Top issues for impairment of trade receivables
IFRS 9 Financial Instruments

_The issues raised in this aide memoire might not be significant to all entities. Engagement teams will need to apply their judgement based on individual facts and circumstances in determining the significance and application of the issues._

NB: this aide memoire applies for trade receivables to which IFRS 9’s simplified approach is applied. Similar considerations might apply to other assets under the simplified approach, such as contract assets and some lease receivables. Where impairment is measured using a provisions matrix, please also refer to [FAQ 3.2.4 – Example of a provision matrix for corporates in a COVID-19 environment](#).

1. **Reasonable and supportable information.** Has management used all available reasonable and supportable information about the effect of COVID-19? This might include external forecasts of macroeconomic data and internal data about the impact of the virus on particular receivables or groups of receivables. While the uncertainties arising from COVID-19 are substantial and estimating ECLs is challenging, we do not expect this to preclude entities from reflecting the impact of COVID-19 in the ECL by using the reasonable and supportable information that is available. [See PwC In the Spotlight - How corporate entities can apply the requirements of IFRS 9 expected credit losses (ECL) during the COVID-19 pandemic](#) and PwC In depth INT2020-02: FAQ 3.2.3.

2. **Grouping of trade receivables.** Has management updated the groupings of trade receivables used for measuring ECL? It is likely that COVID-19 will have a more significant effect on some trade receivables than others. Therefore the groupings used previously by management to measure ECL may no longer be appropriate. Where the impact of COVID-19 on particular receivables is individually significant these might be looked at individually (e.g. for a material debtor that is known to be in financial difficulty). For other receivables, what groupings are appropriate will depend on the particular facts and circumstances and the drivers of credit losses, but might include consideration of the following factors:
   - Industry sector of the debtor
   - Geographical location of the debtor
   - Whether the receivables are guaranteed or credit insured
   - What (if any) government reliefs have been provided that affect the receivable
   - Whether payment terms have been extended in the light of COVID-19
   - The nature of the receivable which might affect whether the debtor will repay it only after settling other claims (such as salaries and rents that are more essential to its continued operation)
   - What if any actions have been taken to limit credit losses (e.g. obtaining enhanced collateral).

3. **Forward looking information and multiple scenarios.** Has management appropriately reflected forecasts of future economic conditions when measuring ECL? Management might previously have measured ECLs using primarily historical data (such as historical loss rates) of measuring the Expected Credit Loss (ECL) at the lifetime ECL.

---

1 of measuring the Expected Credit Loss (ECL) at the lifetime ECL.
combined with data as at the reporting date (such as days past due). Similarly, management might not have used multiple scenarios when measuring ECL. This might have been on the basis that in a stable economic environment including forward looking information or multiple scenarios would not have a material effect. However, in the light of COVID-19 this may no longer be the case. Historical data such as loss rates might therefore need to be adjusted to reflect forecasts of economic data and multiple scenarios. As a starting point management might look to historical information such as behaviour of customers during previous recessions to establish economic data (such as GDP, unemployment rates) that correlates with losses. Any such data should be consistent with that used for other purposes (such as impairment of non-financial assets, recoverability of deferred tax assets or assessing going concern). It might then use current forecasts of such data to estimate the effect of future economic conditions on the ECL.

4. Measuring ECL and stand-back test. At an overall level and taking into account all available information, is the ECL an unbiased estimate that is neither overly optimistic nor overly pessimistic? It is likely that COVID-19 will have an impact on all of (a) the likelihood debtors will default; (b) the entity’s exposure at default, for example as debtors might repay receivables more slowly; and (c) the loss on a default, for example as guarantors’ ability to pay may have declined or management might have obtained additional collateral or other security. Management should particularly focus on those receivables for which COVID-19 is likely to have the biggest effect. To the extent management has not been able to fully reflect the impact of COVID-19 in its models, additional adjustments will need to be considered.

5. Government relief programmes. Has management reflected the effect of any applicable government relief programmes in measuring ECL? In some cases governments might provide relief to debtors (e.g. in the form of loans or grants to debtors impacted by the virus that provide the debtor with additional resources it might use to pay receivables). In other cases governments might provide relief to the entity (for example in the form of a guarantee determined to be integral to the receivables of some or all of the loss in the event the debtor defaults). Both kinds should be taken into account when measuring ECL. However, where provided to the debtor, management should consider whether the debtor will likely use the reliefs to repay the receivable, or might instead use it to settle other claims that are more essential to its continued operation.

6. Discounts and other concessions. Has management considered if discounts or other concessions granted to debtors are credit losses or adjustments to revenue? As a result of COVID 19, a company may give customers discounts on goods or services that were not required by the sales contract. Management should identify whether the resulting loss relates to factors such as customer disputes, inefficiencies by the entity or sales incentives in difficult trading conditions rather than being credit losses related to the debtor’s credit risk. Only the latter are in the scope of the IFRS 9 ECL. The former are in the scope of IFRS 15 Revenue. They should be presented as adjustments to the “revenue” line (with a corresponding impact on gross margin where that is reported): in contrast the IFRS 9 ECL will generally be presented as an expense line such as “provision for bad debts”.

7. Disclosure. Are there appropriate disclosures of the effect of COVID-19? Disclosures should not be ‘boilerplate’ but should tell the story of how the impacts of COVID-19 have been incorporated into the ECL. Areas to focus on include: (a) how COVID-19 has been reflected in the inputs and assumptions used to measure ECL (including forward looking information); (b) credit risk concentrations and whether these are sufficiently granular taking into account the different effect of
COVID-19 on different receivables; (c) credit risk management practices and how these have changed due to COVID-19 (including changes to payment terms, and any additional collateral); and (d) critical estimate disclosures. [See PwC In the Spotlight - How corporate entities can apply the requirements of IFRS 9 expected credit losses (ECL) during the COVID-19 pandemic]

Where to go for more information

- PwC In the Spotlight - How corporate entities can apply the requirements of IFRS 9 expected credit losses (ECL) during the COVID-19 pandemic
- PwC IFRS Talks Episode 73: COVID-19 Impact on IFRS 9, Expected Credit Loss
- PwC IFRS Talks - Episode 83: Impairment of trade receivables for Corporates in light of COVID-19
- Accounting implications of the effects of coronavirus: PwC In depth INT2020-02
- FAQ 3.2.4 – Example of a provision matrix for corporates in a COVID-19 environment