Media Release – COVID-19:
MFRS 9 *Financial Instruments:* Expected Credit Loss Considerations

The Malaysian Accounting Standards Board (MASB) is working closely with regulatory authorities in monitoring developments in the coronavirus (COVID-19) pandemic as well as the extent of their impact and accounting implications on the Malaysian capital market. As the COVID-19 situation continues to evolve, MASB recognises that this situation has given rise to a high degree of uncertainty which would significantly influence financial reporting judgements made during this period.

In view of the above, MASB wishes to reassure constituents that the principle-based nature of the Malaysian Financial Reporting Standards (MFRS) Framework requires and allows for judgement in addressing the accounting challenges arising from COVID-19.

Under MFRS 9 *Financial Instruments*, most loan and financing receivables are measured at amortised cost which are subject to impairment testing.

On initial recognition, a loss allowance of *12-month expected credit losses* is recognised for loan and financing receivables, being the risk of loss over the next 12 months [MFRS 9.5.5.5]. At a subsequent reporting date, if the credit risk on those loan and financing receivables has increased significantly, the loss allowance is equal to the *lifetime expected credit losses*, being the risk of loss over the entire expected remaining lives of the receivables [MFRS 9.5.5.3].

In measuring expected credit losses, an entity considers all reasonable and supportable information, including forward-looking information [MFRS 9.5.5.4]. Reasonable and supportable information is that which is reasonably available at the reporting date without undue cost or effort, including information about past events, current conditions and forecasts of future economic conditions [MFRS 9.B5.5.49], and judgement needs to be exercised in measuring expected credit losses [MFRS 9.B5.5.50].

In view of the unprecedented speed with which events have been unfolding amidst the COVID-19 outbreak, in determining whether they have sufficient reasonable and supportable information to make forecasts of future economic conditions, reporting entities need to make a judgement based on the information on-hand, which is believed to be still limited under the current unprecedented circumstances. Accordingly, reporting entities may need to adapt the information they already possess on potential scenarios involving a general deterioration in credit risks.

Given the inherent level of uncertainty and the sensitivity of judgements and estimates, sufficient disclosures of the key assumptions used, and the judgements made in estimating the expected credit losses above are particularly important in the financial statements of reporting entities.

Reporting entities are reminded that they are required to incorporate forecasts of future conditions over the entire remaining expected life of a financial instrument only to the extent of the availability of supportable information in estimating *lifetime expected credit losses*.

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In the event that forecasts are made to measure expected credit losses, reporting entities take into account the range of information available, including the expected impacts of government measures to mitigate the effects of the expected challenges, the expected duration and the extent of the current challenging conditions. If the shock is estimated to be temporary in nature with the market conditions expected to recover over the term(s) of the receivables, its impacts could be determined to affect mainly the *12-month expected credit losses*.

Ordinarily, modifications or rescheduling / restructuring of receivables undertaken by a lender could indicate a significant increase in credit risk and the need to recognise loss allowances for *lifetime expected credit losses*. However, in the current environment, in which regulatory action may be driving payment moratoriums, it may not be appropriate to simply assume that rescheduling / restructuring, of itself, would necessarily mean that *lifetime expected credit losses* are relevant for all receivables. In addition, consideration would need to be given to whether the payment moratoriums could enable the obligors who are affected by the COVID-19 outbreak to resume regular payments in foreseeable future, such that significant increase in credit risk would not occur over expected remaining lives of the receivables .

As the extent of the identified risk and degree to which it might crystallise is entity-specific, reporting entities should carefully consider the nature and extent of disclosures they might need to include in their financial statements in relation to COVID-19.

END

Note

The facts and circumstances of an entity may differ from another entity. Consequently, the entity should discuss with its respective accountants, independent auditors on resolution of matters concerning the application of the accounting standards based on their own facts and circumstances, including the MFRS 9 application discussed above in measuring expected credit losses.

Malaysian Accounting Standards Board
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