27 June 2016

Circular BM 1145

To: **All Licensed Banks and FLCs operating in the Sultanate of Oman**

After Compliments,

Sub: Impairment of equity investments classified as Available for Sale

1. Attention of Licensed Banks and FLCs is invited to paragraph 61 of International Accounting Standard (IAS) 39 on *Financial Instruments: Recognition and Measurement* which states that *"A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment."* Attention is also invited to our letter BSD/2009/BKUP/Banks & FLCs/032 dated January 12, 2009 wherein Licensed Banks and FLCs have been advised to consider a threshold of 35 percent decline in market value for assessing impairment of equity investments held under Available for Sale (AFS).

2. In the absence of any guidance in the Standard or regulatory instructions on what constitutes "prolonged", there is a wide variance amongst Licensed Banks and FLCs with regard to the definition of "prolonged" and the Central Bank has received requests for clarification in this regard. The matter has been examined; and accordingly Licensed Banks and FLCs are advised to be guided by the following thresholds from the financial year ending December 31, 2016 onwards:
   (a) A decline in the fair value below cost for 6 to12 months may be considered prolonged, depending on individual circumstances.
   (b) A decline in the fair value below cost for more than 12 months should definitely be considered prolonged.

(c) A decline in the fair value below cost for less than 6 months should normally not be regarded as prolonged.

3. As regards the definition of "significant", Licensed Banks and FLCs are encouraged to exercise prudence in this regard and adhere to more conservative thresholds than the Central Bank prescribed ceiling.

4. Licensed Banks and FLCs should specifically disclose the policy including thresholds applied by them for the terms "significant" and "prolonged" in the notes to the financial statements.

5. Licensed Banks and FLCs are also advised to scrupulously adhere to the requirements of IAS 39 regarding the impairment assessment of investments in equity instruments and in financial assets carried at cost at every balance sheet date, including interim reporting under IAS 34. The assessment of impairment should be done on a prudent basis taking into account all relevant information about conditions existing at the end of the reporting period and should not be based on dated information. Forecasts of expected recovery of values, regardless of their expected timing, should not be considered.

Best regards,

Hamood Sangour Al-Zadjali
The Executive President