



PRESS RELEASE

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The Banco de España approves new accounting circular for credit institutions

The Governing Council of the Banco de España has approved a new accounting circular for credit institutions to replace Circular 4/2004. The basic purpose of this circular is to adapt the accounting regime for Spanish credit institutions to the accounting framework derived from the new International Financial Reporting Standards (IFRSs) on financial instruments (IFRS 9) and on revenue from contracts with customers (IFRS 15).

The new circular includes the amendments made to European regulations on supervisory financial reporting (known as FINREP) to adapt them to IFRS 9.

The main new feature is the change in the model for estimating provisions, which ceases to be based on the “incurred loss” concept and will adopt that of “expected loss”. This change is intended to allow provisions to be estimated more adequately and recognised on a more timely basis.

The new circular maintains the improvements to strengthen accounting for credit risk introduced in 2016, relating to: classification using the definitions of non-performing exposures and of forborne exposures given in FINREP; the requirements to be met by institutions’ internally developed methodologies for estimating provisions; and the valuation of collateral for accounting purposes.

Along with the changes relating to the estimation of provisions, the new circular also introduces new criteria adapted to IFRS 9 to be used to classify financial assets for their measurement.

The new circular, published today in the Spanish Official State Gazette, will come into force on 1 January 2018.