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To All Banks

Regulatory treatment of accounting provisions for capital purposes

The purpose of this circular is to provide guidance on an interim approach to the regulatory treatment of accounting provisions by banks in Seychelles, following the adoption and implementation of IFRS 9 on January 1, 2018.

As higher provisions are possible under IFRS 9 standards, these have a direct impact on banks' regulatory capital levels given that accounting provisions affect regulatory capital through the profit and loss statement. Banks' capital adequacy ratios obtain an extent of advantage from the provisions for credit losses that are booked. In the Financial Institutions (Capital Adequacy) Regulations, 2010 (hereafter referred to as Capital Adequacy Regulations), this advantage is granted through use of the regulatory general and specific provisions, rather than accounting provisions, for computation of the capital adequacy ratios.

In relation to this, Central Bank of Seychelles (CBS) has considered the Basel Committee for Banking Supervision (BCBS') standards on Regulatory treatment of accounting provisions – interim approach and transitional arrangements issued in March 2017. CBS has also taken into account the progress that banks in Seychelles have made regarding the implementation of IFRS 9 on an industry-wide basis.

Further to these considerations, banks are advised to apply the following treatment -

- IFRS 9 Stage 1 provisions on financial assets are to be treated as general provisions for capital adequacy purposes.
- Banks may include the higher of IFRS 9 Stage 1 or regulatory general provisions in Tier 2 capital. The inclusion is subject to a limit of 1.25% of risk-adjusted assets.

- Banks should continue to net off regulatory specific provisions from the amount of exposures outstanding for the determination of risk-adjusted assets. Specific provisions shall have the meaning ascribed in the Financial Institutions (Credit Classification and Provisioning) Regulations, 2010 as amended.

The above treatment will take effect as from the reporting date of the RWCR and CAR returns for July 2021. The latest quarterly IFRS 9 provisions are to be used until further notice.

BCBS has indicated that it is deliberating on the longer-term regulatory capital treatment of accounting provisions that would replace the interim approach. CBS remains committed to consider further developments, including additional guidance from BCBS on the regulatory treatment of accounting provisions for capital.

CBS trusts in your adherence to this circular.

Yours sincerely,


Christophe Edmond
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C. Edmond 

First Deputy Governor