

Doubtful Procedure

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1. Introduction

This document describes the standard operating procedure for the management of doubtful customer, write-down and write-off. This (OP) is applied for all the receivables of Solvay Companies Worldwide.

The Group has decided to not managed anymore any sleeping provision based on statistical information.

The objective is to define role and responsibilities of all the stakeholders starting from the analysis of customer account, validation of the doubtful customer, write-down and write-off, record in the books, archiving and justification.

Source : International Financial Reporting Standards.

"A provision for impairment of trade receivables must be established when there is an objective evidence that the group will not be able to collect all amounts due. Significant financial difficulties of the debtor, probability that the debtor will enter in bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired".

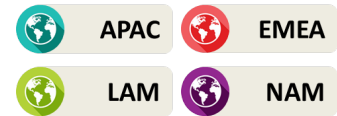
"The practice of creating general provisions is on the decline after revisions in the International Financial Reporting Standards (IFRS). Specifically, IAS 39 prohibits creation of general provisions on the basis of past experience due to the subjectivity involved in creating such an estimate."

2. Definition

A customer account is considered as doubtful if there is a risk that part or all of the debt may not be recovered due to the debtor's financial difficulties:

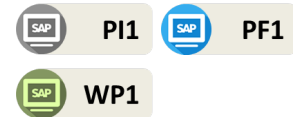
- bankruptcy procedure,
- Chapter 11,
- non respect of payment plan,
- debt transferred to an external agency,
- trade dispute (material amount, legal action, no agreement foreseen)
- legal contentious,

Scope



Wise

ERP



References

Attachments

[Template](#) to use

Cost Center information:

[POC Controller & default cost center](#)

CAM link:

[SBS- Delivery Management - List of Companies](#)

[Country Rule Draft](#)

- disaster situation,
- fraud,
- ...

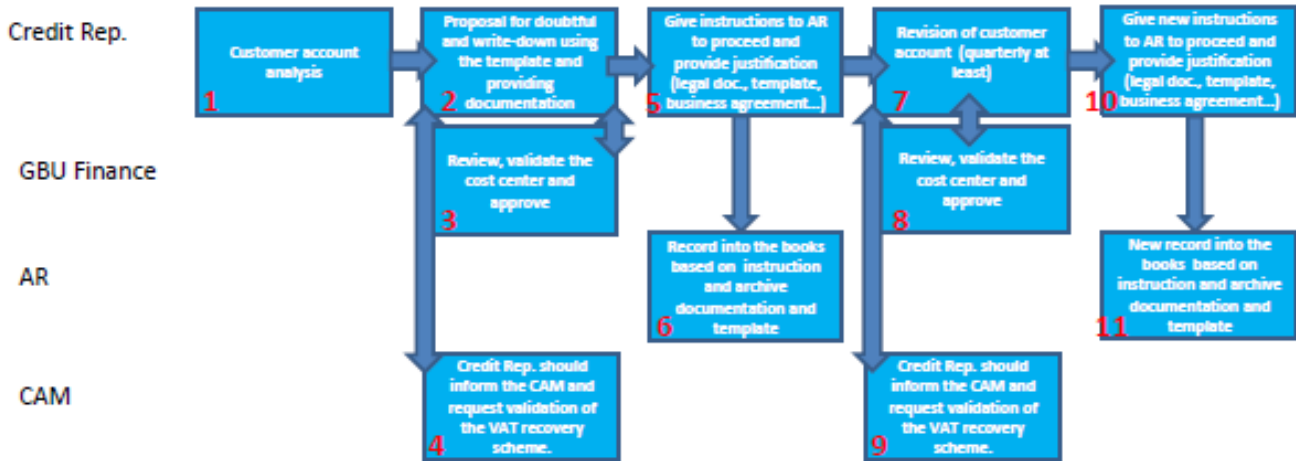
Every time, we realize that an affiliate, Solvay SA or Solvay SFA is unlikely to recover its debt from a customer, we must analysis the customer account and decide to transfer the receivable to doubtful and write-down the appropriate portion. This ensures that the entity's assets (i.e. receivables) are not stated above the amount it can reasonably expect to recover which is in line with the concept of "prudence".

Occasionally, a doubtful previously written down may subsequently settle its debt in full or in part. In such case, it will be necessary to cancel the effect previously recognized up to the amount settlement.

3. Process Overview

The following graph explains the process to follow:

Step 1: Credit Representative analyzes customer account in case of a specific event occurred affecting the financial situation of the customer or during aged balance review when old overdue (> 1year) are stock into customer account (internal credit note is the preferred option in such case).



Step 2: Based on the analysis, Credit representative proposes to GBU Finance an accounting strategy to reflect what is supposed to happen next by using the appropriate template, in the meantime Credit Rep. should also inform the Regional and WW Credit Manager Coordinator.

Step 3: Strategy is proposed and submitted to GBU Finance for an approval. Approval should be given by a Regional / Business Controller or Financial Director.

Step 4: When sending approval request to the GBU Finance, Credit Rep. must put in Cc the CAM of the affiliate for information and for validation of the VAT scheme.

Step 5: Once approved Credit Representative gives instructions to AR department by using the appropriate template and provide all the documentations (legal document, business agreement, validation of the GBU Finance...) attached to the request and **add Head of Credit in Cc.**

All instructions must be send before the 25th of the month, if not the impact will be reflected in Solvay accounts the next month. All instructions must be transferred to General 3S-AR: Solvay.ar@solvay.com

Step 6: Accounting records and archiving of the justifications are performed by AR team.

Step 7: Periodically and at least each quarter (March, June, Sept, and November because of the hard-close), doubtful and write-down accounts must be analyzed in order to ensure accuracy and follow-up.

Step 8: Follow Step 3

Step 9: Follow Step 4

Step 10: Follow Step 5

Step 11: Accounting records and archiving are performed adequately by AR team.

Step 12: The invoices can definitively not be paid (Irrecoverable Certificate), in this case it is transferred to losses and write-down is cancelled. Based on request from Credit Representative to AR team (approved by GBU Finance, information to CAM, Regional and WW Credit Manager Coordinator).

For old overdues (>5years), based on the local fiscal rules, the amount could be book directly as a lost following the same scheme (Step 1 to 6).

4. Detailed Description

4.1 Different situation may occurred depending of the evolution of the customer situation

4.1.1 Record from receivables to doubtful and write-down

A customer enter in bankruptcy procedure, all the receivable should be transferred to doubtful account and a write-down of the full part needs to be recorded.

Sometimes based on the estimation of the recovery, only the % not likely to be recovered is accrued.

When the VAT is recoverable, the write-down is done without VAT.

4.1.2 Cancel write-down and doubtful

A partial payment has been received (from the administrator, the customer, the external agency...) the doubtful and the write-down need to be adjusted accordingly.

4.1.3 Record from write-down to losses

The administrator or the external agency is able to provide an Irrecoverably Certificate, in such case, the write-down needs to be transferred to losses.

4.1.4 Record from receivable to losses

In some cases, a loss is directly recorded from receivable to losses, to do so local fiscal rules needs to be respected, when the overdues is very old (see Country Rule).

Internal credit note issuance is the preferred option in such case (request approval from GBU finance before to proceed).

AR team has the authorisation to record directly as a loss all the amounts below 200Euros.

5.1 KPI

Doubtful customer are removed from overdue accounts but remain in the account receivables balance. They are neither taken into account in DSO calculation nor overdue rate.

Currently, in QV the amount reported is the one related to Doubtful customers account.

5.2 CAMS

For the all affiliates assigned to CAMS, the doubtful, write-down, write-off records are done in Solvay SA - Company Code 0231 or Solvay Finance America - Company Code 4044, but all the records are still reported in BFC under the appropriate GBU thanks to correct Cost Center allocation.

The affiliate still assume the P&L impacts, even if the receivables have been assigned to SSA or SFA.

For the affiliates not assigned to CAMS, the scheme of the process is the same, but the records are done directly in the affiliate books and reported in BFC under the appropriate GBU.

5.3 Customer is also a Supplier

The Credit Representative has to verify whether the doubtful customer involved is a Solvay supplier in order to avoid payment to be made in its favor. In this case, the Credit Representative has to inform the Account Payables teams (email)

Reminder : Compensation is forbidden (general principle) when it is stated a customer falls under Doubtful status.

5.4 Customer is a Solvay Agent

The Credit Representative has to verify whether the customer is a Solvay agent or an agent earning commissions for sales to the doubtful customer involved, in order to avoid payment to be made in its favor.

5.5 Credit Status

Credit Representative has to modify the Credit status in PI1 to Doubtful.

5.6 Legal formalities

Credit Representative is responsible to make the necessary legal formalities (notification to the administrator of the insolvency ...), **administrative tasks related to VAT recovery**, follow up of the situation with the administrator, request Irrecoverably Certificate...

In EMEA Zone in order to recover the VAT, the Credit Rep. is in charge to issue duplicate of the invoices with the following text in the appropriate language and send them to the customer and keep the proof of the sending:

" Facture demeurée impayée pour la somme de ... € (prix net) et pour la somme de ... € (TVA correspondante) qui ne peut faire l'objet d'une déduction "

"Invoice still unpaid for the sum of ... € (net price) and for the sum of ... € (corresponding VAT) which can not be deducted"

5.7 Payment Plan

In case of non respect of the payment plan, Credit Rep. and GBU Finance will agree on the amount of the provision to book into the accounts.

6. Archiving

When a new case is recorded, all electronic files related to the customer case must be posted in the PI1 system under FBL5N by AR team.

Which kind of documents should be attached to the template:

- Official document describing the legal procedure (ie. Chapter 11)
- Copy of judgments obtained from the administrator, the client representative, the Commercial Court...
- When a litigation procedure has been initiated: a copy of the notice, correspondence
- Copies of invoices constituting the doubtful
- Correspondence: statement of claim to the Administrator
- History of the claim: commercial litigation, emails

6. Report and analysis

Adequate report is available in BW analyser especially developed for Credit teams.

Reference : BW Credit Management Doubtful cust. (Core Query)

In the frame of CAMS, the write-downs are now detailed by customer accounts, BW request is providing details of the doubtful and write-down by customers.

Doubtful and write-down should be analyzed at least each quarter (March, June, Sept, and November because of the hard-close).

The dedicated BW request has been designed to help the analysis between doubtful and write-down in order to make sure that the records are up to date and reflect the current situation (a partial payment has been received, old write-down to write-off, check discrepancy between doubtful and write-down because of the VAT or partial write-down).