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REGULATORY ADVISORY NO 4 OF 2020

ADDENDUM TO STATEMENT OF GUIDANCE ON LOAN CLASSIFICATION AND PROVISIONING - APPLICATION OF PAYMENT MORATORIA

This guidance is issued pursuant to Section 43 of the Financial Services Commission Ordinance 2007 ('the FSC Ordinance') and serves as an addendum to the Statement of Guidance: Loan Classification and Provisioning (Guideline).

The Commission recognises that various payment moratorium programmes have been introduced by banks in the TCI to mitigate the impact of the COVID 19 pandemic on their customers. The safety and soundness of the financial system remains absolutely paramount to the Commission during these unprecedent times; accordingly, moratoria, while well intended, should be carefully designed, implemented and managed to ensure that they do not undermine the safety and soundness of the relevant financial institution and/or the financial system.

Considering the above, the Commission provides guidance on the application of payment moratoria for customers affected by the COVID 19 pandemic and other disaster related customer relief programmes. This guidance does not apply to moratoria in the normal course of business.

Banks should be guided by the following when designing and implementing disaster related payment moratorium programmes:

i) To benefit from the treatment outlined in these guidelines, the moratoria must apply to bank-initiated moratoria schemes for all customers or a predefined class of customers. This guidance does not apply to customer requested moratoria or to loans granted after the programme came into effect (excluding the use of exiting credit lines or renewal of revolving loans).

ii) A payment moratorium should only be applied to a credit facility where the facility was classified as Pass or Special Mention (i.e. performing and/or in arrears for up to 89 days) at the initial period of the moratorium. Payment moratoria should not apply to facilities classified as non-performing (i.e. Sub-Standard, Doubtful or Loss) when the programme came into effect.

iii) Facilities under a qualifying moratorium programme should not be automatically recognised to have undergone a significant increase in credit risk (SICR) unless there is reasonable and supportable information/evidence to establish further increase in a borrower's default risk.

Therefore, these facilities may retain their loan classification status at the initial period of the moratorium. Banks are encouraged to be proactive in assessing changes in borrowers' credit risk.

iv) Where banks have determined an exposure to have undergone SICR, the necessary loan classification adjustments and provision are to be made in accordance with the Guideline.

v) Regarding expected credit loss (ECL) criteria under IFRS9 or the US GAAP, procedures to measure ECL must be robust and timely, and reflect the mitigating effect of governmental economic support measures, economic conditions affecting borrowers cash flows and forward-looking factors affecting their repayment capacity.

vi) Banks are to introduce enhanced monitors (and reporting) of accounts benefiting from a moratorium program. The Commission will issue a revised Banking Supervisory Supplementary Return 4 (BSSR4) on which licensees will report exposures that have benefited from the moratorium.

Please be guided accordingly.

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