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Accounting Quarterly Roundup

June 2023

This Quarterly Roundup is a compilation of key developments related to financial reporting standards that have occurred in the second quarter of 2023. The purpose of this publication is to provide a roundup of the recent changes in the Malaysian financial reporting framework and local regulatory requirements which we believe are important to accounting professionals. This quarterly update also includes a high-level overview of new and revised financial reporting requirements that need to be considered for the financial reporting periods which ended 30 June 2023.

Section 1: Malaysian Financial Reporting Standards

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1. Agenda decisions are not issued by MASB, but entities in Malaysia applying MFRSs shall assess the relevance of Agenda Decisions vis-à-vis the laws and regulations in Malaysia.

Section 1: Malaysian Financial Reporting Standards

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The summary of new and revised pronouncements below is updated for financial reporting periods ended 30 June 2023. This listing can be used to perform a quick check that the new financial reporting requirements such as new and revised accounting standards and interpretations, and amendments to standards and interpretations, have been fully considered in the reporting close process. The information below can also be used to assist with the disclosure requirements under paragraph 30 of MFRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, which requires entities to disclose any new IFRSs that are in issue but not yet effective, and which are likely to impact the entity.

Summary of new and revised pronouncements issued as of 30 June 2023 and its effective dates

MFRS	New and revised pronouncements	Effective date*
Amendments to MFRS 4	Extension of the Temporary Exemption from Applying MFRS 9	Effective immediately upon issuance
Amendments to MFRS 112	International Tax Reform – Pillar Two Model Rules – Application of the exception and disclosure of that fact	Effective immediately upon issuance
Amendments to MFRS 112	International Tax Reform – Pillar Two Model Rules – other disclosure requirements	1 January 2023
MFRS 17	Insurance Contracts	1 January 2023
Amendments to MFRS 17	Insurance Contracts	1 January 2023
Amendments to MFRS 101 and MFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to MFRS 108	Definition of Accounting Estimates	1 January 2023
Amendments to MFRS 112 and MFRS 1	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Amendments to MFRS 17	Initial Application of MFRS 9 and MFRS 17 – Comparative Information	1 January 2023
Amendments to MFRS 16	Lease Liability in a Sale and Leaseback	1 January 2024
Amendments to MFRS 101	Classification of Liabilities as Current or Non-current	1 January 2024
Amendments to MFRS 101	Non-current Liabilities with Covenants	1 January 2024
Amendments to MFRS 107 and MFRS 7	Supplier Finance Arrangements	1 January 2024
Amendments to MFRS 10 and MFRS 128	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred

Key
*Annual reporting periods beginning on or after

Impact and key considerations of each new and revised pronouncement

The following sets out information on the impact of the above pronouncements and relevant key accounting considerations.

Amendments to MFRS 4 - Extension of the Temporary Exemption from Applying MFRS 9

The amendments to MFRS 4, to extend the temporary exemption from applying MFRS 9, was issued on 17 August 2020 and was effective immediately. This exemption permits, but does not require, an insurer meeting certain criteria to apply MFRS 139 rather than MFRS 9 for annual periods beginning before 1 January 2023

The amendments are generally adopted from the amendments to IFRS 17 – Insurance Contracts as issued by the International Accounting Standards Board (IASB).

For more information: IFRS in Focus Newsletter

Amendments to MFRS 112 - International Tax Reform – Pillar Two Model Rules

These amendments introduce a temporary exception from accounting for deferred taxes arising from the implementation of the OECD Pillar Two model rules, together with targeted disclosure requirements for affected entities.

Applying the exception, an entity does not recognise deferred tax assets and liabilities related to the OECD Pillar Two income taxes. It also does not disclose any information about these deferred tax assets and liabilities.

In periods in which Pillar Two legislation is enacted or substantively enacted, but not yet in effect, an entity is required to disclose known or reasonably estimable information that helps users of financial statements understand the entity's exposure to Pillar Two income taxes arising from that legislation.

An entity is required to apply the exception and to disclose that it has applied the exception immediately upon issuance of the amendments and apply them retrospectively in accordance with IAS 8. The remaining disclosure requirements are required for annual reporting periods beginning on or after 1 January 2023.

Key considerations:

- Various jurisdictions have started the process of enacting tax legislation to implement the Pillar Two model rules. Entities that may be subject to them will need to monitor the legislation process in the jurisdictions in which they operate and assess whether the Pillar Two legislation has been enacted (or substantively enacted) in any such jurisdictions. Once the Pillar Two legislation has been enacted or substantively enacted, an entity will need to consider the MFRS 112 impact of legislation on its financial statements.
- Consider the extent and ability of the required qualitative and quantitative information to be estimated reliably to meet the disclosure objective for periods in which Pillar Two legislation is enacted or substantively enacted but not yet in effect.

The amendments are generally adopted from the amendments to IAS 12 – International Tax Reform – Pillar Two Model Rules as issued by the IASB.

For more information: iGAAP in Focus Newsletter

MFRS 17 Insurance Contracts

MFRS 17 Insurance Contracts has been issued to replace MFRS 4. The new standard, which supersedes MFRS 4 *Insurance Contracts,* establishes the requirements for recognition, measurement, presentation, and disclosure of insurance contracts.

Scope

An entity shall apply MFRS 17 to:

- insurance contracts, including reinsurance contracts it issues;
- reinsurance contracts it holds; and
- investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts.

Some contracts meet the definition of an insurance contract but have as their primary purpose the provision of services for a fixed fee. Such issued contracts are in the scope of the standard, unless an entity chooses to apply MFRS 15 to these contracts, provided certain criteria are met.

Level of aggregation

MFRS 17 requires entities to identify portfolios of insurance contracts which are subject to similar risks and managed together. Each portfolio shall be divided into a minimum of three groups:

- a group of contracts that are onerous at initial recognition, if any;
- a group of contracts that at initial recognition have no significant possibility of becoming onerous subsequently, if any; and
- a group of the remaining contracts in the portfolio, if any.

An entity is not permitted to include contracts issued more than one year apart in the same group. Furthermore, if a portfolio falls into different groups only because law or regulation constrains the entity's practical ability to set a different price or level of benefits for policyholders with different characteristics, the entity may include those contracts in the same group.

Recognition

An entity shall recognise a group of insurance contracts it issues from the earliest of the following:

a. the beginning of the coverage period of the group of contracts;
b. the date when the first payment from a policyholder in the group becomes due; and
c. for a group of onerous contracts, when the group becomes onerous.

Measurement

The standard measures insurance contracts either under the general model or a simplified version called the Premium Allocation Approach.

- the general model is defined such that at initial recognition, an entity shall measure a group of contracts at the total of:
- the amount of fulfilment cash flows (“FCF”), which comprise probability-weighted estimates of future cash flows, an adjustment to reflect the time value of money (“TVM”) and the financial risks associated with those future cash flows and a risk adjustment for non-financial risk; and
- the contractual service margin (“CSM”).

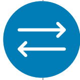
An entity shall include all the future cash flows within the boundary of each contract in the group. The estimates of future cash flows shall be current, explicit, unbiased, and reflect all the information available to the entity without undue cost and effort about the amount, timing, and uncertainty of those future cash flows.

On subsequent measurement, the carrying amount shall be the sum of the liability for remaining coverage and the liability for incurred claims. The liability for remaining coverage comprises the FCF related to future services and the CSM of the group at that date. The liability for incurred claims is measured as the FCF related to past services allocated to the group at that date.

An entity may simplify the measurement of the liability for remaining coverage of a group of insurance contracts using the premium allocation approach on the condition that, at initial recognition, the entity reasonably expects that doing so would produce a reasonable approximation of the general model, or if the coverage period of each contract in the group is one year or less.

Presentation

The new standard is expected to result in significant changes to presentation in the statement of financial performance. It requires more granular and detailed disclosures in financial statements given the high degree of judgement in the standard.



Effective date and transition

On 17 August 2020, the MASB issued the Amendments to MFRS 17, which includes deferral of MFRS 17's effective date to annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted if MFRS 9 has also been applied. Other amendments to MFRS 17 are discussed below. Three possible approaches are introduced for transition to MFRS 17, including Full Retrospective Approach, Modified Retrospective Approach, and Fair Value Approach.

Key considerations:

- Establish a project implementation plan to determine transitional impacts upon initial application.
- Consider the extent to which substantial changes to processes, IT systems, and internal controls would be as a result of both the new measurement model and new disclosure requirements.
- Consider how the actuarial valuation and financial reporting systems and data warehouses can be adapted to comply with MFRS 17 calculations.
- Consider whether the reporting timeframes need to be extended or reviewed to accommodate the complex calculations and disclosures required by the new standard.
- Consider the need for change management and the related communication required for analysts and regulators during the transition period and for subsequent reporting.
- Consider the need of access to additional granular data. E.g. cash flows, discount rates, and risk adjustments (including forward looking projections and past projections).
- Consider the need of business strategy changes to produce a stronger, less volatile, and growing business as profit drivers change.
- Consider the potential tax impact arising from the application.

The Standard is generally adopted from the IFRS 17 *Insurance Contract* as issued by the IASB.

For more information: IFRS in Focus Newsletter

Amendments to MFRS 17 - Insurance Contracts

Targeted amendments made to the following aspect of MFRS 17:

- Deferral to 1 January 2023 of the effective date of MFRS 17 and the fixed expiry date for the temporary exemption in MFRS 4 from applying MFRS 9.
- Scope exclusion for credit card contracts and similar contracts and optional scope exclusion for loan contracts with insurance coverage limited to the loan amount.
- Recognition of insurance acquisition cash flows relating to expected contract renewals, including guidance for insurance acquisition cash flows recognised in a business combination.
- Application of MFRS 17 in interim financial statements – Allocation of CSM attributable to investment-return service and investment-related service.
- Risk mitigation option using instruments other than derivatives.
- Recovery of losses from underlying insurance contracts through reinsurance contracts held.
- Presentation in the statement of financial position.
- Transition issues: classification of contracts acquired in their settlement period and guidance on the restatement of the risk mitigation option applied in prior periods.
- Minor application issues.

Key consideration: Apart from taking into consideration the initial application considerations highlighted above, entities should also consider the additional accounting implication and/or applicability of the additional amendments and the related pre-application disclosures in financial statements prior to its effective date.

These would include the entity's preliminary assessment of the potential financial impact it expects from its initial application.

The amendments are generally adopted from the amendments to IFRS 17 – Insurance Contracts as issued by the IASB.

For more information: IFRS in Focus Newsletter

Amendments to MFRS 101 and MFRS Practice Statement 2 - Disclosure of Accounting Policies

The amendments change the requirements in MFRS 101 with regard to disclosure of accounting policies. Applying the amendments, an entity discloses its material accounting policies, instead of its significant accounting policies. Further amendments to MFRS 101 are made to explain how an entity can identify a material accounting policy. Examples of when an accounting policy is likely to be material are added.

To support the amendments, the MASB has also developed guidance and examples to demonstrate the application of the 'four-step materiality process' described in MFRS Practice Statement 2.

Key consideration: Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. With the introduction of the concept of 'material accounting policy', entities would need to apply judgement to consider if a particular accounting policy under its circumstances would be considered as material.

Although not mandatory to apply, entities are encouraged to refer to MFRS Practice Statement 2, as it provides guidance on how to make those judgements on material accounting policies disclosures.

The amendments are adopted from the amendments to IAS 1 - Disclosure of Accounting Policies as issued by the IASB. To support the amendments, the IASB has also developed guidance and examples to demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2.

For more information: IFRS in Focus Newsletter

Amendments to MFRS 108 - Definition of Accounting Estimates

Before the amendments, MFRS 108 included definitions of accounting policies, and a change in accounting estimates, but entities found it difficult to distinguish between accounting policies and accounting estimates. The combination of a definition of one item (accounting policies) with a definition of a change in another item (change in accounting estimates) obscured the distinction between both items. To make the distinction clearer, the Board decided to replace the definition of a change in accounting estimates with a definition of accounting estimates.

MFRS 108 is amended to replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".

The MASB also clarifies that a change in accounting estimates that result from new information or new developments is not the correction of an error. In addition, the effects of a change in input or a measurement technique used to develop accounting estimates are changes in accounting estimates if they do not result from the correction of prior period errors.

Key consideration: Identifying accurately if a change is arising from a change in accounting estimates or accounting policy is critical as the former entails a prospective accounting application while the latter is to be applied retrospectively.

The amendments are generally adopted from the amendments to IAS 8 - Definition of Accounting Estimates as issued by the IASB.

For more information: IFRS in Focus Newsletter

Amendments to MFRS 112 and MFRS 1 - Deferred Tax related to Assets and Liabilities arising from a Single Transaction

Before this amendment, it was not clear if MFRS 112 required recognition of deferred taxes for the offsetting of temporary differences arising from simultaneous recognition of asset and liability or if the initial recognition exemption can be applied. That exemption prohibits an entity from recognising deferred tax assets and liabilities on initial recognition of an asset or liability in a transaction which is not a business combination and affects neither accounting nor taxable profit.

In this amendment, the MASB amends MFRS 112 to provide a further exception from the initial recognition exemption. An entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences. This is applicable to taxable and deductible temporary differences associated with right-of-use assets and lease liabilities, and decommissioning obligations and corresponding amounts recognised as assets at the beginning of the earliest comparative period presented. The amendments also apply to transactions that occur on or after the beginning of the earliest comparative period presented.

An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented.

In addition, at the beginning of the earliest comparative period an entity recognises:

- a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary differences associated with:
  - Right-of-use assets and lease liabilities
  - Decommissioning, restoration and similar liabilities and the corresponding amounts recognised as part of the cost of the related asset
- the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date

First-time adopters apply these provisions at the date of transition to MFRS Standards.

Key considerations:	• Consider if existing accounting policy requires revision to align with the amendments and the need to recognise related deferred tax assets and deferred tax liabilities arising from simultaneous recognition of asset and liability. • Be aware that first-time adopters are required to apply the transition provisions within MFRS 1.

The amendments are generally adopted from the amendments to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction as issued by the IASB.

For more information: IFRS in Focus Newsletter

Amendments to MFRS 17 – Initial Application of MFRS 9 and MFRS 17 – Comparative Information

Many insurance entities have elected to apply the temporary exemption that allows them to defer the adoption of MFRS 9 *Financial Instruments* until they apply MFRS 17. However, the two Standards have different requirements with respect to the comparative information presented on initial application. MFRS 17 requires entities to present at least one restated comparative period, while MFRS 9 permits (but does not require) the restatement of comparative periods. MFRS 9 prohibits entities from applying MFRS 9 to financial assets derecognised before the date of initial application of MFRS 9.

For entities that apply MFRS 17 and MFRS 9 at the same time, the amendment relates to financial assets for which comparative information presented on initial application of MFRS 17 and MFRS 9 has not been restated for MFRS 9 (including financial assets that have been derecognised in the comparative period). Applying the amendment, an entity is permitted to present comparative information about such financial assets as if the classification and measurement requirements of MFRS 9 had been applied to the financial assets. The option is available on an instrument-by-instrument basis. In applying the classification overlay to a financial asset, an entity is not required to apply the impairment requirements of MFRS 9.

The amendment is also available for entities that have applied MFRS 9 before they apply MFRS 17. For these entities, the classification overlay applies to financial assets that have been derecognised in the comparative period and permits an entity to apply the redesignation requirements of MFRS 17 based on how the entity expects the asset would have been designated at the initial application of MFRS 17.

The amendment is effective at the time an entity first applies MFRS 17.

Key consideration:	Consider whether to apply the classification outlay or not as it is optional on an instrument-by-instruments basis.

The amendments are generally adopted from the amendments to IFRS 17 Initial Application of IFRS 9 and IFRS 17 - Comparative Information as issued by the IASB.

For more information: IFRS in Focus Newsletter

Amendments to MFRS 16 - Lease Liability in a Sale and Leaseback

The amendments add subsequent measurement requirements for sale and leaseback transactions that satisfy the requirements in MFRS 15 *Revenue from Contracts with Customers* to be accounted for as a sale.

The amendments require the seller-lessee to determine 'lease payments' or 'revised lease payments' such that the seller-lessee does not recognise a gain or loss that relates to the right of use retained by the seller-lessee, after the commencement date. The amendments do not affect the gain or loss recognised by the seller-lessee relating to the partial or full termination of a lease.

As part of the amendments, the MASB amended an Illustrative Example in MFRS 16 and added a new example to illustrate the subsequent measurement of a right-of-use asset and lease liability in a sale and leaseback transaction with variable lease payments that do not depend on an index or rate. The illustrative examples also clarify that the liability, that arises from a sale and leaseback transaction that qualifies as a sale applying MFRS 15, is a lease liability.

Key consideration: Consider if existing accounting policy requires revision to align with the amendments in circumstances where a seller-lessee may have recognised a gain on the right-of-use asset it retains solely because of a remeasurement of the lease liability (e.g. following a lease modification or change in the lease term) applying the general requirements in MFRS 16. This could have been particularly the case in a leaseback that includes variable lease payments that do not depend on an index or rate. The adoption of the amendments would require a retrospective adjustment and would result in potential reversal of previously recognised gain. The amendments apply to sale and leaseback transactions entered into after the date of initial application, which is defined as the beginning of the annual reporting period in which the entity first applied MFRS 16.

The amendments are generally adopted from the amendments to IFRS 16 Lease Liability in a Sale and Leaseback as issued by the IASB.

For more information: iGAAP in Focus Newsletter

Amendments to MFRS 101 - Classification of Liabilities as Current or Non-current

In March 2020, the MASB issued amendments to MFRS 101 titled Classification of Liabilities as Current or Non-current with an effective date for annual reporting periods beginning on or after 1 January 2022. The amendments:

- clarifies the classification of liabilities as current or non-current, is based on rights that are in existence at the end of the reporting period.
- specifies that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability.
- explains that rights are in existence if covenants are complied with at the end of the reporting period.
- introduces a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets, or services.

Due to pressures of COVID-19 that could delay the implementation of any changes in classification resulting from the application of these amendments, on 17 August 2020, the Board deferred the effective date of the amendments by one year to annual reporting periods beginning on or after 1 January 2023. The Board did not make any other changes to the amendments. Earlier application of the amendments will continue to be permitted.

In response to feedback and enquiries from some stakeholders, the IFRS Interpretations Committee published a tentative agenda[1] decision about how an entity applies the IAS 1 amendments to certain fact patterns. Respondents to that tentative agenda decision provided information about situations the Board did not specifically consider when developing the 2020 amendments.

In response to the comments by the respondents, the Board has issued an amendment to amend MFRS 101 with respect to classification (as current or non-current), presentation and disclosures of liabilities for which an entity's right to defer settlement for at least 12 months is subject to the entity complying with conditions after the reporting period. Please refer to Amendments to MFRS 101 Non-current Liabilities with Covenants in the latter page of this publication.

The effective date of Amendments to MFRS 101 has been deferred to 1 January 2024, however, earlier application is permitted. Correspondingly, MASB had also issued the Amendments to MFRS 101 to defer its application to 1 January 2024.

Key considerations:
- Consider whether existing classification of liabilities requires reclassification to align with the amendments.
- Take note of the deferral of effective date.

The amendments are generally adopted from the amendments to IAS 1 - Classification of Liabilities as Current or Non-current as issued by the IASB.

For more information: IFRS in Focus Newsletter

Amendments to MFRS 101 – Non-current Liabilities with Covenants

The amendment specifies that only covenants that an entity is required to comply with on or before the end of the reporting period affect the entity's right to defer settlement of a liability for at least twelve months after the reporting date (and therefore must be considered in assessing the classification of the liability as current or non-current). Such covenants affect whether the right exists at the end of the reporting period, even if compliance with the covenant is assessed only after the reporting date (e.g. a covenant based on the entity's financial position at the reporting date that is assessed for compliance only after the reporting date).

The MASB also specifies that the right to defer settlement is not affected if an entity only has to comply with a covenant after the reporting period. However, if the entity's right to defer settlement of a liability is subject to the entity complying with covenants within twelve months after the reporting period, an entity discloses information that enables users of financial statements to understand the risk of the liabilities becoming repayable within twelve months after the reporting period. This would include information about the covenants (including the nature of the covenants and when the entity is required to comply with them), the carrying amount of related liabilities and facts and circumstances, if any, that indicate that the entity may have difficulties complying with the covenants.

Key considerations:

- Consider if there is any implication on classification assessment.
- Consider if additional disclosure is needed to align with the amendments

The amendments are generally adopted from the amendments to IAS 1 – Non-current Liabilities with Covenants as issued by the IASB.

For more information: iGAAP in Focus Newsletter

Amendments to MFRS 107 and MFRS 7 – Supplier Finance Arrangements

The amendments to MFRS 107 require an entity to to provide qualitative and quantitative information about its supplier finance arrangements. The term 'supplier finance arrangements' is not defined. Instead, the amendments describe the characteristics of an arrangement for which an entity would be required to provide the information. In addition, MFRS 7 was amended to add supplier finance arrangements as an example within the requirements to disclose information about an entity's exposure to concentration of liquidity risk.

Key considerations:

- Consider if existing finance arrangement have characteristics that would be considered as a 'supplier finance arrangement' that would require an entity to meet this disclosure objective.
- Consider the means of obtaining information necessary to meet the required disclosure objective. Information such as the carrying amounts, and associated line items, of financial liabilities that are part of supplier finance arrangements for which suppliers have already received payment from finance providers may not be readily available.

The amendments are generally adopted from the amendments to IAS 7 and IFRS 7 – Supplier Finance Arrangements as issued by the IASB.

For more information: iGAAP in Focus Newsletter

Amendments to MFRS 10 and MFRS 128 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

In November 2014, the MASB issued the narrow-scope amendment to clarify that in a transaction involving an associate or joint venture, the extent of gain or loss to be recognised depends on if the assets sold or contributed constitute a business. However, in December 2015, the MASB issued amendments to defer the effective date of the November 2014 amendments to these standards indefinitely until the research project on the equity method has been concluded.

The amendments are generally adopted from the amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture as issued by the IASB.

For more information: IFRS in Focus Newsletter

Significant agenda decisions from the IFRS Interpretations Committee issued during the second quarter of 2023

The IFRS Interpretations Committee has published a number of agenda decisions providing guidance on the appropriate accounting for specific transactions. Agenda decisions often include information to help companies in applying IFRS Standards. They do so by explaining how the applicable principles and requirements in the Standards apply to the submission. The objective of including explanatory material in Agenda Decisions is to improve consistency in the application of the Standards.

Explanatory material derives its authority from the Standards themselves. Accordingly, an entity is required to apply the applicable IFRS Standard(s), reflecting the explanatory material in an agenda decision. Explanatory material may provide additional insights that might change an entity's understanding of the principles and requirements in IFRS Standards. Because of this, an entity might determine that it needs to change an accounting policy as a result of an agenda decision.

MFRSs are word-for-word IFRSs issued by the IASB. Accordingly, the conclusion made in agenda decision based on IFRSs is also applicable to entities in Malaysia applying MFRS. Entities in Malaysia need to take note that there may be some Agenda Decisions that are case specific to a jurisdiction and hence, are not relevant in the Malaysian context. Therefore, entities in Malaysia applying MFRSs shall assess the relevance of Agenda Decisions vis-à-vis the laws and regulations in Malaysia. Some of the matters addressed that might apply more widely are discussed below.

Definition of a Lease—Substitution Rights (IFRS 16 *Leases)*

In its meeting on 14 & 15 March 2023, the Committee considered feedback on the tentative agenda decision published in the November 2022 IFRIC Update about how to assess whether a contract contains a lease.

The request asked about:

a. the level at which to evaluate whether a contract contains a lease - by considering each asset separately or all assets together - when the contract is for the use of more than one similar asset; and
b. how to assess whether a contract contains a lease applying IFRS 16 when the supplier has particular substitution rights - i.e. the supplier:
    i. has the practical ability to substitute alternative assets throughout the period of use; but
    ii. would not benefit economically from the exercise of its right to substitute the asset throughout the period of use.

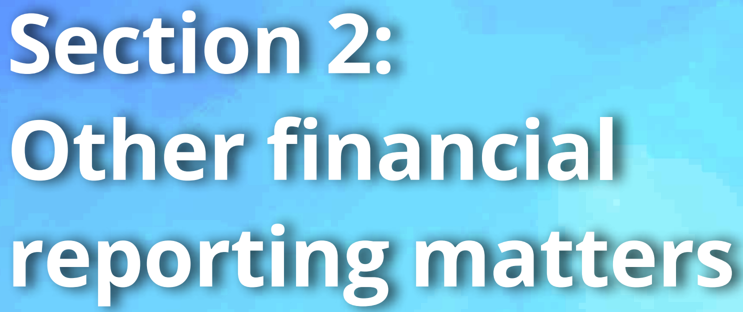
The Committee concluded that, in the fact pattern described in the request, each asset is an identified asset. To assess whether the contract contains a lease, the customer would then apply the requirements in paragraphs B21–B30 of IFRS 16 to assess whether, throughout the period of use, it has the right to obtain substantially all the economic benefits from use, and direct the use, of each asset. If the customer concludes that the contract contains a lease, it would apply the requirements in paragraphs 18–21 of IFRS 16 to determine the lease term.

The Committee concluded that the principles and requirements in IFRS 16 provide an adequate basis for an entity to evaluate the level at which to assess whether the contract contains a lease and whether there is an identified asset in the fact pattern described in the request. Consequently, the Committee decided not to add a standard-setting project to the work plan.

Key considerations:

- Entities would need to apply judgement in determining if a supplier’s right to substitute an asset is substantive throughout the period of use when determining whether there is an identified asset and whether the entity has the right to use the identified asset.
- Entities would need to critically identify each potential separate lease components as IFRS 16 requires the assessment on whether a contract contains a lease, including evaluating whether the supplier’s substitution right is substantive, to be done for each potential separate lease component.

For more information: [IFRIC Updates March 2023]



Section 2: Other financial reporting matters

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The following are highlights of discussion documents, including summaries of the documents and consideration of the principal amendments/proposals, guidance materials and certain detailed analysis of particular aspects of key projects and other developments of the International Accounting Standards Board (IASB), focusing on topics of wide interest and/or of specific industry. The Malaysian Financial Reporting Standards (MFRS) are equivalent to the International Financial Reporting Standards (IFRS). As such, the following content, where referenced to IFRS, may be applied within the context of the equivalent MFRS Standards.

iGAAP in Focus - Financial reporting - Reporting in uncertain times: Impact of recent events in the banking sector

Link: iGAAP in Focus

This *iGAAP in Focus* addresses key financial reporting matters associated with the recent events in the banking sector for entities that apply IFRS Accounting Standards.

This publication addresses the following financial reporting considerations:

- Financial reporting matters not specifically associated with an exposure to a failed bank:
  - Disclosure of risk management/hedging strategy/liquidity
  - Expected credit losses
  - Impairment of intangible assets
- Financial reporting matters associated with an exposure to a failed bank

A Closer Look – IFRS 17 for Non-insurers

Link: A Closer Look

This edition of *A Closer Look* provides guidance on aspects of IFRS 17 that non-insurers should consider when they assess whether contracts they issue are within the scope of IFRS 17.

This publication provides guidance on those aspects of IFRS 17 that non-insurers should consider as they assess whether contracts they issue are within the scope of IFRS 17 or not. This publication only addresses how to determine whether a contract is an insurance contract within the scope of IFRS 17; if an entity identifies such a contract, it will need to determine how to account for it applying IFRS 17, which is not covered in this guide.

Enhancements to the Main and ACE Market Listing Requirements: Waqf feature and LEAP transfer

Bursa Malaysia Berhad (Bursa Malaysia) recently announced the following enhancements to the Main and ACE Market Listing Requirements (the Listing Requirements):

i. Amendments to Main Market Listing Requirements (Main LR) in relation to listed real estate investment trusts and exchange-traded funds with waqf feature (Waqf Amendments); and
ii. Amendments to the ACE Market Listing Requirements (ACE LR) and the ACE Market Fees and Charges, in relation to a transfer of listing from the LEAP Market to the ACE Market and recognised approved advisor framework (LEAP Transfer Related Amendments).

A. Waqf Amendments

The Waqf Amendments would, among others:

a. Promote transparency through enhanced post-listing disclosures in immediate announcements and periodic reports; and
b. Broaden the range of Islamic capital market products which support socio-economic development, greater public good and wealth distribution, in the Malaysian capital market.

B. LEAP Transfer-Related Amendments

The LEAP Transfer-Related Amendments would, among others:

a. Enhance the attractiveness of the LEAP Market by enabling small and medium enterprises to access the ACE Market through a clear and transparent LEAP transfer framework; and
b. Promote capacity building amongst professionals in the corporate finance fraternity.

For further details on the amendments, visit Bursa Malaysia's website at:

- Bursa Malaysia Media Release: Waqf Amendments and LEAP Transfer-Related Amendments
- Amended Main Market Listing Requirements
- Amended ACE Market Listing Requirements

Insurance webcast #91 — Guaranteed insurability: where is its "boundary"?

Link: Insurance webcast #91

Reporting on the recent developments concerning the insurance project, this webcast discusses the following:

- Overview of the concept of contract boundary
- Sharing of illustrative examples in assessing the contract boundary
- Some practical considerations when implementing the requirements of IFRS 17 relating to this topic

A Closer Look – IAS 36 Impairment of non-financial assets – reminders and hot topics

Link: A Closer Look

This edition of *A Closer Look* answers some common questions on applying IAS 36 *Impairment of Assets*, addressing potential pitfalls and providing reminders of certain key requirements of the Standard.

This publication addresses the following questions:

- What to test for impairment loss under IAS 36 and when?
- How to determine recoverable amount?

It also addresses other issues on allocation of impairment losses to the assets of a CGU and requirements of IAS 36 and IAS 1 on sensitivity analysis disclosures.

Carbon Credits

Carbon Credits

2023
1 June

Link: MASB Article

This article discusses the accounting approaches, and highlights some of the challenges and issues associated with accounting for carbon credits.

Carbon Credits

LOOSE CONNECTION - THE GAP BETWEEN FINANCIAL AND SUSTAINABILITY REPORTING

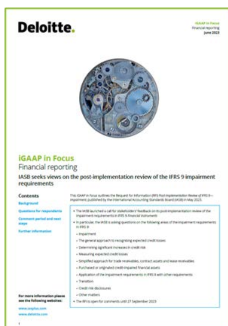
1 JUNE 2023

Link: MASB Article

This article discusses the following:

- Challenges in aligning financial and sustainability reporting
- Integration in reporting and connectivity between financial and sustainability disclosures
- Effects of climate-related matters on IFRS Accounting Standards
- Preparation for IFRS sustainability reporting and its implications for financial reporting

iGAAP in Focus — Financial reporting: IASB seeks views on the post-implementation review of the IFRS 9 impairment requirements


Deloitte.

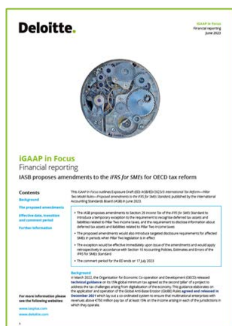
iGAAP in Focus
Financial reporting
IASB seeks views on the post-implementation review of the IFRS 9 impairment requirements

Link: iGAAP in Focus

This *iGAAP in Focus* outlines the Request for Information (RFI) *Post-implementation Review of IFRS 9-Impairment*, published by the IASB in May 2023.

The IASB launched a call for stakeholders' feedback on its post-implementation review of the impairment requirements in IFRS 9 *Financial Instruments.*

iGAAP in Focus — Financial reporting: IASB proposes amendments to the IFRS for SMEs for OECD tax reform


Deloitte.

iGAAP in Focus
Financial reporting
IASB proposes amendments to the IFRS for SMEs for OECD tax reform

Link: iGAAP in Focus

This *iGAAP in Focus* outlines Exposure Draft (ED) IASB/ED/2023/3 *International Tax Reform-Pillar Two Model Rules-Proposed amendments to the IFRS for SMEs Standard*, published by the IASB in June 2023.

The IASB proposes amendments to Section 29 *Income Tax* of the IFRS for SMEs Standard to introduce a temporary exception to the requirement to recognise deferred tax assets and liabilities related to Pillar Two income taxes, and the requirement to disclose information about deferred tax assets and liabilities related to Pillar Two income taxes.

Amendments to Bursa Malaysia Main Market and ACE Market Listing Requirements in relation to Conflict of Interest and other areas

Bursa Malaysia Berhad ("Bursa Malaysia") recently announced the following amendments to the main and ACE Market Listing Requirements (collectively the "LR") in relation to conflict of interest and other areas ("COI & Other Amendments").

The COI & Other Amendments were made as part of Bursa Malaysia's on-going efforts to ensure that the LR remains fit for purpose. In this review, Bursa Malaysia focused on enhancing the LR to address issues associated with conflict of interest ("COI") involving directors and key senior management with the listed issuer and its subsidiaries.

The COI & Other Amendments, among others, seek to achieve the following:

i. Promote greater transparency on COI of key persons in a listed issuer and strengthen accountability and transparency of the audit committee in its oversight over COI situations; and
ii. Enhance the LR in other areas to address issues or gaps in the market and ensure the LR remains balanced, clear, relevant and updated.

For further details on the amendments, visit Bursa Malaysia's website:

- Amended Main Market Listing Requirements
- Amended ACE Market Listing Requirements

Malaysian Investment Reporting Standard (MIRS) 4010 on the Reporting Accountants' Report on the Cash Flow Forecast that Supports the Working Capital Sufficiency Statement Included in an Investment Circular

The Council of the Malaysian Institute of Accountants has approved the issuance of the MIRS 4010 on the Reporting Accountants' Report on the Cash Flow Forecast that Supports the Working Capital Sufficiency Statement Included in an Investment Circular.

MIRS 4010 is issued to provide guidance on the work to be performed by the reporting accountants in connection with or on an investment circular issued in connection with an offer or invitation to a third party to subscribe for or purchase any securities of a corporation, a business trust or a real estate investment trust, including any excluded offer or excluded invitation as defined under the Capital Market and Services Act 2007.

Reporting Accountants are required to comply with this MIRS for reports signed after 30 September 2023. Earlier adoption is encouraged.

Link to a copy of the MIRS 4010 (accessible by MIA members only) is available here.

Section 3: Accounting of Current Economic Environment

Accounting for Climate Risk

Climate change is likely to drive some of the most profound and persistent changes to business in our lifetimes. From a corporate perspective, investors, regulators, and other business stakeholders are increasingly demanding increased disclosures on climate change matters and are challenging companies who are not factoring the effects of climate change into their critical accounting judgements. There's a lot of attention from global leaders and jurisdictions and countries to really advance progress around climate action. To a greater or lesser extent, the risks and uncertainties arising from climate change are likely to have an impact on the financial statements of all companies.

The following table provides a summary of some of the key financial statement areas we see impacted by climate-related factors:

Financial Statement Area	Relevant MFRS Standards	Key considerations
Carrying value of assets	MFRS 136	Exposure to climate-related risks could be an indicator of impairment, e.g. a significant decline in demand for products or services, or new regulations that have a negative impact on an entity. Cash flows play an important part in assessing the recoverability of an asset and climate-related risks shall be factored when calculating value-in-use (VIU). Among others, some factors to be considered are: • Changes in customer preferences, technology, and market trends may impact revenue and growth forecasts. • Energy intensive industries may incur higher costs in future cash flows due to carbon assets taxes and other climate related energy costs increase. • Potential rising compliance costs with new policies or regulations. • Increased capital expenditure to develop or acquire more energy-efficient production assets. The key climate related assumptions applied in the VIU calculation together with a description of management's approach to determining the value assigned to each key assumption should be disclosed and supplemented by disclosure requirements by MFRS 101 paragraph 125 on sources of estimation uncertainty. If an impairment loss is recognised, an entity is required by MFRS 136:130 to disclose the events and circumstances which led to the impairment. This may be due to climate-related factors, e.g. the introduction of emission-reduction legislation that increased costs.

Financial Statement Area	Relevant MFRS Standards	Key considerations
Recognition, useful economic life of assets or residual value of assets	MFRS 116 MFRS 138	When climate-related risks are significant, concerns over viability could mean that the criterion that costs are only recognised as an asset when it is probable that future economic benefits associated with the asset will flow to the entity is not met. Companies may need to replace assets with more energy-efficient or alternative-powered equipment to meet emission targets and account for climate factors that may shorten the useful economic lives of assets. Developing more energy-efficient products may also affect the estimated useful life of intangible assets associated with legacy products. These may also affect the depreciation or amortisation of assets (property, plant and equipment, right-of-use assets, and intangible assets) due to the change in their useful lives or residual values. Companies must disclose and explain any changes in useful economic life in the financial statements to demonstrate their consideration of climate-related factors which are accounted for prospectively as changes in estimates in the financial statements. They also need to explain how uncertainties have been taken into account when determining the useful life or residual value of assets.
Fair valuation of assets	MFRS 13	The requirements of MFRS 13 on fair value measurement apply to a broad range of assets and liabilities whether for measurement or disclosure purposes. This includes assets or cash-generating units tested for impairment on a fair value less costs of disposal basis, as well as the initial measurement at fair value of assets acquired in a business combination. Climate change risks and actions to laws and regulations due to climate change may impact the measurement of assets measured at fair value, affecting inputs into valuation models such as inputs in cash flows or if the cash flows are not adjusted for such climate change risk factors, the discount rates may be adjusted for a risk premium or discount factor instead. Due to the broad scope of MFRS 13's requirements, it could mean that the effects of climate-related risks on fair values become significant for entities whose own business might not be thought of as being directly affected by the more apparent physical and transition risks of climate change. For instance, the plan assets of a defined benefit scheme and the investments held by an investment entity are required to be measured at fair value under MFRS 13 and those values should reflect the risks (including climate-related risks) to which the underlying assets and investees are exposed. Changes in critical assumptions must be clearly disclosed and its impact quantified within the financial statements.

Financial Statement Area	**Relevant MFRS Standards**	**Key considerations**
Changes in expected credit losses ("ECL")	MFRS 9	Application of the expected credit loss approach requires lenders to consider whether any actual or expected adverse changes in a borrower's regulatory, economic or technological environment have significantly changed the borrower's ability to meet its debt obligations and, therefore, whether credit risk has increased significantly since initial recognition. Lending organisations may face severe exposure to adverse economic conditions if they have long-term financial assets in heavily impacted industries such as oil and gas and mining, or due to climate-related events like floods and hurricanes. Such events may impact the credit worthiness of borrowers due to business disruptions, decline in asset values, and unemployment. Lenders could suffer increased credit losses through exposure to assets that become stranded or uninsurable and thus no longer offer suitable collateral. These risks will need to be incorporated into the ECL model.
Provisions, contingencies and onerous contracts	MFRS 137	The pace and severity of climate change, as well as accompanying government policy and regulatory measures, may impact the recognition, measurement, and disclosure of provisions, contingencies, and onerous contracts. For example: • New provisions or contingencies may need to be recognised or disclosed due to new obligations (i.e., fines levied for failing to meet climate-related targets). • The timing of when an asset may need to be decommissioned may change due to regulatory changes or onerous contracts shortened lives, accelerating the required cash outflows for asset retirement obligations. • Cash flows and discount rates used in measuring provisions may need to take into account the risks and uncertainties of climate change and accompanying regulations. • Existing contracts may become onerous due to an increase in the costs of fulfilment, i.e. due to an increase in the cost of energy or water. Major assumptions about future events must be disclosed, which may include an explanation of how climate-related risks have been factored into the best estimate of the provision.

It is also important to ensure that, where appropriate, there is consistency between disclosures made in accordance with MFRS and any disclosures made outside of the financial statements (e.g. disclosures prepared in line with the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations).

The IFRS Foundation had also published an educational material on 20 November 2020 that highlighted other additional areas on how existing requirements in IFRS Standards require companies to consider climate-related matters when their effect is material to the financial statements. This educational material may also be referred to by entities applying the MFRS Standards which is equivalent to the IFRS Standards.

Section 4: Appendices

04

Appendix A: Abbreviations

ED	Exposure Draft
FRC	Financial Reporting Council
FSRC	Financial Statements Review Committee of MIA
GAAP	Generally Accepted Accounting Principles
IAASB	International Auditing and Assurance Standards Board
IASB	International Accounting Standards Board
IC Int.	IC Interpretation
IFRIC Interpretation	Individual interpretations issued by the IFRS Interpretations Committee
IFRS	International Financial Reporting Standards
ISA	International Standards on Auditing
ISSB	International Sustainability Standards Board
MAIC	MFRS Application and Implementation Committee
MAIG	MFRS Application and Implementation Guide
MASA	Malaysian Approved Standards on Auditing
MASB	Malaysian Accounting Standards Board
MFRS	Malaysian Financial Reporting Standards
MIA	Malaysian Institute of Accountants
MIRS	Malaysian Investment Reporting Standard
MPSAS	Malaysian Public Sector Accounting Standards
SSM	Companies Commission of Malaysia

Appendix B: Effective dates of other local pronouncements

MAIC education materials

The education materials issued by MAIC may include the 'MFRS Application and Implementation Guide' (MAIG), Questions & Answers (Q&As), technical articles, or guidance published in any other appropriate manner. The table below provides a summary of education materials issued by the MAIC up to second quarter of 2023. These are available on MASB's website.

Nothing in the MAIC's education materials should be construed as amending or overriding the respective MFRS as such guidance serves as a source of reference for identification of principles to resolve the issue at hand.

Date	Title
30 January 2019	Q&A on accounting for public infrastructure costs and affordable housing losses associated with property development
30 December 2019	MAIG 1 Accounting treatment for cancellation of treasury shares under the *Companies Act 2016*
2 July 2020 15 December 2022 (revised)	MAIG 2 Classification by the borrower of a term loan that contains a repayment on demand clause
5 May 2021	MAIG 3 Preparation of consolidated financial statements for a group which had disposed of its only subsidiary during the financial year

Appendix C: Compilation of IFRS Interpretations Committee agenda decisions issued in the past 12 months

IFRS Interpretations Committee agenda decisions

The following is the list of IFRS Interpretations Committee agenda decisions issued in the past 12 months up to 30 June 2023.

Date	Title	Featured in
21 July 2022	Transfer of Insurance Coverage under a Group of Annuity Contracts – IFRS 17	-
21 July 2022	Special Purpose Acquisition Companies (SPAC): Classification of Public Shares as Financial Liabilities or Equity - IAS 32	-
21 July 2022	Negative Low Emissions Vehicle Credits - IAS 37	-
24 October 2022	Special Purpose Acquisition Companies (SPAC): Accounting for Warrants at Acquisition	-
24 October 2022	Lessor Forgiveness of Lease Payments - IFRS 9 and IFRS 16	Quarterly Roundup December 2022
24 October 2022	Multi-currency Groups of Insurance Contracts - IFRS 17 and IAS 21	-
27 April 2023	Definition of a Lease - Substitution Rights (IFRS 16)	Quarterly Roundup June 2023

Source: Suporting Implementation from IFRS website. Details of agenda decisions issued that were not featured in our Quarterly Roundup publications may be referred to at the IFRS website.

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