Easy Implementation IFRS 9 Expected Credit Loss for Trade Debtors

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Valuation Advisory

01 Awareness

Overall Direction

- IFRS 9 emphasizes that estimating expected credit losses may not necessarily need to be a complex process
- Average credit losses for a large group with shared risk characteristics may be a reasonable

Your Key Note: *Simple but Systematic is Enough!*

02 Simplified Approach

How do we decide which approach to use? Implication?

- Mandatory for Trade receivables and contract assets within the scope of IFRS 15
- Lifetime ECLs rather than the two step process under the general approach

Your Key Note: *No Choice for ARs without financing component*

03 Provision Matrix

How do we prepare Provision Matrix?

- List out Debtors at a specific point of time
- Calculating Aging Profile
- Calculating Payment Profile
- Calculating Credit Loss by Aging Profile

Your Key Metric: *e.g. Details of Credit Sales, Credit Terms, Settlement and bad debt record*

04 Segmentation

Proper Segmentation to Enhance Accuracy

- Segmentation based on operating segments
- Segmentation based on exposure size

Your Key Metric: *e.g. Consider if segmentation is required*

05 Forward-Looking Inputs Needed!

IFRS 9 requires forward-looking assessment so estimation solely based on historical data is not enough

- Prospect in debtor's industry
- Data and forecast in debtor's industry
- Credit outlook in debtors' industry

Your Key Metric: *e.g. forward-looking inputs*

06 Information Checklist

How do you get start?

- A detailed record of debtors' profile by credit terms
- Detailed record of payment
- Detailed record of credit loss or bad debt recognized

Your Key Metric: *e.g. Comprehensive records for trade debtors' analysis*

SOURCE

https://www.pwc.com/ifrs9
https://home.kpmg.com/xx/en/home/insights/2017/09/financial-instruments-corporates-implementation-guidance-ifrs9-ias39-ifrs7-280917.html
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