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Chile

Review of accounting standards for Chilean Banks: last developments

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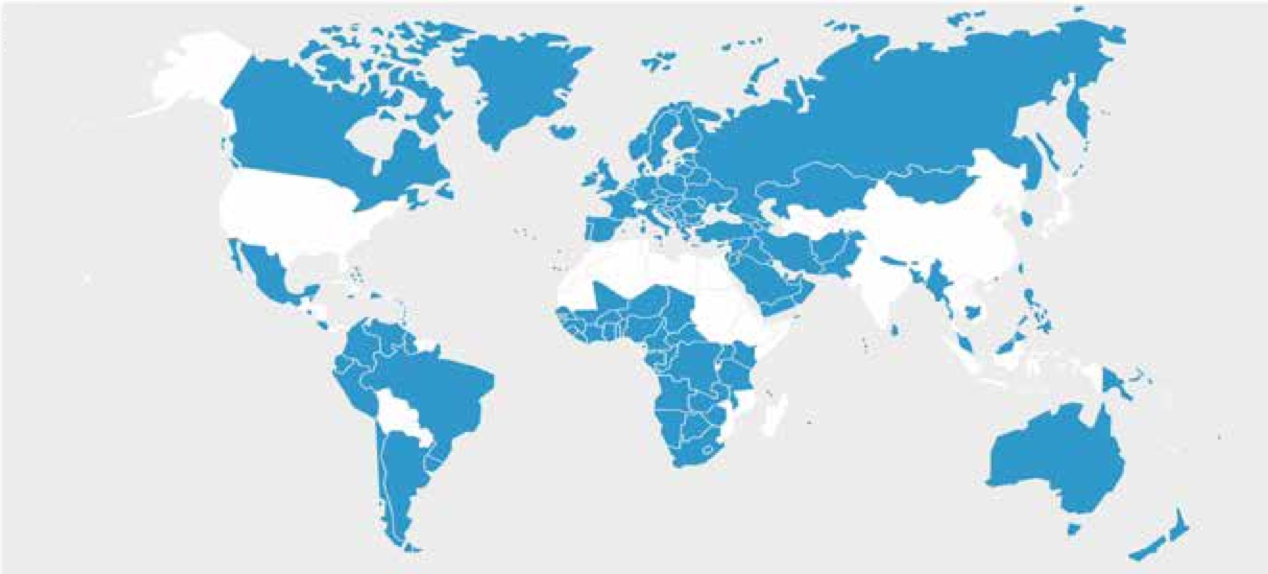
Background

International background

Countries where the IFRS standards are required for use by all or most domestic publicly accountable entities, including listed companies and financial institutions



IFRS Standards are required for domestic public companies

IFRS Standards are required for use by all or most domestic publicly accountable entities, including listed companies and financial institutions.

National background

The Superintendency of Banks and Financial Institutions (SBFI) decided to implement the IFRS standards in phases gradually:

SBIF Accounting Manual (IFRS) 2007

National Accounting Standards Board (IFRS) 2013

Phase 1 (2002): **Decision to adopt IFRS**
· Internal Roadmap

Phase 2 (2006): **Adoption of IAS39**
· Classification of financial assets
·Hedge accounting

Phase 3 (2008): **New forms for the financial statements**
· Full adoption of financial reports
· Formats (SFP and P&L)

Phase 4 (2009): **First implementation of IFRS**
· Adoption of IFRS
· Except carve-out by SBIF (provisions B1)

Phase 5 (2010): **Interim financial reporting under IFRS**
· Achieving comparability

Phase 6 (2019): **Issue of reviewed/ updated accounting standards manual**
· Work in progress
· Under public consultation period

National background

- **Accounting Standards IFRS- based:** accounting manual for banks was first issued at the end of 2007

- **SBIF establishes IFRS exceptions:** SBIF decided on carve-outs due to exceptions and/or limitations to the IFRS standards

- **Permanent review of standards:** A periodic monitoring is being realized of the changes in the IFRS standards and the development of IASB´s work plan projects

- **Last development in Banks:** several new IFRS (9,15,16) have been issued lately together with changes in existing IFRS (7), many relevant to the banking sector

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Principal aspects of IFRS 9

Principal aspects of IFRS 9

IFRS 9 (financial instruments) replaced IAS 39 and contains the following themes:

- Classification and measurement of financial asset
- Hedge accounting
- Impairment of financial assets

Principal aspects of IFRS 9

The classification of financial assets should be made on the basis of both:

a. **The entity´s business model** for managing the financial assets

b. **The contractual cash flow characteristics** of the financial assets

Principal aspects of IFRS 9

Importance of financial assets and liabilities

Current Accounting Standards Manual for Banks		
Measurement Basis IAS 39	**Accounting Concept**	**Relevance Total Assets (%)**
Loans and receivables	Loans and receivables Commercial loans Mortgage loans Consumer loans Loans to banks Repurchase agreements	71,72
Held to maturity	Held to maturity Non-Derivative Fin.Instr.	0,11
Available for sale	Available for sale Non-Derivative Fin.Instr.	8,64
Held for trading	Held for trading Derivative Fin.Instr. Non-Derivative Fin.Instr.	7,68
"Other Financial assets"	"Other Financial assets" Cash on hand and on demand Derivatives for Hedging	6,87
Other Non-Financial Assets	Other Non-Financial Assets	4,98
TOTAL ASSETS		100

New Accounting Standards Manual for Banks		
Measurement Basis IFRS 9	**Accounting Concept**	**Relevance Total Assets (%) (Estimated)**
Amortized cost	Amortized cost Commercial loans Mortgage loans Consumer loans Loans to banks Repurchase agreements Non-Derivative Fin.Instr.	71,83
Fair Value Other Comprehensive Income (FVOCI)	FVOCI Non-Derivative Fin.Instr.	8,64
Fair Value through Profit or Loss (FVTPL)	FVTPL *Held for trading:* Derivative Fin.Instr. Non-Derivative Fin.Instr. *Mandatorily:* Non-Derivative Fin.Instr.	7,68
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Principal aspects of IFRS 9

Hedge accounting

In november 2013 were issued the new hedge accounting requirements within IFRS 9

Those new requirements are better aligned with the entity´s risk management activities

The qualifying criteria for hedge accounting and hedge effectiveness requirements are based more upon principles, thereby eliminating for example the quantitative range of 80%-125% for effectiveness in IAS 39

In summary, more flexibility with a principles based approach, but balanced with more disclosures about risk management activities

Principal aspects of IFRS 9

Impairment

IAS 39	→	Incurred loss model based on objective evidence of impairment (SBIF carve-out)
IFRS 9	→	Expected credit loss model (SBIF carve-out)

Except for loans

Principal aspects of IFRS 9

Impairment

Phases

1) Performing financial assets → 12-month expected credit losses

2) Financial assets with significant increase in credit risk (under-performing)

3) Credit-impaired financial assets (non-performing loans)

Phases 2) and 3) → Lifetime expected credit losses

For the first two phases interest is accrued on the gross carrying amount of the financial asset, meanwhile in phase 3 the interest is accrued on the amortized cost of the financial asset

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New version of the accounting standards for Chilean banks

Project for review and update of the accounting standards manual for banks

Information Requirements

- Change in the presentation forms established for the statement of financial position and statement of profit and loss
- New presentation forms established for:
  - ~Statement of other comprehensive income.
  - ~Statement of changes in equity
- Changes in monthly information requirements established in the accounting plan due to new forms of the different statements (coding and description of accounts)

Project for review and update of the accounting standards manual for banks

Information Requirements

· Modification of content required for certain notes to the financial statements due to IFRS 7

· Incorporation of new items in the accounting plan to disclose an opening of “other” items

Project for review and update of the accounting standards manual for banks

Exceptions

Limitations and/or exceptions to the IFRS contained in the accounting standards manual (special features of the Chilean model with carve-outs):

- Impairment of loans
- Criteria for stop accruing interest on impaired loans
- Criteria for writing-off loans based on number of days past due
- Write-off of assets received or adjudicated in lieu of payment of loans
- Measurement of tangible and intangible assets

Effects of the modifications

- New version of the accounting standards manual for banks with first application as from 1 January 2020 (proposal)

- Principal effects expected with regards to:
  - ~ New clasification of financial instruments to the measurement categories of IFRS 9→Marginal effects
  - ~ Hedge accounting→Marginal effects
  - ~ Impairment→ Without effects to loans due to carve-out of this materia from IFRS 9
  - ~ Change in criteria for accruing interest on impaired loans subject to group evaluation→ Initial application of change in criteria registered to equity

Effects of the modifications

- Other effects expected:
  - ~ **Tecnological:** Changes needed to IT systems (in banks / SBFI / Central Bank of Chile)
  - ~ **Cultural:** Changes in the financial and accounting language
  - ~ **Change in the supervisory model of SBFI:** More detailed and explained information, improves the supervisory performance
  - ~ **More and better public information available to stakeholders:** Improved decision making by depositors, investors and general public

SBIF

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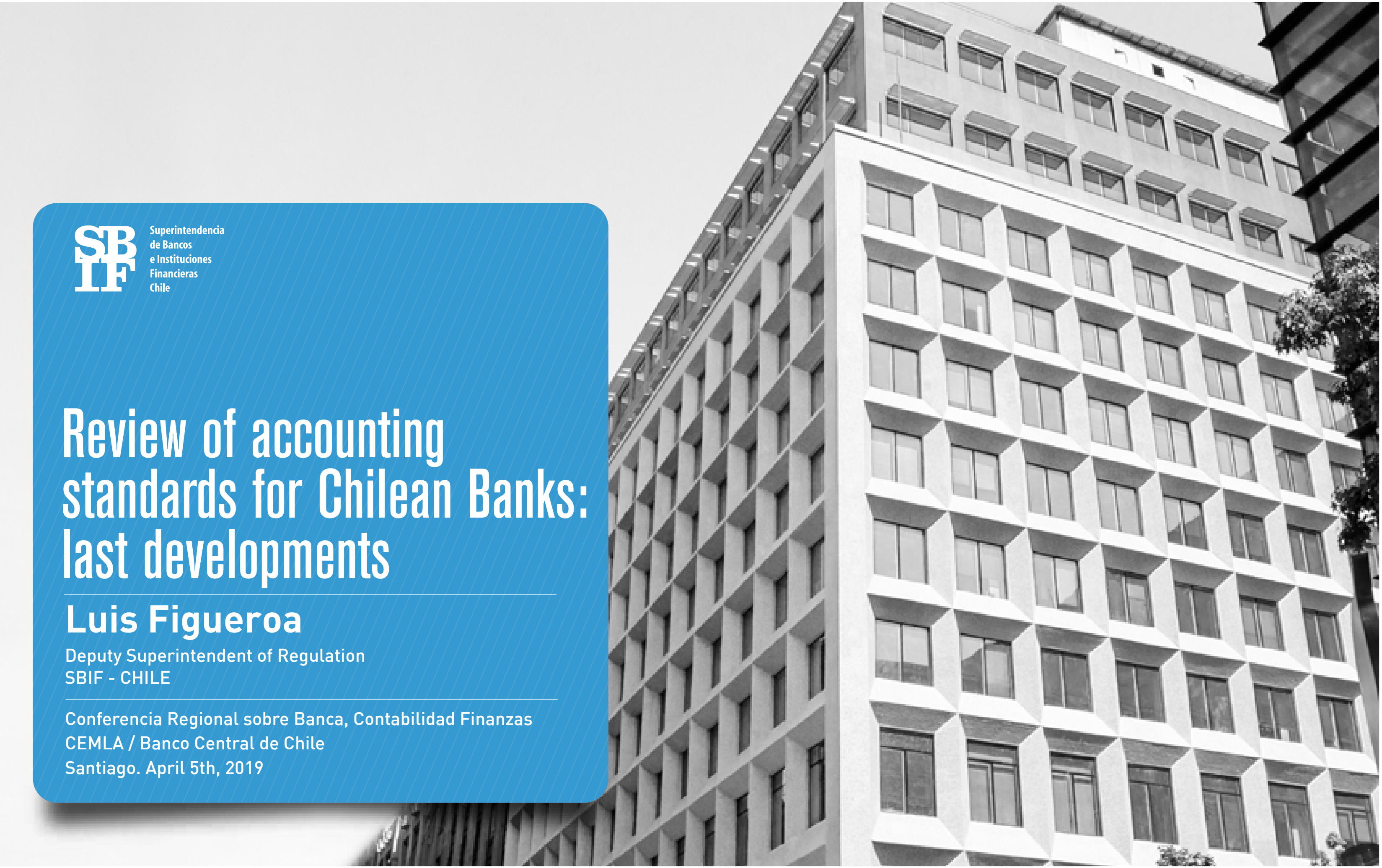
Challenges derived from implementation

Some Challenges

- Finishing the consultation process and Issuing of the new version of the accounting standards manual for Banks
- Assesing the financial impacts in Banks derived from the implementation of the new version of the accounting standards manual
- Achieving a coherent model of provisioning and Basel III capital requierements
- Reviewing and updating the accounting standard manuals for the other credit industries

More and better information about risk management activities. Accounting information will create more value added to stakeholders.



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