

IFRS 9 Bitesize:
Expected Credit Loss on Trade Receivables
Understand what you need to do comply with the IFRS framework

 Your accounting policy choices

General approach	Complex! Used for loans and other financial assets; involves stages and tracks significant increase in credit risk (SICR).
Simplified approach	Easier option - permitted for trade receivables and less complex financial assets; e.g. lease receivables.

 Objective of IFRS 9

IFRS 9 requires companies to book a provision for Expected Credit Loss (ECL) reflecting the amount of trade receivables that is expected to be written off as bad debt.

ECL (Expected Credit Loss) is the probability-weighted estimate of credit losses over the entire remaining life of a receivable.

ECL = PV of (Probability of Default × Loss Given Default × Exposure at Default)

 How to calculate ECL

- Create a credit loss policy:**
Define your company’s approach to measuring ECL under IFRS 9. The policy should cover details such as definition of default, ageing buckets to be used, how loss will be determined, customer segmentation.
- Collate your current trade receivables:**
Prepare an aged trial balance showing the receivable amounts in each ageing bucket. This would involve extract customer balances and grouping them into ageing buckets defined in your credit loss policy.
- Prepare the provision matrix:**
Provision matrix shows the **loss ratios** (probability of loss times loss given default) for each aging bucket (and segment, if applicable). This is done as follows:
 - Determine historical loss rates
 - Adjust for current conditions
 - Add a forward-looking (macro) overlay
- Discount losses and calculate ECL:**
No discounting is required for short-term trade receivables. However, credit losses from slow defaulting trade receivables need to be projected and discounted to calculate ECL.

 Common pitfalls

1. Incorrect estimation of historical loss rates	Historical loss ratios are often miscalculated due to complex underlying data which requires careful statistical analysis.
2. No documented definition of default	Without a clear default definition (e.g., >90 days past due), the loss-rate calibration becomes inconsistent and unreliable.
3. Missing or incomplete IFRS 7 disclosures	IFRS 7 specifies the disclosure requirements under IFRS 9 valuation of trade receivables.
4. No forward-looking (macro) adjustment	IFRS 9 requires incorporating current and forward-looking information — relying only on historical data is not sufficient.
5. No or incorrect allowance for discounting	Requirements of IFRS 15 need to be considered in addition to IFRS 9 to determine the level of discounting needed.

 How Numerica helps clients

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✓ Rapid and responsive delivery	✓ State-of-the-art technology
✓ Full audit support	✓ Industry benchmarking
✓ Practical and no over-engineering	✓ Full suite of IFRS valuations

 Let’s collaborate

Reach out to us to find out more about how Numerica can help improve your reporting for IFRS 9 or other accounting standards:

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-  +44 (0)20 35766610
-  info@numerica.in
-  <https://numericaconsulting.com/contact>