



THE REGULATOR'S PERSPECTIVE ON THE PROGRESS OF IFRS 9 IMPLEMENTATION IN KENYA

STATUS UPDATE FROM THE CENTRAL BANK OF KENYA (CBK)

BY

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**INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF KENYA (ICPAK) INTERNATIONAL
FINANCIAL REPORTING STANDARD (IFRS) 9 IMPLEMENTATION WORKSHOP HELD ON
MAY 8, 2018 AT HILTON HOTEL, NAIROBI**



1.1 Outline

- ☐ Recap of IFRS 9
- ☐ CBK/Regulator's Perspective on the Progress of IFRS 9 Implementation in Kenya (Case of commercial banks)
- ☐ International Practices
- ☐ Way Forward



1.2 Background to IFRS 9

- ❑ IFRS 9 is the International Accounting Standards Board's (IASB) response to the financial crisis, aimed at improving the accounting and reporting of financial assets and liabilities.
 - ❑ IFRS 9-Expected impairment model replaces IAS 39 - Incurred impairment model-it introduces a forward-looking view of credit quality, with banks expected to recognize credit impairment before a loss event.
 - ❑ IAS 39 results in “too little, too late” provisions and does not reflect the underlying economics of the transaction. While, IFRS 9 Aligns the measurement of financial assets with the bank's business model, contractual cash flow characteristics of instruments, and future economic scenarios.
 - ❑ IFRS 9 Will have Impact on Banks' Provisions and Financial Statements
 - ❑ The Transition has to be carefully managed to avoid instability.
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1.3 Progress of IFRS 9 Implementation in Kenya (Case of commercial banks)

- ☐ CBK will continue to work with ICPAK on guidelines to Commercial Banks for implementation of IFRS 9 because this standard primarily affects Commercial Banks which CBK regulates.
- ☐ To address a key concern for implementation of the standard i.e. Capital adequacy as a result of erosion by the implementation, the CBK has agreed with the commercial banks a five (5) year transition period where the institutions will add back IFRS 9 provisions relating to performing facilities/loans outstanding as at December 31, 2018.
- ☐ During the transition period, institutions should disclose, in their published results, their core and total capital ratios both before and after the additional expected credit loss provisions have been added back.
- ☐ The Bank has also issued a new monthly return-IFRS 9 Implementation Transition Return developed to help in monitoring provisions over the next five years.
- ☐ Commercial banks have been given time and have been seen to be adequately planning for implementation of IFRS9
- ☐ Commercial banks will continue to plan to effectively grow capital in a systematic manner during the 5 year transition period extended by CBK.



1.4 Kenyan Perspective

- ❑ The Institute of Certified Public Accountants of Kenya (ICPAK) – is the legal body responsible for adoption and enforcing implementation of IFRS.
- ❑ Kenya subscribes to IFRS compliance and Commercial Banks will embrace implement of IFRS9.
- ❑ The Banks will follow guidelines issued by the CBK
- ❑ **Individual banks and their auditors remain responsible for the implementation under the oversight of the ICPAK as the regulators of the professional auditors.**
- ❑ To ensure adoption does not cause instability, flexibility and alignment are necessary.
- ❑ CBK has will continue engagements on IFRS 9 with:
 - ✓ ICPAK;
 - ✓ Banks;
 - ✓ Audit Firms.
 - ✓ Kenya Bankers Association (KBA); and



1.5 Way Forward

- ☐ Banks should be ready to transition from IAS39 to IFRS9
 - ☐ Measures will continue to be reviewed to ensure there is no instability.
 - ☐ Implementation will take place as per the requirements of the standard.
 - ☐ Banks are expected to give sufficient disclosures in the financial statements upon the implementation.
 - ☐ CBK will continue working with the other stakeholders on the implementation.
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Thank you