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MFRS 9 *Financial Instruments* Accounting Support Services

Acute response to accounting challenges

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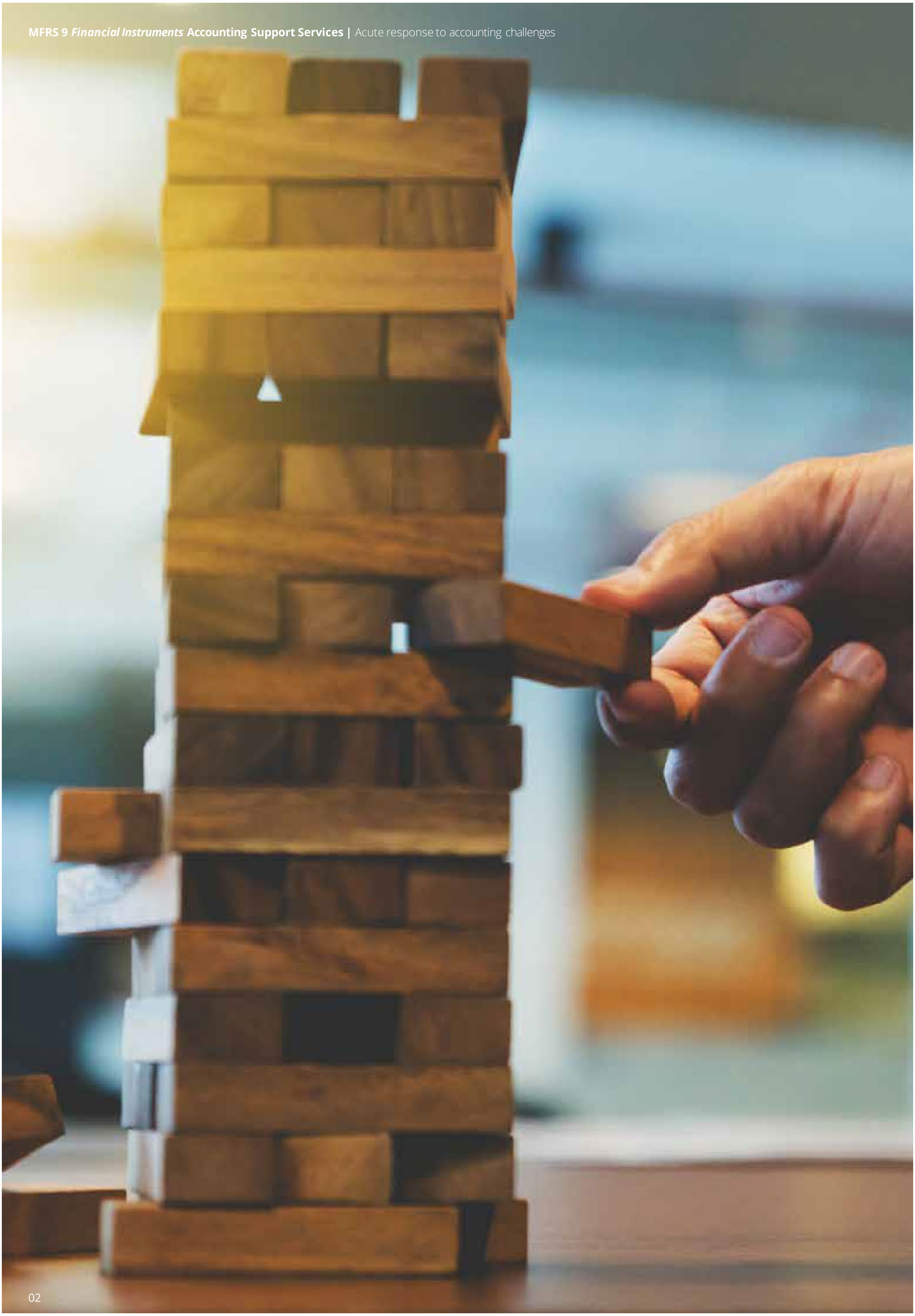

Overview

Given the changes to the business landscape due to economic volatility and challenges, entities should be mindful of the need to critically assess their investments, loans, and receivables for impairment. Reductions in economic growth forecasts, and increase in default rates from losses due to the fall in value of collateral and the reduction in asset prices, are possible headwinds to meet loan obligations. Depending on their geographical and industry-specific exposure, the likelihood of individuals and corporate borrowers defaulting could increase.

Applying MFRS 9 *Financial Instruments,* an entity should measure expected credit losses ("ECL") in a way that reflects the following:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date regarding past events, current conditions and forecasts of future economic conditions.

Any adverse economic condition is likely to have a profound impact on ECL for non-financial corporates as it does not only apply to loans, but also to investments in interest bearing financial assets (e.g. bonds), trade receivables, contract assets and lease receivables. The extent of these exposures on non-financial corporates may also be greater in individual company financial statements due to intra-group transactions such as intra-group loans or advances.

How we can help

Revisiting the application of ECL under simplified approach:

- Examine the current basis for portfolio of trade receivables, contract assets, and lease receivables and ascertain if each grouping continues to exhibit similar credit risk characteristics;
- Evaluate the relevance of existing credit loss expectations, which were previously based on historical data, in view of current market conditions and forward-looking information;
- Analyse the significance of the impact from moratoriums or the likes on repayment in the reported loss allowance;
- Determine the necessity of factoring multiple economic scenarios in determining the expected credit loss rates; and
- Review the sufficiency and extent of disclosures included in the financial statements particularly on the key assumptions used and judgements made in estimating ECL under the simplified approach.

Revisiting the application of ECL on other receivables:

- Understand the current approach to determining whether there has been a significant increase in credit risk ("SICR") for other receivables since initial recognition ("staging analysis");
- Determine the changes required for the current approach to staging analysis for other receivables reflecting changes in economic conditions, to the extent of available supporting information;
- Determine and quantify the impact of changes to existing forward-looking information and various economic scenarios on credit loss expectations;
- For other receivables previously classified as having low probabilities of credit default, review the validity and appropriateness of the basis and assumptions previously applied for these financial instruments while taking into consideration the current economic situation; and
- Review the sufficiency and extent of disclosures included in the financial statements particularly on the key assumptions used and judgements made in estimating ECL for other receivables under the general model.

Contact us

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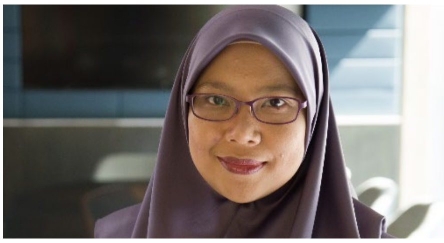

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