



Bangladesh Bank

Head Office

Motijheel, Dhaka-1000

Bangladesh

website: www.bb.org.bd

Banking Regulation and Policy Department

23 January 2025

Date: -----

09 Magh 1431

BRPD Circular Letter No. 03

Managing Director/Chief Executives

All Scheduled Banks in Bangladesh

Dear Sir,

Implementation of ECL-based Loan Classification and Provisioning under IFRS 9

Please refer to BRPD Circular No. 15 dated 27 November 2024 on Loan Classification and Provisioning.

2. According to the mentioned circular, Bangladesh Bank (BB) plans to implement Expected Credit Loss (ECL) methodology-based provisioning system for banks in accordance with International Financial Reporting Standard (IFRS 9) by 2027. Presently, we are following rule-based loan classification and provisioning system. As a part of our ongoing efforts to enhance the risk management capabilities of banks and increase the transparency of the financial reporting, Bangladesh Bank has decided to adopt ECL-based loan classification and provisioning system for banks under IFRS 9.
3. Traditionally, the incurred-loss model is the foundation for the accounting recognition and measurement of credit losses, varying significantly across different jurisdictions. However, in December 2015, the Basel Committee on Banking Supervision (BCBS) issued guidance on credit risk and the accounting for expected credit losses, outlining supervisory expectations for banks regarding sound credit risk practices related to the implementation and application of an ECL accounting model. The International Financial Reporting Standard 9 (IFRS 9), which replaces IAS 39, mandates that impairment loss allowances be measured based on an ECL accounting model instead of the incurred loss accounting model. Within the IFRS 9 framework, credit risk assessments must include forward looking approach, which is primarily designed to mitigate procyclicality. When evaluating ECL, it is essential to consider macroeconomic and financial factors, anticipated risks, and associated dynamics.
4. To achieve the goal of implementing IFRS 9 for the banking sector by 2027, BB has outlined a roadmap with the specified timelines. The details of which are provided in the following table:

Table: Roadmap of Implementation of IFRS 9

Phases	Sl.	Particulars	Timeline of	
			Implementation within	Report Submission to BRPD
PHASE-I	1.	(a) Formation of the 'IFRS 9 Implementation Team' led by the Managing Director (MD)/CEO. (b) Preparation of the 'Time Bound Action Plan to Implement ECL-based loan classification and provisioning under IFRS 9'duly approved by the Board of Directors (BODs)	March 2025	Within 15 April 2025.
	2.	Develop a database preserving required data (e.g. sector wise, borrower wise and loan-nature wise classification percentages, default percentages, loan loss recovery rates, various macroeconomic factors etc.) of borrowers on monthly basis from January 2022 onwards to calculate ECL.	June 2025	Within 15 July 2025.
	3.	Prepare a pre-assessment report on implementation of ECL-based loan classification and provisioning, and submit the same to Banking Regulation and Policy Department (BRPD). The report shall include detailed plan for transition from existing rule-based model to ECL model, probable challenges and required actions to implement IFRS 9.	September 2025	Within 15 October 2025.
	4.	Conducting training and capacity building programs on ECL-based loan classification and provisioning for all the relevant employees.	December 2025	Within 15 January 2026.
PHASE-II	5.	BB will issue guidelines on ECL-based loan classification and provisioning model following BCBS documents and IFRS 9.	January 2026 (by BB)	--
	6.	Finalization of automated ECL-based loan classification and provisioning model by banks following the BB guidelines.	June 2026	Within 15 July 2026.
	7.	Implement IFRS 9 on a pilot basis in the branches that collectively cover at least 25% of the total loan portfolio of the bank.	September 2026	Within 15 October 2026.
	8.	Implement IFRS 9 on a pilot basis in the branches that cover at least 50% of the total loan portfolio of the bank.	December 2026	Within 15 January 2027
	9.	Parallel preparation of financial statements (provisional) on a half yearly basis under IFRS 9 and existing policy.	December 2026 and onwards	Within 15 days of reference date.
PHASE-III	10.	Implement IFRS 9 on a pilot basis in branches which cover at least 75% of the total loan portfolio of the bank.	June 2027	Within 15 July 2027.
	11.	Full Implementation of ECL-based loan classification and provisioning under IFRS 9 on pilot basis.	December 2027	Within 15 January 2028.

5. The readiness of the banking sector and early assessment of banks' financial health in accordance with IFRS 9 are essential to implement ECL-based classification and provisioning for banking sector. In this regard, the following preparatory instructions are provided :
- (a) Banks shall prepare themselves at the institutional level by reviewing internal systems and procedures, accounting standards, technical aspects and capacity building of their officials.
 - (b) The 'IFRS 9 Implementation Team', led by the MD/CEO, will be responsible for implementation of IFRS 9 of the concerned bank. They are assigned with the task of ensuring regulatory compliance, overseeing the preservation, management, and analysis of historical data used in the credit loss models, maintaining regular communication with BB, and performing the necessary reporting.
 - (c) The 'IFRS 9 Implementation Team' shall include officials from relevant departments such as Credit Risk Management, Financial Accounts, IT, ICC etc. However, Chief Risk Officer (CRO) and Chief Financial Officer (CFO) must be included in the team. Additionally, employees with relevant professional degree (e.g., CA, CFA, CMA, etc.) shall be included on a preferential basis.
 - (d) Bank management shall submit quarterly reports to the BODs detailing the implementation status of IFRS 9. With the approval of the BODs, bank shall submit a summary of the same to the Banking Regulation and Policy Department within the following month.
 - (e) Bank shall ensure that all pertinent officials receive adequate training for the implementation of IFRS 9. To achieve this, regular training and capacity-building programs shall be organized. As a part of capacity building and business continuity the bank shall arrange training for trainers (ToT) program for the faculty members of the training institute by the experts of IFRS 9.
 - (f) Bank shall ensure the appropriate automation, upgradation and enhancement of IT infrastructure and system capacity as and when necessary.
 - (g) Bank may consider seeking technical assistance from external experts during the implementation of IFRS 9.
6. This directive has been issued by Bangladesh Bank in exercise of its power conferred on it under section 49(1)(cha) of the Bank Company Act, 1991.

Yours faithfully,



(Mohammad Shahriar Siddiqui)
Director (BRPD)
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