Common Problems and Deficiency in Expected Credit Loss Evaluation (ECL) ASC 326 IFRS 9

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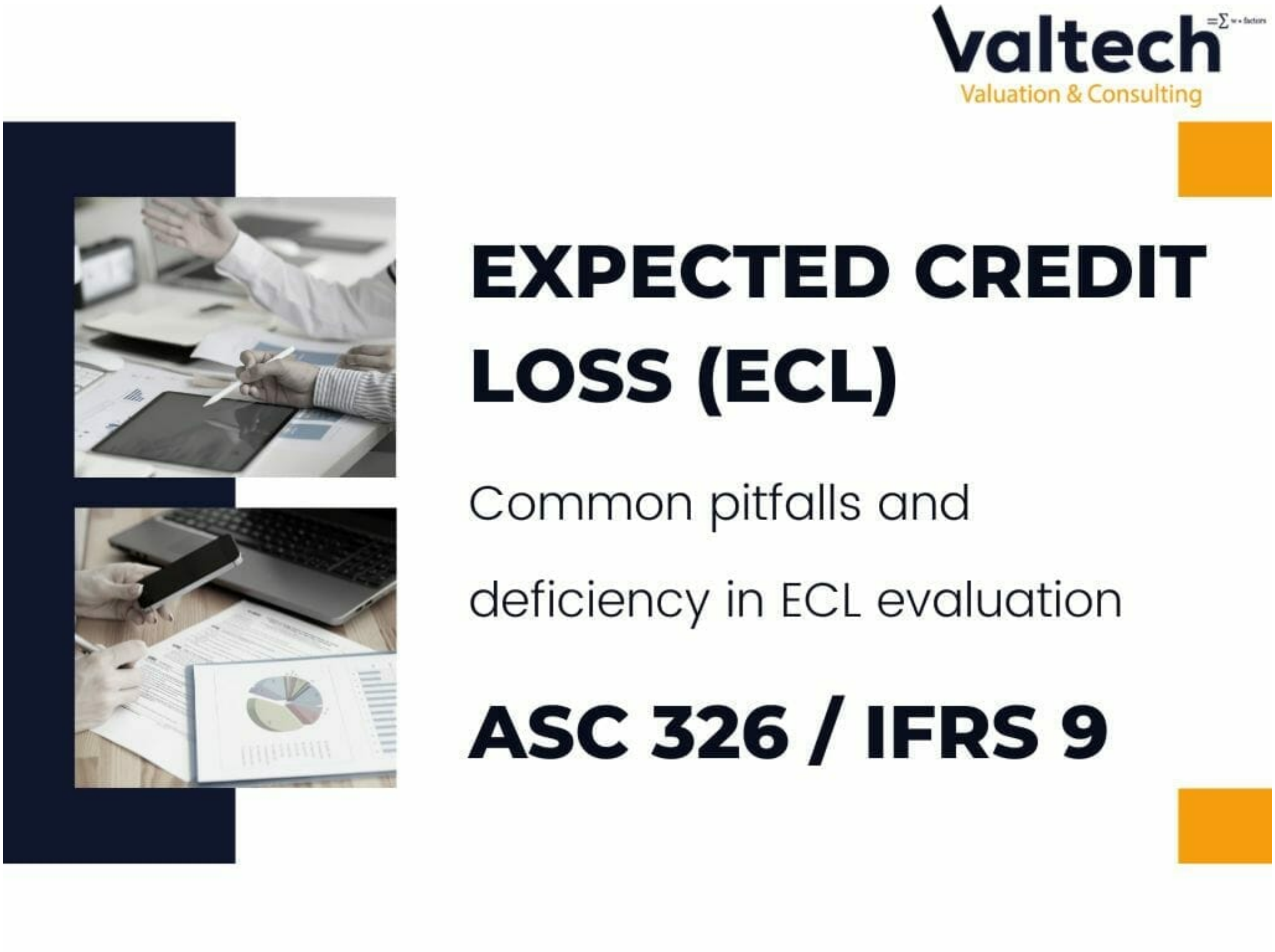


One common error in expected credit loss (ECL) evaluation is the **failure to adequately consider forward-looking information**. ECL estimation requires assessing not only historical data but also future expectations and economic conditions. Failing to incorporate forward-looking information can lead to an underestimation or overestimation of credit losses.

Another common error is the **reliance on outdated or insufficient data or data not directly relevant to the case without proper calibration**. ECL evaluation should consider the most recent and relevant data available. Using outdated or incomplete data can result in inaccurate estimations and may not reflect the current credit risk environment.

Inadequate consideration of risk factors and assumptions is another error to avoid. ECL estimation requires careful assessment of various risk factors such as default probabilities, loss given default, and exposure at default. Failure to adequately incorporate these factors or making unrealistic assumptions can distort the accuracy of the ECL evaluation.

Lastly, **insufficient documentation and lack of transparency in the ECL estimation process can be a common error**. It is important to document the methodology, assumptions, and data used in ECL estimation to facilitate audit trails, review, and understanding by stakeholders.

To mitigate these errors, it is crucial to follow the applicable accounting standards (such as ASC 326 or IFRS 9 (or HKFRS 9)), use reliable data sources, incorporate forward-looking information, regularly update ECL estimates, and maintain proper documentation of the estimation process. Additionally, seeking expert advice and proper auditors' review and validation can help reduce the likelihood of errors in ECL evaluation.

ASC 326 Financial Instruments — Credit Losses

ASC 326 requires entities to estimate ECL by considering historical information, current conditions, and reasonable and supportable forecasts that may affect the collectability of the financial assets. It emphasizes the need for forward-looking information to assess credit risk and determine appropriate allowances for credit losses.

The estimation of ECL under ASC 326 involves developing a systematic methodology that incorporates relevant factors such as the asset's credit quality, contractual terms, historical experience, industry-specific conditions, macroeconomic indicators, and other pertinent data. The standard encourages the use of reasonable and supportable information to form an unbiased and objective estimate of credit losses.

IFRS 9 and Expected Creit Loss Provisioning

The ECL estimation process under IFRS 9 (or HKFRS 9) involves a forward-looking approach that considers a range of possible outcomes. It requires entities to assess the probability of default and the potential loss given default over the expected life of the financial asset.

IFRS 9 (or HKFRS 9) requires entities to consider a variety of factors when estimating ECL, including historical data, current market conditions, forward-looking information, and macroeconomic factors. Entities are expected to use both quantitative and qualitative information to assess credit risk and determine appropriate provisions for expected credit losses.

The standard provides guidance on different measurement approaches for ECL estimation, including a simplified approach for certain financial assets with low credit risk. The expected credit losses should be updated regularly, taking into account changes in credit risk and other relevant factors.

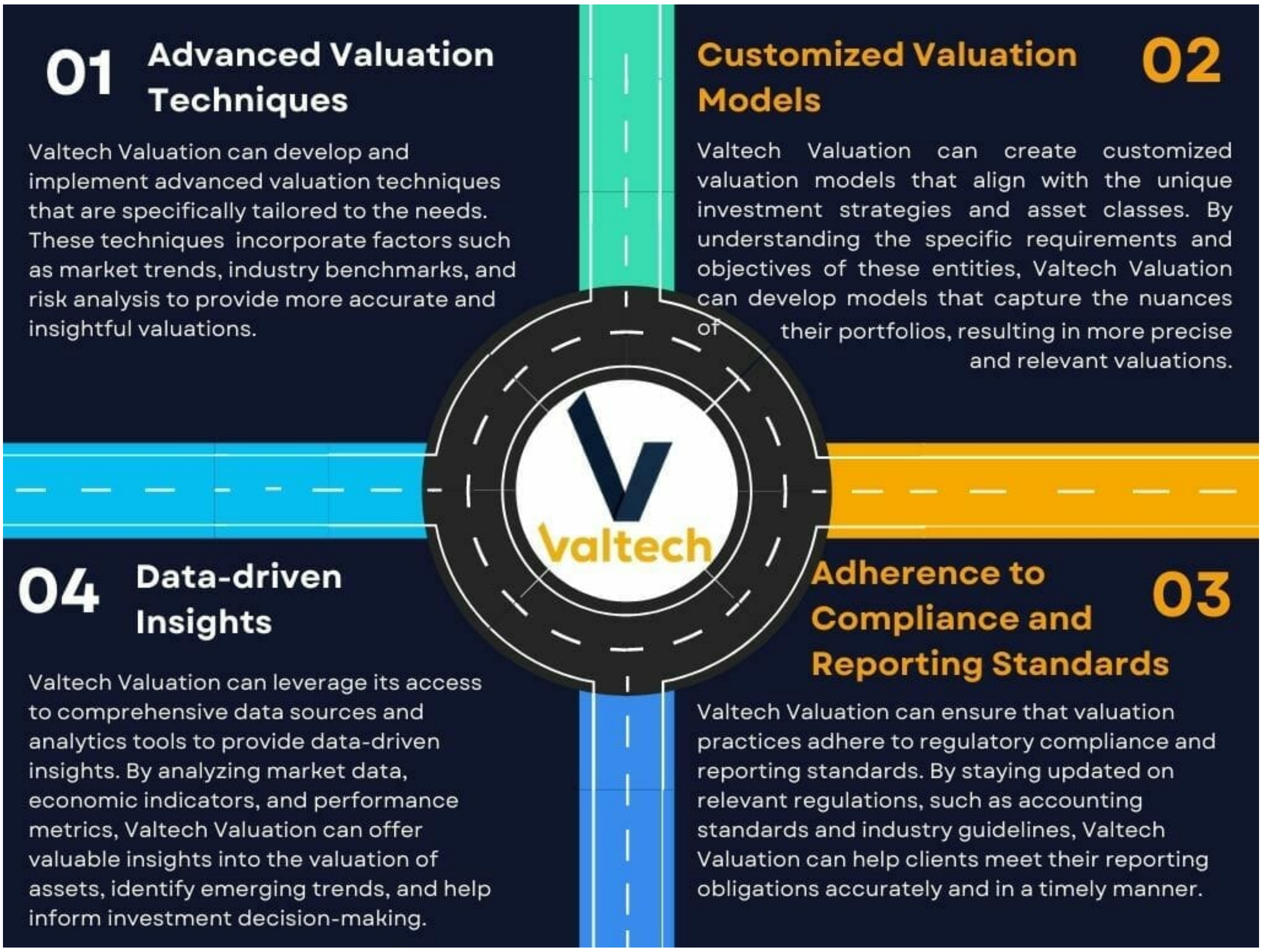
Why Appoint Valtech as Valuation Adviser?

Valtech's team has provided valuation advice to over 200 listed companies in Hong Kong, China, Singapore, Taiwan, Australia, the United Kingdom, the United States

and Germany.

Valtech Valuation is a professional valuation firm accredited with ISO-9001 in valuation advisory services. The financial market and valuation requirements are highly dynamic. We are determined to develop and maintain a quality management system to foster an environment which is sustainable and evolving continuously. Our founders stress on development of a system and an environment that our consultants are provided with necessary support and opportunities to thrive.

We are a team of professionals from multiple disciplines including audit, financial modelling, tax, internal control and surveying. Our management adheres professional excellence. Abundant resources are reserved to develop standardized policies and procedures for quality control. We have solid track record in valuation advisory for listed companies, private equity, fund managers and financial institutions. We work closely with big four and other international accounting firms, corporate financial advisors, fund managers and legal advisors.



Valtech Advantages:

Advanced Valuation Techniques: Valtech Valuation can develop and implement advanced valuation techniques that are specifically tailored to the needs of clients. These techniques can go beyond traditional valuation methods and incorporate factors such as market trends, industry benchmarks, and risk analysis to provide more accurate and insightful valuations.

Customized Valuation Models: Valtech Valuation can create customized valuation models that align with the unique investment strategies and asset classes. By understanding the specific requirements and objectives of these entities, Valtech Valuation can develop models that capture the nuances of their portfolios, resulting in more precise and relevant valuations.

Data-driven Insights: Valtech Valuation can leverage its access to comprehensive data sources and analytics tools to provide data-driven insights. By analyzing market data, economic indicators, and performance metrics, Valtech Valuation can offer valuable insights into the valuation of assets, identify emerging trends, and help inform investment decision-making.

Adherence to Compliance and Reporting Standards: Valtech Valuation can ensure that valuation practices adhere to regulatory compliance and reporting standards. By staying updated on relevant regulations, such as accounting standards and industry guidelines, Valtech Valuation can help clients meet their reporting obligations accurately and in a timely manner.