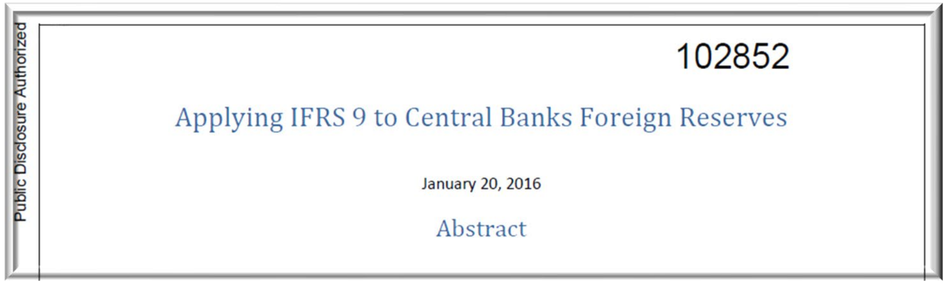
BANCO CENTRAL DE COSTA RICA

IFRS 9 adoption in the Central Bank of Costa Rica

CEMLA Accounting Commitee Presentation

May 6th, 2021

Some reviewed documents

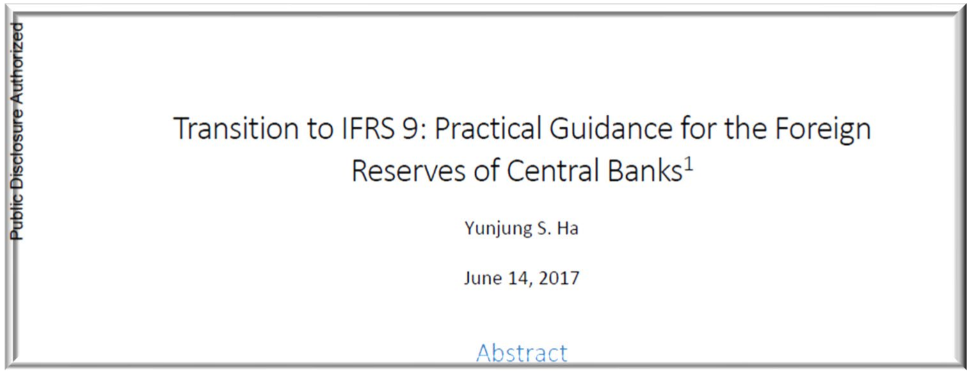

Public Disclosure Authorized

102852

Applying IFRS 9 to Central Banks Foreign Reserves

January 20, 2016

Abstract

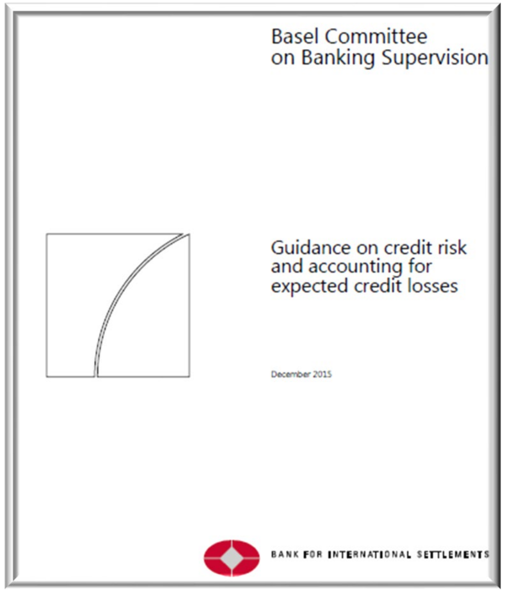

Public Disclosure Authorized

Transition to IFRS 9: Practical Guidance for the Foreign Reserves of Central Banks[1]

Yunjung S. Ha

June 14, 2017

Abstract


Basel Committee on Banking Supervision

Guidance on credit risk and accounting for expected credit losses

December 2015

BANK FOR INTERNATIONAL SETTLEMENTS

Which is the business model of a Central Bank?

- ¿Is there a unique model?
- ¿Is it possible to apply different models?
- RAMP-BM guide about how to determine the appropiate business model for International Reserve Assets.

Business model applicable to International Reserve Assets

- Factors:
  1. Objectives for each section of the International Reserve Assets.
  2. Frequency, value and dates of sale in previous periods, reasons for such sales and expectations about future sales.
  3. Bases for decision-making by the Administration, as to whether the management of the Central Bank is mainly focused on fair value information for decision-making.

Business model applicable to International Reserve Assets

- Factors:
  4. Risk parameters under which portfolios are managed to meet their objectives.
  5. Performance evaluation (including compensation): How the performance of the Central Bank portfolio managers is evaluated, and its relationship to their compensation.
  6. Relative importance of the different sources of income (for example, interest income with respect to gains and losses due to market valuation.

IFRS 9 implementation analysis: Financial assets

- Assets inventory on transition date
- Current classification according to fixed income, equities and derivatives
- Analysis of the business model under IFRS 9
- Characteristics analysis of cash flows
- Accounting analysis of holdings in international organizations
- Identification of impacts

IFRS 9 implementation analysis: Financial liabilities

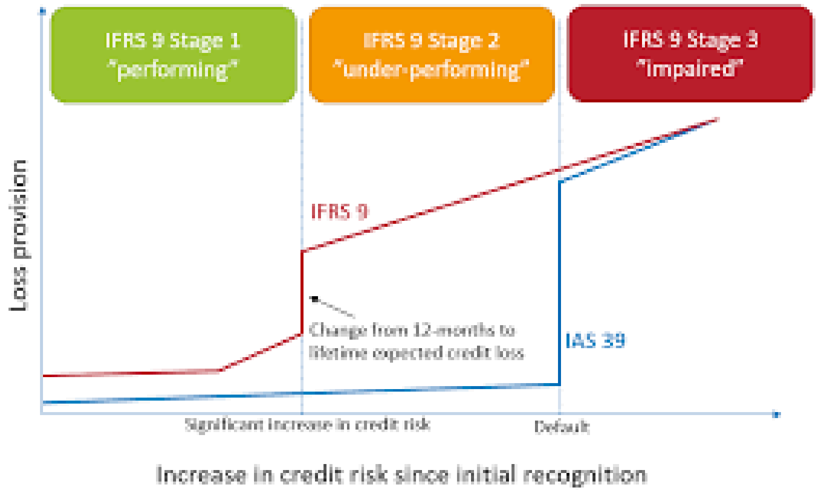
Liabilities inventory on transition date

Review if any liabilities were being valued at the market

Identification of impacts

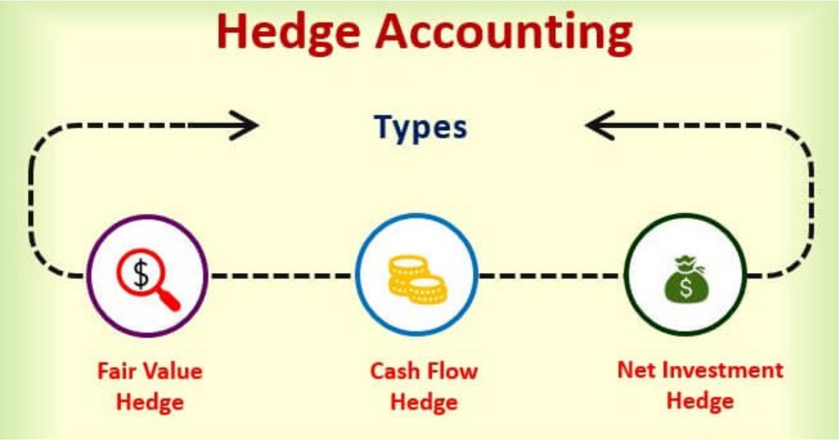
Expected credit loss (ECL)

- From incurred loss to expected loss.
- Quantification on different dates for international reserve assets, internal financial liabilities, permanent credit facilities, guarantees provided in financial liabilities.
- Application of two approaches:
    - ECL: PD * LGD * EAD.
    - Simplified approach.



Other considerations

- BCCR does not apply hedge accounting.



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