



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Press Release

August 22, 2019

For immediate release

Exemptions from application of IFRS 9: Financial Instruments and IFRS 16: Leases

Islamabad, August 23, 2019: Securities and Exchange Commission of Pakistan ("SECP") has exempted applicability of International Financial Reporting Standards (IFRS) 9 in respect of debts due from Government of Pakistan to power supply chain companies for a limited period of three years i.e. till June 30, 2021. The SECP has also extended the earlier exemption from IFRIC 4, now IFRS 16 to all companies, which have entered into power purchase arrangements before January 01, 2019.

The Commission has made the decision after detailed deliberation and consultation, taking into account recommendations of the Institute of Chartered Accountants of Pakistan ("ICAP"), representations received from a number of affected companies, as well as comments of the concerned ministry.

Under Section 225 of the Companies Act, 2017, the Commission is empowered to notify financial reporting standards for companies classified in terms of Third Schedule to the Act. The Commission has power to grant exemption to any company or class of companies, if it is in the public interest to do so, from compliance with all or any of the requirements of the relevant Schedule.

The Commission while considering the exemption for IFRS 9 was of the considered view that compliance with IFRS for ensuring true and fair presentation of financial statements is of paramount importance for SECP. However the said standard need to be looked into from Pakistan perspective where phenomenon like circular debts need to be given due consideration. It was noted that concerns expressed by companies regarding practical limitations in determining expected credit losses (ECL) on debts due from government, due to uncertain cash recovery patterns of circular debt, carry weight. Public information regarding expected settlement of circular debt by GOP in coming years may result in subsequent reversals of impairment losses recognized in 2019.

It is expected that the said decisions of the Commission shall have positive impact on the corporate sector and on the capital markets. The decision of the Commission shall be placed before the policy board of the SECP for its final approval for notification.

