering the data in SBRA, there is a dropdown menu which gives the option to choose the code for the grounds for preparing extraordinary financial statements:

Merger
Merger by acquisition
Separation by formation of new companies
Separation by acquisition
Separation by formation of new companies and by acquisition
Division by formation of new companies
Division by acquisition
Division by acquisition and by formation of new companies
Commencement of bankruptcy proceeding
Completion of bankruptcy proceeding
Commencement and completion of bankruptcy proceeding
Opening of liquidation proceeding
Completion of liquidation proceeding
Deletion

- Statistical annex has not been changed

Decision on Forms and Content of Items in Financial Statement Forms to Be Completed by Banks

Purpose of amendments

- Compliance with IFRS
- Comparability
- Easy reference

Balance Sheet

Income Statement

Statement of other Comprehensive Income

Changes in Equity

Cash Flow Statement

Dilemmas concerning the presentation method

- by type of financial instrument
- by purpose
- by measurement method
- combined

Elements of business profit - other income

- Effects of reclassification, modification and FVOCI

- Changes in the fair value of financial instruments FVOCI
- Change in the fair value of liabilities arising from the changed creditworthiness of a bank

- Effects of first application
- Non-controlling participation, for the preparation of consolidated financial statements

- Harmonisation of terms with other financial statements

Approach/Novelties

- By type
- Disclosures in notes

- Changes in fair value FVPL
- Separate derecognition of FI at FV and AC
- Singled out reclassification effects
- Modification and reduction in impairment of FVOCI are integral to FI impairment position



Balance sheet

- **For the purpose of:**

- enabling better comparability of financial statements with the existing ones;
- avoiding too much complexity and non-user friendly layout of BS.


it has been decided that FIs should be presented in the BS by type and that IFRS 9 requirements concerning the disclosure of measurement method should be presented in notes

ASSETS

- there are no positions of financial assets by purpose (trading, to maturity, available for sale)
- there is no position "Financial assets initially recognised at fair value through profit or loss",
- in addition to loans and receivables, the presentation of the following positions is also required:
"Derivative receivables" and "Securities".

LIABILITIES

- In addition to deposits and other financial liabilities the following shall also be disclosed in separate positions:
"Derivative liabilities" and
"Liabilities under securities".

- Valuation method taken into consideration (at FV, at AC)
- **Separate positions of net gains and losses arising from:**
 - change in the fair value of financial instruments FVPL
 - derecognition of financial instruments at: 
- **Overview of reclassification effects - special position in IS**
 - net gain and net loss arising from the effects of reclassification of financial instruments
- **Overview of effect of modification and impairment of FA at FVOCI under the position**
 - net income and net expenses under impairment of financial assets not valued at FVPL
- **New position "Other income" which does not enter the calculation of total net business result**
 - reduction in the amount of provisions, reduction of liabilities, surpluses, collected penalties, damages, change in the value of fixed assets and other



Statement of other Comprehensive Income

- In line with the amendments to the accounts of group 82 - Revaluation reserves and unrealised gains/losses in CA
- More detailed presentation of the components of other comprehensive income which:

Can be reclassified to IS

Positive effects of the change in the value of **equity** FVOCI

Unrealised gains/losses from hedges on **equity** securities FVOCI

Unrealised gains/losses arising from the change in the value of financial liabilities due to the changed creditworthiness of a bank

Cannot be reclassified to IS

Positive effects of the change in the value of **debt** FVOCI

Gains/losses from cash flow hedges

Unrealised gains/losses arising from instruments intended for hedging of **debt** securities FVOCI

Effects of translation of foreign currency transactions and operations and effects of hedge of investments in foreign operations

- Addition to comparable data - for AFS to enable auditors to add a row in the presentation of this statement (only for 2018)

Decision Amending the Decision on the Chart of Accounts and Contents of Accounts in the Chart of Accounts for Banks (1)

- **Amendments based on IFRS 9:**
 - The concept of minimum amendments to CA, while covering the measurement method and the impairment stage of financial instruments by the new SSKR Code;
 - Section 3 of the Decision

"Banks may further break down the three-digit accounts according to their needs, while being obliged to provide the necessary information for the preparation of financial statements: on purpose, measurement method and impairment stages of financial instruments, under the Decision governing the collection, processing and delivery of information on the balance and structure of accounts from the Chart of accounts in analytical accounts, either in general ledger or in appropriate modules for sub-ledger accounts which is reconciled with the balance in the general ledger - every last day of the month."

Decision Amending the Decision on the Chart of Accounts and Contents of Accounts in the Chart of Accounts for Banks (2)

- Groups 12/22 - securities measured at FVPL, FVOCI and AC (exceptionally, the principle of measurement method)
- Groups 62/72 – losses/gains arising from the derecognition of financial instruments valued at FVPL, FVOCI and at AC, new account losses/gains arising from reclassification and modification;
- Groups 65/75 – new account 656/756 expenses/income from reversal of impairment of financial assets valued at FVOCI;
- Groups 67/77 - expenses/income from the change in the value of assets and liabilities - new account 677/777 (expenses/income from the change in the fair value of financial liabilities FVPL);
- Group 82 - change of account purpose - gains/losses from the change in the value of equity/debt instruments

Decision Amending the Decision on the Chart of Accounts and Contents of Accounts in the Chart of Accounts for Banks (3)

- **Other amendments:**

- Intangible assets;
- Other non-current assets - account 809 - transitional and final provisions;
- Lease (formulations in the descriptions of accounts 336, 346);
- Group 80;
 - ✓ Account 801 deleted - State-owned and other capital;
 - ✓ New description of account 800 - Share capital - common shares.
 - ✓ New description and purpose of account 801 - Share capital - preferred shares.
- Group 81;
 - ✓ account 810 Reserves from profit and 811 Other reserves (description supplemented - in line with the bank's articles of association and based on the decision of the bank's assembly)
- Off-balance sheet records: Financial assets in dinars and foreign currency written-off (934, 935 / 984, 985).

Measurement method and classification of financial instruments - SSKR codes 16th and 17th digit

FI Measurement method

Banks shall provide information on the measurement method for financial instruments under IFRS 9 - Financial Instruments according to the following Codes

- 1 - at amortised cost
- 2 - compulsorily at fair value through profit or loss
- 3 - optionally at fair value through profit or loss
- 4 - compulsorily at fair value through other comprehensive income
- 5 - optionally at fair value through other comprehensive income (paragraph 5.7.5.)

Only for capital instruments for which the bank irrevocably decided, at the moment of initial recognition, to present subsequent changes in the fair value in the Statement of their Comprehensive Income, in accordance with IFRS 9.

Classification of FI

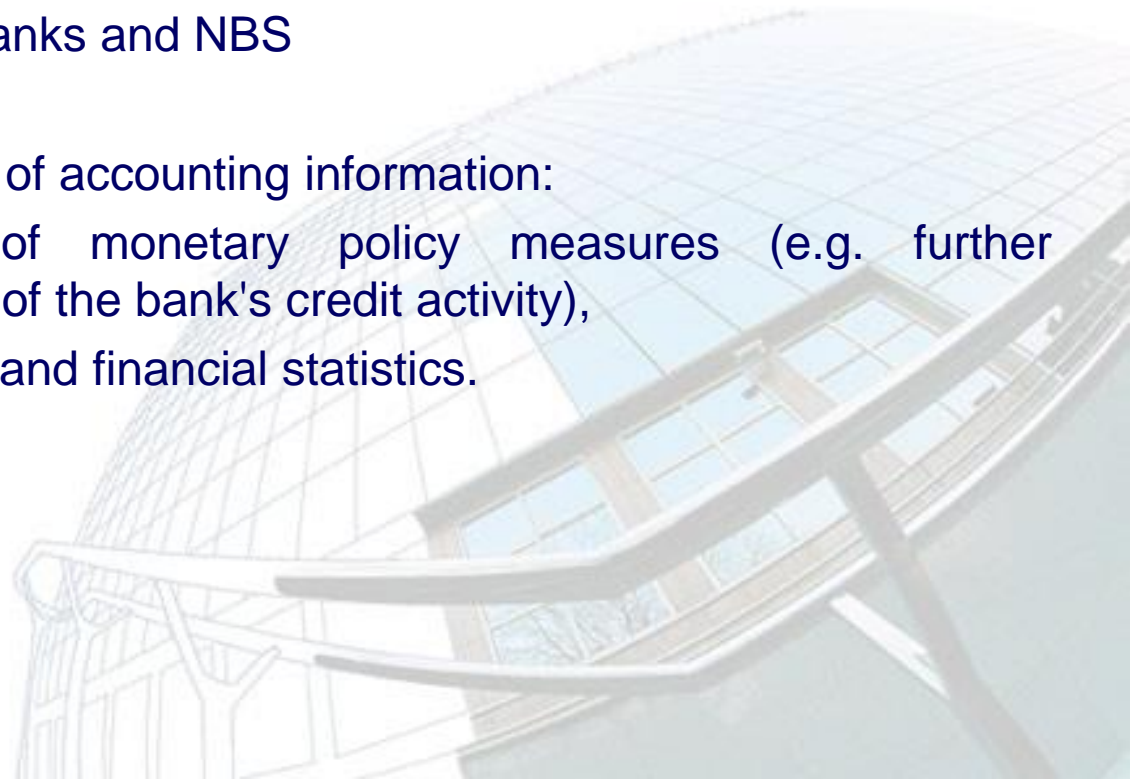
Banks shall provide information on impairment stages for financial instruments which are under IFRS 9 measured at amortised cost or at fair value through other comprehensive income, and/or on the purpose of securities and derivatives that are measured at fair value through profit or loss – according to the following Codes:

- 1 - Impairment is not exercised
- 2 - Classified to Stage 1
- 3 - Classified to Stage 2
- 4 - Classified to Stage 3
- 5 - Classified to Stage 3 at the moment of recognition (POCI)
- 6 - Tradable
- 7 - Non-tradable

Decision on Collection, Processing and Submission of Data on the Balance and Structure of Accounts in the Chart of Accounts (SSKR)

Purpose of Amendments:

- Implementation of IFRS 9 in banks and NBS
- Better use and analytical value of accounting information:
 - Monitoring the effects of monetary policy measures (e.g. further consideration and analysis of the bank's credit activity),
 - Enhancement of monetary and financial statistics.



Amendments to the existing codes (1)

Code position	Description of code position and amendments
1-3	Three-digit account from CA
4-5	Sector structure - introduction of break down of legal entities undergoing bankruptcy into companies (code 93) and public enterprises (code 96); new code 75 - foreign countries/governments; changes to formulations and names of certain sectors (e.g. Public non-financial sector instead of Public enterprises, General government sector instead of Public sector)
6	Contracted hedging, currency structure - more detailed break down of dinar and foreign currency indexations (KPR, BELIBOR and EURIBOR of different maturities); expansion of currency structure (CNY, RUB, AUD, CAD, DKK, SEK and NOK)
7	Contracted maturity - based on the transaction date and contracted, and/or annexed maturity
8	Remaining maturity – lending due (code 0); period from the balance sheet date until contracted date, and/or annexed maturity date

Amendments to the existing codes (2)

Code position	Description of code position and amendments
9	Maturity - maturity structure of lending, receivables and liabilities due; number of days past due until balance sheet date (past due)
10	Types of loans, securities and other financial assets - expansion to include forms of specialised loans (project and object finance, income-producing real estate, commodities finance); changes to the description of certain terms (forborne loans, re-financing loans, equity and debt securities)
11-12	Countries - to which receivables and liabilities refer to; two code positions
13	Types of collaterals - no collateral, residential or commercial real estate, cash deposits, guarantees, sureties, liens and securities
14	Interest rate variability - fixed or variable rate in the next 12, 12-24 months and after 24 months
15	Persons related to a bank - stipulated by the Law on Banks

Amendments to the existing codes

(3)

Code position	Description of code position and amendments
16	Valuation method - applied to financial instruments, under IFRS 9 - Financial Instruments
17	Impairment stages - applied to financial instruments, under IFRS 9
18	Size of enterprise - classification of legal entities in accordance with the Law on Accounting
19	Type of credit operations - loans subsidised by the government, financed from foreign credit lines and alike
20	Branch structure of enterprises undergoing bankruptcy 93 - Companies undergoing bankruptcy 96 - Public enterprises undergoing bankruptcy
21	Variability of interest rates for income and expenses - The same codes for interest rate variability is used as in the case of position 14 (fixed or variable rate in the next 12, 12-24 months and after 24 months)

Deadlines for the delivery of the new report

Information	Delivery deadline	DESCRIPTION
JANUARY 2018	14 February	SSKR with interim balances and structure of carrying accounts - NOT TO BE DELIVERED
	8 March	SSKR with final balances and structure of carrying accounts
FEBRUARY MARCH 2018	14 March 14 April	SSKR with final balances and structure of carrying accounts
DECEMBER 2018	14 January	SSKR with interim information before closing of the business books; with disclosed balance and structure of expenses and income accounts
	28 February	SSKR with final balances and structure of carrying accounts – before closing of the business books; with disclosed balance and structure of expenses and income accounts
	1 March	SSKR with final balances and structure of carrying accounts – after closing of the business books, without disclosed balance and structure of expenses and income accounts
JANUARY 2019	14 February	SSKR with interim balances and structure of carrying accounts, with disclosed balance and structure of expenses and income accounts

Decision on Reporting Requirements by Banks

- **Adjusting the reporting system in order to enable IFRS 9 implementation**

1) New statements

- *Statement of Other Comprehensive Income (OCI form)*
- *Consolidated Statement of Other Comprehensive Income (KOCI form)*
- *Report on Changes in Expected Credit Losses on Financial Assets (POKG form)*
- *Report on Transfers Between Impairment Stages (PNO form)*

2) Amendments to existing statements

- *Report on the Structure of Forborne Exposures (FBE form)*
- *Report on the Classification of Balance Sheet Assets and Off-balance Sheet Items of the Bank (KA 1-5 forms)*
- *Report on the Structure of Non-Performing Loans (NPL forms 1-4)*
- *Report on Non-Performing Exposures (NPE form)*

- **Improvement of the Regulatory Reporting**

- *amendments to NPL 5 form - request for the delivery of information on the number of past due days for an NPL at the level of individual borrower,*
- *monthly delivery of DEP form,*
- *possibility for extension of deadlines for the delivery of certain statements due to objective circumstances.*

Deadlines for the delivery of reports

1. Harmonisation aimed at IFRS 9 implementation

	31.12.2017	31.1.2018	28.2.2018
New reports			
OCI		12.3.2018	20.3.2018
POKG		12.3.2018	20.3.2018
PNO		12.3.2018	20.3.2018
KOCI			

Amendments to existing reports			
FBE	5.3.2018	12.3.2018	20.3.2018
KA 1-5	5.3.2018		
NPL 1-4	5.3.2018	12.3.2018	20.3.2018
NPE	5.3.2018	12.3.2018	20.3.2018
TG	5.3.2018	12.3.2018	20.3.2018
BS	5.3.2018	12.3.2018	20.3.2018
BU	5.3.2018	12.3.2018	20.3.2018
KBS	31.5.2018		
KBU	31.5.2018		

2. Improvement of regulatory reporting system

НПЛ 5	5.3.2018	12.3.2018	20.3.2018
ДЕП	22.1.2018	20.2.2018	20.3.2018

Decision Amending the Decision on the Classification of Balance Sheet Assets and Off-balance Sheet Items of Banks

- **Purpose:**

Adjusting regulatory requirements with IFRS 9 requirements

The portion relating to the **methodology for the assessment of impairment** of balance sheet assets and probable loss on off-balance sheet items contains novelties with regards to the obligation of the bank to establish at least the following, using the methodology:

- models used for measuring expected credit losses,
- procedures for assessing whether there has been a significant increase in credit risk at the reporting date since initial recognition,
- definition of the default status used for determining the changes to the default risk since initial recognition,
- methods for determining whether balance sheet assets and off-balance sheet items have a low credit risk at the reporting date
- criteria for classifying balance sheet assets and off-balance sheet items according to impairment stages in a manner defined by IFRS 9, including the criteria for the transfer of receivables from one stage to another;
- circumstances which shall be deemed to present an objective evidence of the impairment of balance sheet assets.

Decision Amending the Decision on the Classification of Balance Sheet Assets and Off-balance Sheet Items of Banks

- Individual assessment, collective assessment and assessment based on experience have been deleted, but **the requirement for a bank to determine the following, using its methodology has been retained:**
 - criteria for classifying receivables into groups of receivables with similar characteristics for the purpose of assessment on a collective basis (significant increase in credit risk and in the amount of expected credit losses), as well as
 - methods and techniques used for assessment of impairment on individual and collective basis
- **Criteria for non-performing exposures have been supplemented:**
 - exposures from Stage 3 shall be classified to the group of non-performing exposures



National Bank of Serbia

Thank you for your attention!
Any questions?