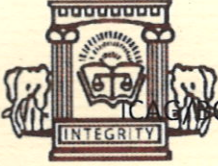

INSTITUTE OF CHARTERED ACCOUNTANTS, GHANA

ICAG/BOG/GGDDEP/23

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13th January, 2023

The Governor,
Bank of Ghana,
Head Office,
Accra

Dear Sir,

RE: SUMMARY OF ACCOUNTING IMPLICATIONS OF THE DOMESTIC DEBT EXCHANGE PROGRAMME ON THE BANKING INDUSTRY

We refer to your letter dated 11th January 2023 with reference number BSD/17/2023 which summarised the discussions held on 5th January 2023 between ICAG and the Bank of Ghana. The technical team of the institute has studied contents of the paper and present attached our feedback on the issues raised.

This paper references our previous submission on the previous exchange memorandum dated 5th December 2022. It should therefore be read as an update to that document.

We greatly value our collaborative efforts in assessing the implications of the Domestic Debt Exchange Programme on the banking industry.

Should you require further explanation, please do not hesitate to contact me for further deliberation.

Yours faithfully,

PRESIDENT
INSTITUTE OF CHARTERED
ACCOUNTANTS (GHANA)
P. O. BOX 42?? ACCRA

Ms. Sena Dake
PRESIDENT (ICAG)

Cc: The Governor, Bank of Ghana, Accra.
The First Deputy Governor, Bank of Ghana, Accra.
The Second Deputy Governor, Bank of Ghana, Accra.

INSTITUTE OF CHARTERED ACCOUNTANT GHANA (ICAG)

2ND SUBMISSION ON ACCOUNTING IMPLICATION OF GHANA'S DOMESTIC DEBT EXCHANGE (GDDE) ON BANKS USING REVISED EXCHANGE MEMORANDUM OF 30th DECEMBER 2022

Context

- This paper references our earlier submission dated 5th December 2022 on the previous exchange memorandum. It should therefore be read as an update to that document.
- It also references the meeting between ICAG and the Bank of Ghana (BoG) on 5th January 2023 and subsequent letter from BoG on 11th January 2023 with reference number BSD/17/2023.
- We present below our feedback on the BoG letter of 11th January 2023.

Issue No.	Subject matter	BoG comments	ICAG position
1	Impact of GDDXP on the 2022 Financial Statements of RFIs	The meeting agreed that given the new settlement date of the GDDXP, there will be no requirement for a modification assessment as at 31st December, 2022 that may give rise to a derecognition gain/loss. Notwithstanding the above, Regulated Financial	Whilst we agree with this position, we would like to emphasise the basis of ECL assessment which we raised at the meeting. The old bonds will be considered as credit-impaired, thereby being categorised under stage 3, because they meet the factors of a credit impaired asset outlined in Appendix A of IFRS 9. In determining the ECL, IFRS 9 requires that the credit loss for credit-impaired financial assets be determined as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. (IFRS 9 B5.5.33) The GDDE programme was released in December 2022 but will only become effective in 2023, post year-end. The substance of the GDDE

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Issue No.	Subject matter	BoG comments	ICAG position
		Institutions (RFIs) are expected to conduct their own assessment of the Expected Credit Loss (ECL) allowance and book any impairments in line with IFRS 9.	programme is that holders of eligible bonds are to exchange these existing bonds for new bonds whose terms will result in a substantial modification of the old bonds. This means that the cashflows under the old bonds are being replaced with a new financial asset. The expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. It is therefore expected that for the purposes of the 31st December 2022 financial reporting, the ECL on old bonds held at amortised cost or Fair Value through Other Comprehensive Income (FVOCI) will be based on the carrying amount of the old bonds, less the estimated fair value of the new bonds at date of exchange, discounted to present value using the original effective interest rate to 31st December 2022. The carrying amount of the old bonds held at Fair Value through Profit or Loss (FVTPL) or FVOCI at 31st December 2022 is expected to be their fair values, which are to be determined with reference to the fair values of the new bonds at the date of exchange. The cash tender fee of 2% of the principal amount will be considered in determining the fair values of the new bonds at 31st December 2022.
2	Impact of GDDXP on the 2023 Financial	Given that the new settlement date is on January 24,	We agree to the position as captured. We however would like to refer to section 2.2 of our initial paper where we performed an assessment based on the general terms of the exchange

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Issue No.	Subject matter	BoG comments	ICAG position
	Statements of RFIs	2023, RFIs would have to conduct a modification assessment and ascertain its impact on their financial statements. IFRS 9 indicates that in the event that the modification is considered substantial, the old bond should be derecognised and replaced with the fair value of the new bonds.	which in our view would lead to a substantial modification. We therefore expect the old bonds to be derecognised in 2023 and the new bonds booked at fair value at the date of exchange.
3	Impairment assessment of new bonds	For purposes of impairment assessment, IFRS 9 indicates that the date of modification shall be treated as the date of initial recognition of the new bonds. This means the impairment allowance should be an amount equal to 12-month	As indicated in Section 3 of our first paper, the new bonds are expected to be classified as credit-impaired at initial recognition, and thus, the financial asset should be recognised as an originated credit-impaired financial asset [IFRS 9 paragraph B5.5.26]. On initial recognition, originated credit-impaired assets do not carry an impairment allowance. Instead, lifetime ECLs are incorporated into the calculation of the effective interest rate [IFRS 9 paragraphs 5.5.13-14, A and B5.4.7]. No impairment expense or allowance is recognised if, in subsequent periods, experience and expectations about the collectability of cash

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		ECL until the requirements for the recognition of lifetime expected credit losses are met.	flows are unchanged from expectations on initial recognition. Favourable changes in lifetime ECLs are recognised as an impairment gain, even if the favourable changes are more than the amount, if any, previously recognised in profit or loss as impairment losses. It is important to note that this will only impact the 2023 financial statements.
4	Derecognition assessment (applicable for 2023 year end only)	In assessing the derecognition gain/loss, RFIs shall determine the carrying amount of the existing bonds, and also the fair value of the new bonds. The RFI shall compare these two amounts and the difference between the carrying amount of the old bonds and the fair value amount of the new bonds shall be recognised in the income statement'.	We are aligned with these action points. The meeting agreed that in assessing derecognition gain/loss, the RFIs will have to determine the carrying amount of the old bonds at the date of derecognition and also recognise at initial measurement, the fair value of the new bonds. The meeting also agreed that in determining the fair value of the new bonds, an appropriate discount rate should be used considering the peculiar circumstance of the new bonds.
5 to 8	Determining an	Recommendation for the adoption of	We acknowledge that fair value determination in the context of current market conditions is not a

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	appropriate discount rate for purposes of fair valuing the new bonds Justification for the proposed 12% discount rate	the Income approach as the alternative method for determining the fair-value of the new bonds and 12% as the discount rate to be used for discounting the future cash flows to its present value.	simple process especially as these new bonds are yet to be issued and there is no market data. RFIs need to decide the basis of fair value estimates for these bonds with supportable information on the key assumptions used in these calculations. We take note of the basis for the 12% discount rate proposed in the BoG letter and have initiated discussions with technical valuation experts to review the appropriateness of these assumptions and the approach. We shall provide our feedback after these reviews.
9	Matters for further discussion with the ICAG	The following matters are yet to be addressed by the ICAG: Events after the reporting date - implication for 2022 financial statements. Recognition of new bonds as originated credit impaired. ECL assessment for other financial assets with same counterparty.	**1. Events after the reporting period - implication for 2022 financial statements.** • Given the settlement of the exchange is scheduled to happen in 2023, this is not considered an adjusting event for which a derecognition of the old bonds needs to be performed for the 31st December 2022 financial statements. • For the purposes of ECL determination at 31st December 2022 however, IFRS 9.5.5.17 requires that in measuring ECL, entities factor in a range of possible outcomes, _reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions._ • The information about the Debt Exchange programme was communicated before year end and are indicative of past events, current and future conditions for which reason the

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			GDDXP needs to be factored into the ECL determination at the 31st December 2022 year end. **2. Recognition of new bonds as originated credit impaired** • We indicated in our technical assessment of this matter in section 3 of our first paper which we have summarised again in Section 3 of this document. **3. ECL assessment for other financial assets with same counterparty.** With respect to other financial exposures with the counter party, our explanation in the first paper we issued is largely unchanged and summarised below: • Government is in significant financial difficulty, and it is likely that payments for these instruments may be affected by the current challenges. Consequently, we expect this to be reflected in the staging of these exposures and a zero percent loss rate will be difficult to justify going forward. • Per Issue 1 of the Domestic Debt Exchange FAQs released by Government on 5th December 2022, there is clear indication from Government of its intention to exchange domestic non-marketable debt and Cocoa bills, under comparable terms at a later stage. The Government also intends to exchange USD-denominated local notes at a later stage. If the government goes ahead with its

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Issue No.	Subject matter	BoG comments	ICAG position
			intention, then these instruments would exhibit characteristics of being credit-impaired and should fall under Stage 3 in the ECL assessment. Given that there is no communication on the exact terms of the restructure, we expect the ECL assessments to estimate expected cashflows in a pattern similar to the instruments under the GDDE programme. • Regarding Treasury bills which are exempted from the programme, we expect these to be classified in stage 2 and lifetime ECL assessed. In addition to being exempted from the program, the Government can issue new bills to pay off maturing bills. The treasury bills are also short term in nature. Banks must assess cash shortfalls on these instruments in line with their credit risk management policies and recognize an impairment allowance which is more than nil. • The staging and ECL assessment for loans to State Owned Enterprises (SOEs) should be assessed with regards to the level of independence of their income sources from the government. If these income sources are ring-fenced, these loans would not be subject to the same level of credit risk as the other Government exposures hence ECL is determined based on the banks' credit risk management policies with consideration given to the current and future economic environment.

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			• Regarding Euro bonds, Appendix A of IFRS 9 will require these bonds to be classified as credit-impaired because payments have been suspended. Banks should measure the ECLs on euro bonds as the difference between the gross carrying amount; and the present value of estimated future cash flows discounted at the asset's original effective interest rate. In estimating the future cash flows, banks need to consider the Government's ability and willingness to settle amounts outstanding in respect of the euro bonds as and when they fall due. Banks would need evidence to support their estimates of future cash flows.