# ACCOUNTS RECEIVABLE CECL RESERVE POLICY

## Purpose

The purpose of the policy is to document the accounting policy on allowances for doubtful accounts in accordance with FASB ASC 326 “Financial Instruments—Credit Losses”.

## Definitions

**Default**. A default is considered to have occurred for an account when either:
- The obligor is unlikely to settle the obligation in full without recourse.
- Accounts are past due for more than 365 days.
- Obligor filed for the bankruptcy.

**Write-off**. The carrying amount of accounts receivable is written off when the balance is concluded to be uncollectible due to:
- No reasonable expectations of recovery.
- Ceased enforcement activities.

## Procedures

**I. Authorization.** Credit Manager have the ultimate right to authorize and responsibility to timely execute the following actions:
- Write-offs accounts receivable.
- Quarterly setting and updating the values of adjustments for asset-specific risks, current conditions, and forward-looking information.
- Quarterly reassessing whether assets in a pool continue to display similar risk characteristics to identify and move non-similar assets to appropriate pools or perform individual assessments of expected credit losses for specific assets.

II. **Process**. Quarterly, we will measure the current expected credit loss allowance as the lifetime expected credit losses derived based on all reasonable and supportable information related to credit risk of subject financial instruments.

The true-up consists of calculating components of the total reserve:

**Collective reserve component** based on the collective assessment will be performed for accounts receivable in the same aging bucket for each category of customers with similar risks.

> **a**. We will remove from the buckets all accounts receivable that do not share similar credit risks with the rest of accounts and assess the related reserves individually.
> **b.** We will calculate the Collective Reserve % rate as follows:
> **Collective Reserve % =Aging % +Asset Adj + Current Conditions Adj+Fwd Looking Adj**
> **c.** We then multiply the total balance of accounts receivable in each bucket by respective expected credit loss rates to derive the reserve amount.

**Individual reserve component** based on individual customer reviews supported by documentation demonstrating:

- the reasoning for excluding specific customers from the collective assessment of reserves. Individual assessment will be performed for accounts that do not share similar credit risk characteristics with the rest of the pool. Examples of these accounts include:
    - Largest customers due the significant concentration of credit risk.
    - High-risk customers where a better estimate of expected credit losses is anticipated to be derived at the individual level.
    - Collateralized accounts expected to be settled using collateral.

- the reasonable and supportable information used to measure the expected credit loss reserve at the individual level and the ultimate amount of reserve to be maintained based on the assessment.

We then will add up the reserves calculated on Step 1-2 to derive the total amount of CECL reserve to be carried on books.

We will true-up the allowance for doubtful accounts with corresponding income/expense charged at the corporate level. The expense will be pushed down to applicable local geographic cost center at the time when such customer A/R has been written off. This is because the reserve cannot be easily assigned to individual customers due to the collective basis of calculations.

## Measurement

The following key consideration of the Company's methodology as well as reminders for some gotchas:

1. Aging Bucket Reserve % will be calculated based on historical experience of migration of accounts outstanding between aging bucket pools.

    - We will not separate the dilution risk, which is a risk of noncash reductions in the receivable balance for reasons other than default.
    - No reversion to historical loss is implemented due to short-term lifetime of receivables.
    - The lifetime of our accounts receivable is estimated based on the most recent DSO data for the pool of customers.

2. Reserves on receivables settled after the reporting date should be accrued based on the assumption and information available as of the reporting date. It is NOT appropriate to accrue $0 reserve or accounts receivable paid in full after the period-end as well as it is NOT appropriate to consider post-measurement date repayment in calculation of historical loss rates.

3. Due to the presence of expected recoveries from assets of obligors at bankruptcy we typically limit individually assessed reserves to 75% of the amount outstanding (hence, 100% reserves are generally inappropriate for customer who has filed bankruptcy) except for in the following circumstances:

- 100% reserve should be accrued for overdue amounts disputed with customers if there is a history of price concessions granted for similar disputed amounts. The non-payment should not be a result of the deteriorated quality of the customer's credit.
- If we have access to financial statements of the obligor prepared on a liquidation basis that can be used to determine more accurately the expected amount of recovery.

4. Historical write-offs of accounts of our high-risk customers should be included in calculations of historical loss rates for the pool.

5. When no historical write-off data is available for the pool of accounts receivable, reserve rates may be calculated using the Pluto and Tasche approach and/or other credit risk models.

## Journal Entries

**a) Upward/(Downward) adjustments of CECL allowance accruals at the quarter-end:**

DR/(CR) Bad Debt Expense (Corporate)
CR/(DR) CECL Allowance

**b) Write-off of previously reserved accounts receivable:**

DR CECL Allowance
CR Customer Accounts Receivable

**c) Bad Debt Expense allocated from Corporate to local unit:**

DR Bad Debt Expense (Local)
CR Bad Debt Expense (Corporate)