
IASB[®] meeting

Date	September 2023
Project	Rate-regulated Activities
Topic	Measurement—Credit and other risks
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Objective

1. This paper sets out staff analysis and recommendations on the proposals in the Exposure Draft *Regulatory Assets and Regulatory Liabilities* (Exposure Draft) dealing with credit and other risks affecting the estimates of future cash flows arising from a regulatory asset or a regulatory liability.

Staff recommendations

2. The staff recommend that:
 - (a) the final Accounting Standard retains the proposal in paragraphs 37 and 38 of the Exposure Draft to require that in estimating future cash flows arising from a regulatory asset or regulatory liability, an entity:
 - (i) reflects the uncertainty about the amount or timing of the future cash flows; and
 - (ii) assesses whether the entity bears the uncertainty in the future cash flows or whether customers bear the uncertainty.

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- (b) when an entity bears credit risk, the final Accounting Standard specifies that the entity:
 - (i) estimates the uncollectible amounts considering the net cash flows that will arise from the recovery of regulatory assets and the fulfilment of regulatory liabilities; and
 - (ii) allocates the estimate of uncollectible amounts to regulatory assets only.
 - (c) the final Accounting Standard retains the proposal in paragraph 43 of the Exposure Draft to require that an entity's estimates of future cash flows arising from a regulatory liability should not reflect the entity's own non-performance risk.

Structure of the paper

- 3. This paper is structured as follows:
 - (a) proposals in the Exposure Draft (paragraphs 5–9);
 - (b) feedback (paragraphs 10–13); and
 - (c) staff analysis dealing with:
 - (i) uncertainty in future cash flows (paragraphs 15–16)
 - (ii) credit risk (paragraphs 17–47);
 - (iii) demand risk (paragraphs 48–53); and
 - (iv) an entity's own non-performance risk (paragraphs 54–58).
- 4. The appendix to this paper includes extracts from IFRS 9 *Financial Instruments* dealing with expected credit losses.

Proposals in the Exposure Draft

5. The Exposure Draft proposes measuring regulatory assets and regulatory liabilities using a cash-flow-based measurement technique that:¹
- (a) includes an estimate of all future cash flows—including future cash flows arising from regulatory interest—and updates those estimates at the end of each reporting period to reflect conditions existing at that date; and
 - (b) discounts those estimated future cash flows to their present value.
6. Paragraphs 37 and 38 of the Exposure Draft state:
- 37 There may be uncertainty about the amount or timing of the future cash flows that will arise from a regulatory asset or a regulatory liability. If those future cash flows are uncertain, an entity shall assess whether the entity bears that uncertainty or whether customers bear it. Customers bear the uncertainty if the regulatory agreement will adjust future regulated rates so that those rates reflect the outcome of the uncertainty, including regulatory interest sufficient to compensate or charge the entity for any change in the timing of the cash flows.
- 38 For example, future cash flows arising from a regulatory asset may be subject to credit risk—that is, the risk that some customers will not pay the amounts charged. In such a case:
- (a) if customers bear the credit risk because the regulatory agreement treats amounts uncollected as allowable in determining regulated rates for a later future period, the entity shall include in its estimates of future cash flows the cash it will collect in that later future period.
 - (b) if the entity bears the credit risk, the entity shall estimate future cash flows after deducting an estimate of the amounts it might not be able to collect. As a result, the estimated amounts of those credit-risk adjusted future cash flows may be lower than the amounts the entity will charge to customers, and consequently lower than the resulting revenue, because IFRS 15 generally

¹ Paragraphs 30, 36 and 55 of the Exposure Draft.

requires that revenue recognised is not reduced by amounts that the entity might not be able to collect from a customer.

7. Paragraph 43 of the Exposure Draft proposes that an entity's estimates of future cash flows arising from a regulatory liability should not reflect the entity's own non-performance risk. An entity's own non-performance risk is the risk that the entity might not fulfil a regulatory liability (paragraph BC139 of the Basis for Conclusions accompanying the Exposure Draft).
8. The Exposure Draft envisages demand risk being present in regulatory assets and regulatory liabilities. For example:
 - (a) paragraph 60 of the Exposure Draft identifies demand risk as one of the uncertainties that may be present in a regulatory asset or regulatory liability.
 - (b) paragraph BC141 of the Basis of Conclusions accompanying the Exposure Draft states:

The measurement would be based on updated estimates of future cash flows, including any estimated changes caused by, for example, demand risk or credit risk. [...]
9. The Exposure Draft includes examples that illustrate how differences between the estimated and actual demand give rise to a regulatory asset or a regulatory liability when customers bear the demand risk ([Illustrative Examples 7A.2 and 7B.2](#)).

Feedback

10. Most respondents who commented agreed with the proposals on estimating uncertain future cash flows.²
11. A few respondents suggested the IASB clarifies how the future cash flows arising from regulatory assets should be adjusted for credit risk. These respondents said it is unclear in the case of:

² The IASB redeliberated specific proposals dealing with estimating uncertain future cash flows at its meeting in June 2023 ([Agenda Paper 9B](#)).

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- (a) the entity bearing the credit risk, how different the credit risk determination for regulatory assets would be from the expected credit loss model in IFRS 9 for trade receivables; and
 - (b) the customers bearing the credit risk, how the proposal on credit risk interacts with the expected credit loss model in IFRS 9.
12. A European preparer representative group said credit risk affects all future cash flows that arise from regulated rates charged to customers. This respondent said it is unclear how the effect of credit risk is allocated to the individual regulatory assets.
13. A few respondents suggested the IASB clarifies:
- (a) how the estimates of future cash flows should be adjusted for demand risk.
 - (b) that an entity's own non-performance risk does not include the case when an entity's action (for example, costs savings) leads to the regulator (partially) discharging the entity from fulfilling an obligation to decrease regulated rates in the future.

Staff analysis

14. The analysis is structured as follows:
- (a) uncertainty in future cash flows (paragraphs 15–16);
 - (b) credit risk:
 - (i) feedback from outreach (paragraphs 19–25);
 - (ii) an entity bears credit risk (paragraphs 26–36); and
 - (iii) customers bear credit risk (paragraphs 37–47);
 - (c) demand risk (paragraphs 48–53); and
 - (d) an entity's own non-performance risk (paragraphs 54–58).

Uncertainty in future cash flows

15. Paragraph 37 of the Exposure Draft proposes that if future cash flows that will arise from a regulatory asset or a regulatory liability are uncertain, an entity is required to assess whether the entity bears that uncertainty or whether customers bear it. Paragraph 38 of the Exposure Draft illustrates how this proposal would be applied to a specific uncertainty, that is credit risk. However, the proposals illustrated in paragraph 38 apply to all uncertainties. For example, when an uncertainty gives rise to an unfavourable effect, an entity would estimate the future cash flows arising from a regulatory asset (regulatory liability):
- (a) if the entity bears the uncertainty—by deducting an estimate of the amounts the entity might not be able to recover from the regulatory asset (adding an estimate of any additional amounts the entity might need to fulfil the regulatory liability).
 - (b) if customers bear the uncertainty—by including the amounts arising from the regulatory asset that the entity will be entitled to recover in a later future period in that period (excluding the amounts arising from the regulatory liability that the entity had already fulfilled and will no longer have to fulfil in a later future period from that period). If the regulator gives the entity compensation for the delayed recovery (earlier fulfilment), the uncertainty will have no effect on the measurement of the regulatory asset (regulatory liability) (paragraphs 39–40).
16. Respondents who commented did not raise concerns about this proposal. Therefore, the staff recommend that the final Accounting Standard retains the proposal in paragraphs 37 and 38 of the Exposure Draft to require that in estimating future cash flows arising from a regulatory asset or regulatory liability, an entity:
- (a) reflects the uncertainty about the amount or timing of the future cash flows;
and
 - (b) assesses whether the entity bears the uncertainty in the future cash flows or whether customers bear the uncertainty.

Question for the IASB

1. Does the IASB agree with the staff recommendation in paragraph 16?

Credit risk

17. This section considers whether additional guidance on credit risk is necessary in response to the feedback on the Exposure Draft (paragraphs 11 and 12).
18. This section is structured as follows:
 - (a) feedback from outreach (paragraphs 19–25); and
 - (b) analysis of whether additional guidance on credit risk is necessary when:
 - (i) an entity bears credit risk (paragraphs 26–36); and
 - (ii) customers bear credit risk (paragraphs 37–47).

Feedback from outreach

19. To help us determine whether additional guidance on credit risk is necessary, we contacted the respondents who provided comments on credit risk and a few accounting firms to better understand:
 - (a) whether in their jurisdictions credit risk is borne by the entity or the entity's customers; and
 - (b) in the case of:
 - (i) the entity bearing the credit risk, the significance of the entity's exposure to credit risk and the difficulty of estimating the amounts the entity might not be able to collect; and
 - (ii) the customers bearing the credit risk, how the regulator determines the amount and timing of the compensation for credit risk that will be included in regulated rates.

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20. Based on discussions with different stakeholders, it seems:
- (a) credit risk is generally low but may increase if a major unexpected event adversely affects the customer base; and
 - (b) entities having a right to compensation for credit risk are more common than entities having to bear credit risk.
21. In a few European jurisdictions, customers bear the credit risk. In these cases, an entity is typically entitled to recover through regulated rates an amount due from customers only when the amount is determined to be irrecoverable according to regulatory criteria. Regulators may consider an amount is irrecoverable, for example, when:
- (a) an independent collection agency certifies the non-recoverability of the amount;
 - (b) the customer goes into liquidation;
 - (c) all available means of recoverability have been exhausted; or
 - (d) local generally accepted accounting principles consider that amount to be irrecoverable, which may coincide with items (a)–(c) above.
22. Generally, regulators consider an amount to be irrecoverable after the amount becomes credit-impaired applying IFRS 9.³
23. In other regulatory schemes, customers bear most of the credit risk, while the entity will bear some of the risk. For example, the regulatory agreement may entitle an entity to recover through regulated rates only the uncollectible amount but not the accrued interest to compensate for the delay in the recovery. In another example, the regulated rates for a period are determined by including a forecast amount of bad debts for the period, with the entity reflecting any difference between the forecast and actual amounts of bad debts in profit or loss. In this case, the entity bears only the difference that arises when actual bad debts are higher than the forecast.

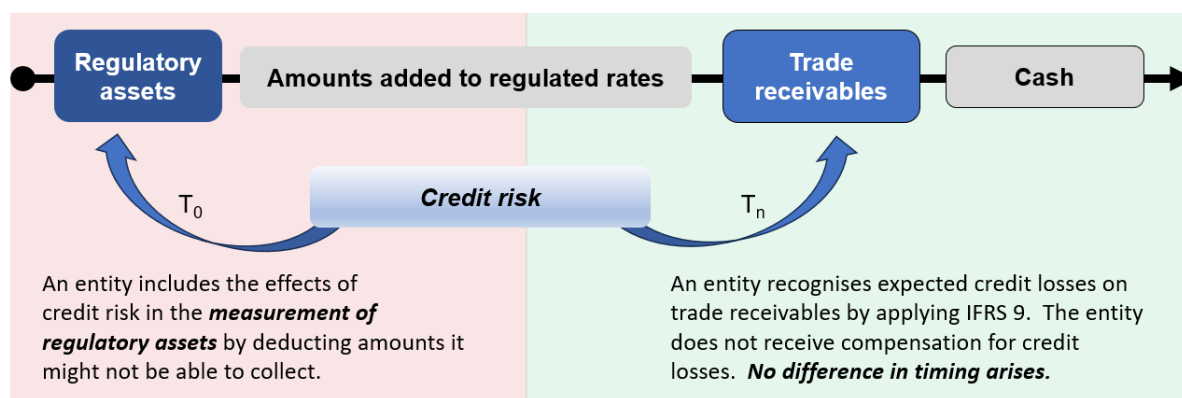
³ The appendix to this paper reproduces the IFRS 9 definition of 'credit-impaired financial assets'.

24. In a few other cases, credit risk is shared between an entity and its customers. For example, an entity may be entitled to recover through regulated rates only a percentage of the uncollectible amount and its accrued interest.
25. Out of the stakeholders we contacted in our outreach, only a few stakeholders in the electricity and water sectors in Canada and Australia said it is the entity that bears the credit risk. In these cases, however, we learnt the entity typically does not have a significant exposure to credit risk.

An entity bears credit risk

26. When an entity bears credit risk, the regulator does not provide the entity compensation for this risk. Therefore, no difference in timing arises from credit risk. Instead, credit risk gives rise to uncertainty in the amount and timing of future cash flows that will arise from a regulatory asset and hence, affects the measurement of the regulatory asset. This is illustrated in Diagram 1.

Diagram 1



27. As mentioned in paragraph 11(a), a few respondents asked when an entity bears the credit risk, how different the credit risk determination for regulatory assets would be from the expected credit loss model in IFRS 9 for trade receivables.
28. As illustrated in Diagram 1, regulatory assets become trade receivables when amounts are added to regulated rates charged to customers. Therefore, it can be argued that credit risk is inherent in both regulatory assets and trade receivables. However, the

credit risk in the cash flows arising from a regulatory asset may change by the time these cash flows become trade receivables. In most cases, we think the current level of credit risk in trade receivables will provide a reasonable estimate of the credit risk in regulatory assets (subject to adjustments for differences between the current conditions and the current expectations about future conditions).

29. IFRS 9 specifies a simplified approach to the measurement of a loss allowance on trade receivables that do not contain a significant financing component. We think in most cases trade receivables arising from regulated rates charged to the customers do not contain a significant financing component. An entity may also measure the loss allowance by using practical expedients such as a provision matrix that specifies fixed provision rates that depend on the number of days that a trade receivable is past due.⁴
30. In estimating the uncollectible amounts arising from regulatory assets, we think an entity could consider the same basis the entity used in calculating a loss allowance on trade receivables applying IFRS 9. This has the following merits:
- (a) both the estimate of uncollectible amounts arising from regulatory assets and the future loss allowance on trade receivables would reflect probability-weighted amounts in a range of possible outcomes.⁵
 - (b) both the proposals and the expected credit loss model require an entity to consider reasonable and supportable information that is available without undue cost or effort about past events, present conditions and current expectations about future conditions.⁵
 - (c) no gain or loss would arise from the recovery of regulatory assets, if the uncollectible amounts deducted from the future cash flows arising from the regulatory assets were the same as the loss allowance recognised for the part of the trade receivables related to those regulatory assets. We think this accounting outcome would provide useful information.

⁴ Paragraphs 5.5.15, 5.5.17 and B.5.5.35 of IFRS 9 are reproduced in the appendix.

⁵ Paragraph 5.5.17 of IFRS 9 is reproduced in the appendix.

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31. Nevertheless, we think it would be unnecessary for the final Standard to provide this level of detail. This is because:
- (a) the evidence gathered so far indicates that regulatory agreements often compensate entities for credit risk. When entities bear the credit risk, credit risk seems to be generally low.
 - (b) the final Standard would not provide guidance on the approaches for estimating other uncertainties in the future cash flows arising from regulatory assets or regulatory liabilities.

Estimating the amounts an entity might not be able to collect

32. As mentioned in paragraph 12, a European preparer representative group said it is unclear how the effect of credit risk is allocated to the individual regulatory assets.
33. Credit risk affects all amounts included in regulated rates charged to customers, and hence, recognised as revenue and trade receivables (paragraph 28). Those amounts include *the net cash flows* that arise from the recovery of regulatory assets and the fulfilment of regulatory liabilities. This section discusses the cash flows an entity considers when estimating the uncollectible amounts and whether additional guidance on the allocation of the uncollectible amounts is necessary.
34. When an entity estimates the amounts it might not be able to collect, the entity needs to determine which cash flows are affected by credit risk. As mentioned in paragraph 33, credit risk affects *the net cash flows* that will arise from regulatory assets and regulatory liabilities.⁶ Because of this, the entity should estimate the uncollectible amounts based on *the net cash flows* that will arise from the recovery of regulatory assets and the fulfilment of regulatory liabilities. If the entity determined that estimate based on future cash flows arising from regulatory assets only, the entity would overstate the effects of credit risk.

⁶ Paragraph BC120 of the Basis for Conclusions accompanying the Exposure Draft.

35. After the entity has determined an estimate of the uncollectible amounts, the entity needs to consider how those amounts should be allocated. We think the entity should allocate the estimate of uncollectible amounts:
- (a) to regulatory assets only, rather than to both regulatory assets and regulatory liabilities. This approach may be more easily understandable and less costly to apply.
 - (b) to individual regulatory assets using a reasonable and supportable basis. The Exposure Draft already uses a similar requirement dealing with allocation.⁷ We expect most entities would logically allocate the estimate of uncollectible amounts using a basis consistent with the determination of that estimate. Therefore, we think it is unnecessary for the final Standard to provide guidance on this allocation.
36. Based on our analysis, we recommend that when an entity bears credit risk, the final Accounting Standard specifies that the entity:
- (a) estimates the uncollectible amounts considering the *net cash flows* that will arise from the recovery of regulatory assets and the fulfilment of regulatory liabilities (paragraphs 33–34); and
 - (b) allocates that estimate to regulatory assets only (paragraph 35).

Question for the IASB

2. Does the IASB agree with the staff recommendation in paragraph 36?

Customers bear credit risk

37. As mentioned in paragraph 21, regulatory agreements often specify that entities are entitled to compensation for credit risk, in particular a compensation determined based

⁷ For example, the allocation of the estimated amount of a performance incentive when the performance criteria test an entity's performance over a time frame that is not yet complete (paragraph B19 of the Exposure Draft).

on uncollectible amounts due from customers. Because regulatory assets become trade receivables, the regulatory compensation for credit risk also protects entities from the effects of credit risk on regulatory assets.

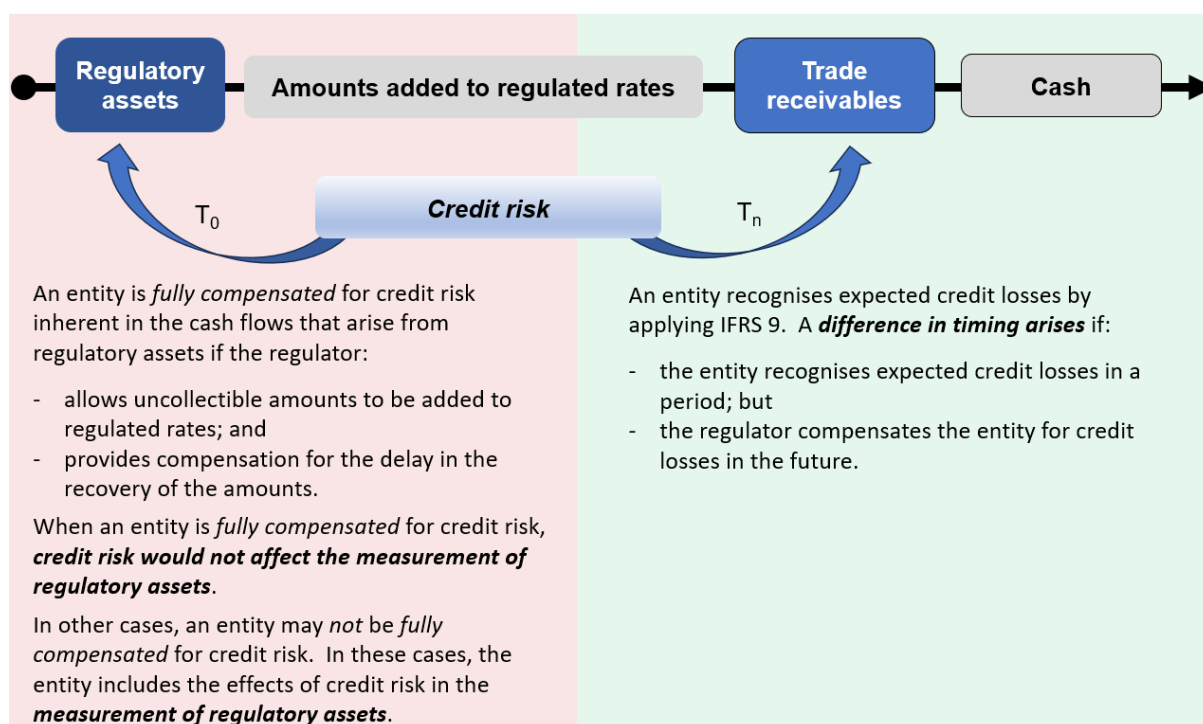
38. The compensation for credit risk has the following effects:
- (a) credit risk does not affect the measurement of regulatory assets (paragraphs 39–42); and
 - (b) a difference in timing arises in specific circumstances (paragraphs 43–45).
39. In the case when customers bear credit risk, the entity will be compensated for the outcome of the uncertainty through future regulated rates, comprising both the uncollectible amounts and any change in the timing of the cash flows (paragraph 37 of the Exposure Draft). In other words, the entity is *fully compensated* for credit risk.
40. Paragraph 38(a) of the Exposure Draft proposes that if customers bear the credit risk, the entity is required to include in its estimates of future cash flows the cash it will collect in later periods. Applying the proposals in paragraphs 37 and 38(a) of the Exposure Draft, credit risk is not expected to affect the measurement of regulatory assets when customers bear the credit risk. We think the accounting outcome of these proposals faithfully represents the fact that the entity is fully compensated for credit risk. This is aligned with our recommendation in paragraph 16.
41. In some cases, an entity is *not fully* compensated for credit risk. For example, the regulatory agreement may compensate the entity for:
- (a) uncollectible amounts but does not provide compensation for the delay in the recovery (paragraph 23).
 - (b) uncollectible amounts on the basis of an estimated amount (paragraph 23). That amount may be lower than the actual uncollectible amounts.⁸
 - (c) only a percentage of the uncollectible amount and its accrued interest (paragraph 24).

⁸ Conversely, the estimated uncollectible amounts could be higher than the actual amounts. In this case, the entity would have recovered more than the actual uncollectible amounts.

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42. If an entity is *not fully* compensated for credit risk, the entity needs to consider the uncollectible amounts for which it will receive no compensation in the measurement of its regulatory assets applying paragraph 38(b) of the Exposure Draft (paragraphs 6 and 16). Nevertheless, those uncollectible amounts may be immaterial because credit risk is generally low.
43. As mentioned in paragraph 11(b), a few respondents asked when customers bear the credit risk, how the proposal on credit risk interacts with the expected credit loss model in IFRS 9. These respondents provided different views that imply possible confusion about the proposals in the Exposure Draft.
44. In some cases, compensation for credit risk gives rise to a difference in timing. This is the case if an entity recognises expected credit losses applying IFRS 9 in a period and the regulator includes compensation for credit losses in regulated rates charged in a different period. For example, a regulator allows an entity to include in regulated rates amounts due from customers that the regulator determines to be irrecoverable (paragraph 21). In this example, a regulatory asset arises when the entity recognises expected credit losses. We plan to discuss the measurement of such a regulatory asset at a future meeting.
45. In other cases, no difference in timing arises from compensation for credit risk. For example, a regulator determines the regulated rates that an entity charges for a period by including a forecast amount of bad debts for the period (paragraph 23). In this example, the entity reflects any difference between the forecast and actual amounts of bad debts in profit or loss.
46. Based on our analysis, we think it is unnecessary to provide additional guidance on this issue because the proposals in the Exposure Draft are appropriate and sufficient to help an entity:
- (a) to estimate future cash flows when it is (fully or partially) compensated for credit risk (paragraphs 39–42); and
 - (b) to determine whether compensation for credit risk gives rise to a difference in timing (paragraphs 44–45).

47. Diagram 2 illustrates how credit risk affects the accounting for regulatory assets in the case when customers bear the credit risk (fully or partially).

Diagram 2



Question for the IASB

3. Does the IASB agree with:
- the staff analysis in paragraphs 37–45; and
 - the conclusion in paragraph 46?

Demand risk

48. As mentioned in paragraph 13(a), a national standard-setter suggested the IASB clarifies how the estimates of future cash flows should be adjusted for demand risk.
49. Demand risk arises from changes in the level of demand for goods or services an entity supplies and gives rise to differences between the estimated and actual volumes

of goods or services supplied (that is, volume variances). In many cases, the demand is relatively inelastic and contributes to a high level of predictability of the volume of goods or services to be supplied—and hence, the timing and amount of future revenues. Therefore, there are typically no large volume variances. However, in a few cases, an unexpected major event may severely disrupt demand, resulting in large volume variances (for example, the effect of a global pandemic on the volume of air travel).

50. Volume variances result in lower or higher amounts charged to customers in a period than the allowed revenue amount to which an entity is entitled for the period.⁹
51. In some regulatory schemes, the customers bear demand risk. The regulatory agreement allows any differences that arise from volume variances between the amounts charged to customers and the allowed revenue for a period to be added to or deducted from regulated rates in the future. In this case:
- (a) demand risk has no effect on the measurement of regulatory assets and regulatory liabilities. This is consistent with the staff analysis on the case in which the entity is fully compensated for credit risk (paragraph 40).
 - (b) volume variances give rise to a difference in timing. The Exposure Draft included examples that illustrated this type of difference in timing.¹⁰ This is consistent with the staff analysis on the case in which the customers bear credit risk and a difference in timing arises (paragraph 44).
52. If a regulatory agreement does not compensate an entity for demand risk, the entity needs to account for the effects of demand risk on the future cash flows arising from its regulatory assets and regulatory liabilities. Applying the proposed cash-flow-based measurement technique, the entity would adjust the estimates of future cash flows for the amounts it might not be able to add to or deduct from regulated rates in the future. This is consistent with the proposed accounting when an entity bears credit risk (paragraph 38(b) of the Exposure Draft).

⁹ [Agenda Paper 9A](#) of July 2022 IASB meeting.

¹⁰ [Illustrative Examples 7A.2 and 7B.2](#) accompanying the Exposure Draft.

53. Therefore, we think the proposals in the Exposure Draft provide sufficient guidance on how to account for demand risk and further clarifications are unnecessary.

Question for the IASB

4. Does the IASB agree with:
- (a) the staff analysis in paragraphs 48–52; and
 - (b) the conclusions in paragraph 53?

An entity's own non-performance risk

54. An entity's own non-performance risk is the risk that the entity might not fulfil a regulatory liability. Paragraph 43 of the Exposure Draft proposes that an entity's estimates of future cash flows arising from a regulatory liability should not reflect the entity's own non-performance risk. In other words, the entity should not reduce the carrying amount of the regulatory liability to reflect the risk that the entity might not fulfil the regulatory liability.
55. Paragraph BC139 of the Basis for Conclusions accompanying the Exposure Draft states:
- The Board considered whether to require an entity to reduce the carrying amount of a regulatory liability to reflect the risk that the entity might not fulfil the regulatory liability (the entity's own non-performance risk). In the Board's view, such reductions would not provide useful information to users of financial statements. Consequently, paragraph 43 of the Exposure Draft proposes that estimates of future cash flows arising from a regulatory liability should not reflect the entity's own non-performance risk. The Exposure Draft also proposes that the discount rate for regulatory liabilities should not be adjusted for any reason, including for any possible effect of the entity's own non-performance risk.
56. Respondents did not raise concerns about this proposal or about the rationale supporting it. One European preparer suggested that the final Standard clarifies that

an entity's own non-performance risk does not include the case when an entity's action leads to the regulator (partially) discharging the entity from fulfilling a regulatory liability (paragraph 13(b)).

57. In the case cited by the respondent, the entity has taken an action that leads to the regulator discharging the entity from (part of) an existing obligation to deduct amounts from future regulated rates. The regulator's decision reflects the way in which the regulator compensates the entity for a specific action. This is not an example of non-performance risk as described in the Exposure Draft.
58. We think the proposal on an entity's own non-performance risk in the Exposure Draft is clear and appropriate. In addition, respondents have not raised concerns about this proposal or its rationale. Consequently, we recommend that the final Accounting Standard retains the proposal on an entity's own non-performance risk in paragraph 43 of the Exposure Draft.

Question for the IASB

5. Does the IASB agree with the staff recommendation in paragraph 58?

Appendix—Extracts from IFRS 9

A1. This section contains extracts from IFRS 9 dealing with the expected credit loss model applicable to trade receivables and contract assets.¹¹

A2. Appendix A of IFRS 9 contains the following defined terms:

Credit loss—The difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (ie all cash shortfalls), discounted at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets). An entity shall estimate cash flows by considering all contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) through the expected life of that financial instrument. The cash flows that are considered shall include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms...

Credit-impaired financial assets—A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as default or past due event;
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- (e) the disappearance of an active market for that financial asset because of financial difficulties; or
- (f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

¹¹ Trade receivables or contract assets that do not contain a significant financing component in accordance with IFRS 15 *Revenue from Contracts with Customers* and those to which the entity applied the practical expedient not to adjust the promised amount of consideration for the effects of a significant financing component.

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired.

A3. IFRS 9 contains the following paragraphs:

Simplified approach for trade receivables, contract assets and lease receivables

5.5.15 [...] an entity shall always measure the loss allowance at an amount equal to lifetime expected credit losses for:

- (a) trade receivables or contract assets that result from transactions that are within the scope of IFRS 15, and that:
 - (i) do not contain a significant financing component in accordance with IFRS 15 (or when the entity applies the practical expedient in accordance with paragraph 63 of IFRS 15); or
 - (ii) contain a significant financing component in accordance with IFRS 15, if the entity chooses as its accounting policy to measure the loss allowance at an amount equal to lifetime expected credit losses. That accounting policy shall be applied to all such trade receivables or contract assets but may be applied separately to trade receivables and contract assets.
- (b) [...]

...

Measurement of expected credit losses

5.5.17 An entity shall measure expected credit losses of a financial instrument in a way that reflects:

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

5.5.18 When measuring expected credit losses, an entity need not necessarily identify every possible scenario. However, it shall consider the risk or

probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low.

...

Expected credit losses

...

B.5.5.35 An entity may use practical expedients when measuring expected credit losses if they are consistent with the principles in paragraph 5.5.17. An example of a practical expedient is the calculation of the expected credit losses on trade receivables using a provision matrix. The entity would use its historical credit loss experience (adjusted as appropriate in accordance with paragraphs B5.5.51–B5.5.52) for trade receivables to estimate the 12-month expected credit losses or the lifetime expected credit losses on the financial assets as relevant. A provision matrix might, for example, specify fixed provision rates depending on the number of days that a trade receivable is past due (for example, 1 per cent if not past due, 2 per cent if less than 30 days past due, 3 per cent if more than 30 days but less than 90 days past due, 20 per cent if 90–180 days past due etc). Depending on the diversity of its customer base, the entity would use appropriate groupings if its historical credit loss experience shows significantly different loss patterns for different customer segments. Examples of criteria that might be used to group assets include geographical region, product type, customer rating, collateral or trade credit insurance and type of customer (such as wholesale or retail).