

IFRS 9 & COVID-19



Current scenario

Expected Credit Losses (ECL)

The COVID-19 pandemic has created an economic environment likely to have significant accounting and financial reporting consequences for the near future.

COVID-19 is highly likely to impact the results of companies' operations. The extent of the impact may be both direct and indirect and will vary based on a variety of facts and circumstances, including a company's industry, location, customer and supplier diversification, and the duration of the outbreak.

The challenge

IFRS 9 requires the application of judgement and it allows entities to adjust their approach to determining ECLs in different circumstances.

Entities should not continue to apply their existing ECL methodology mechanically.

On March 27, 2020 the International Accounting Standards Board (IASB) issued a document discussing IFRS 9, the COVID-19 pandemic and the impact on ECL calculations.

Nominal GDP in billions of USD including projections *

	2019	2020	2021
Kuwait	137.0	110.5	117.8
UAE	402.5	343.0	363.6
KSA	793.0	668.4	695.6
Qatar	188.9	156.6	166.5

Real GDP Annual Change including projections*

	2019	2020	2021
Kuwait	+0.7%	-1.1%	+3.4%
UAE	+1.3%	-3.5%	+3.3%
KSA	+0.3%	-2.3%	+2.9%
Qatar	+0.1%	-4.3%	+5.0%

* Source: IMF Middle East & Central Asia Outlook Report April 2020.

Assumptions and linkages underlying the way ECLs have been implemented to date may no longer hold true in the current environment.

THE POWER OF BEING UNDERSTOOD

ILLUSTRATIVE IFRS 9 – ECL

Areas we can help with

Financial statement disclosures

Disclosures are a critical component of ECL reporting, given the level of measurement uncertainty resulting from COVID-19.

Assessing credit risk concentrations

The level of granularity demanded by regulators, investors and others on financial assets will likely increase where they have material credit exposures.

Entities may wish to assess in detail their exposures to large and smaller entities or to certain industries, for example, construction, internet/technology companies, or the transport sector.

ECL modeling changes

Changes in economic conditions should be reflected in scenarios and weightings applied appropriately in models.

Significant increases in credit risk – lifetime ECL

Where entities are not permitted to follow the simplified approach, or have opted not to, additional information may be needed in order to determine whether a significant increase in credit risk has occurred, and hence whether a lifetime ECL is required.

Government support

Estimating ECL is challenging in the current circumstances. ECL models may need to incorporate the specific effects of COVID-19 and the related government support measures on a reasonable and supportable basis.

Trade receivables – simplified approach impact

Some customers may take longer than normal to pay, thus increasing the volume of debtors in the overdue buckets.

It is important to first understand the drivers of credit risk for the underlying receivables and how these may have changed in light of the current pandemic across various segments.

The level of stratification required is often a matter of significant judgement and in developing segments an entity should consider where further segmentation might be needed.

Contact us

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