



## PRESS RELEASE

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### **Banco de España approves updated accounting circular for credit institutions**

The Governing Council of the Banco de España has approved an amendment of the accounting circular for credit institutions (Circular 4/2004), mainly to update its Annex IX on “credit risk analysis, allowances and provisions” so as to adapt it to the latest developments in banking regulation and strengthen consistency in the application of international financial reporting standards (IFRSs) by institutions.

The update of Annex IX represents a further step forward in the consistent application of the current accounting framework in the areas of classification of credit risk exposures and the estimation of provisions under the incurred loss model. Notable in this respect is the introduction of minimum requirements to be met by the methods developed by institutions themselves for the individual or collective estimation of provisions. These requirements relate to governance, integration in management, effectiveness, simplicity, documentation and transaction monitoring.

It should be noted that the improvements introduced are not of a temporary nature. Thus, when in the future the expected loss model for estimating provisions is adopted – which will entail compulsory adaptation of provisioning criteria – the principles incorporated in this circular to strengthen credit risk management, the proper classification of transactions, the soundness of provision estimates and the appropriate treatment of collateral for accounting purposes will remain in force.

The new circular has been published today in the Official State Gazette. The updated Annex IX will come into force on 1 October.

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