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Accounting Quarterly Roundup

December 2021

This Quarterly Roundup is a compilation of key developments related to financial reporting standards that have occurred during the third and fourth quarter of 2021. The purpose of this publication is to provide a roundup of the recent changes in the international 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 ending 31 December 2021.

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International Financial Reporting Standards

International Financial Reporting Standards

Summary of new and revised pronouncements issued as of 31 December 2021 and effective from 2021 onwards

New pronouncements		Effective date*
IFRS	**Title**	
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16	Interest Rate Benchmark Reform – Phase 2	1 January 2021
Amendments to IFRS 16	COVID-19-Related Rent Concessions beyond 30 June 2021	1 April 2021
Amendments to IFRSs	Annual Improvements to IFRS Standards 2018 – 2020	1 January 2022
Amendments to IFRS 3	Reference to Conceptual Framework	1 January 2022
Amendments to IAS 16	Property, Plant, and Equipment – Proceeds before Intended Use	1 January 2022
Amendments to IAS 37	Onerous Contracts – Costs of Fulfilling a Contract	1 January 2022
Amendments to IFRS 4	Extension of the Temporary Exemption from Applying IFRS 9	Effective immediately upon issuance
IFRS 17	Insurance Contracts	1 January 2023
Amendments to IFRS 17	Insurance Contracts	1 January 2023
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to IAS 1	Disclosure of Accounting Policies	1 January 2023
Amendments to IAS 8	Definition of Accounting Estimates	1 January 2023
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Amendments to IFRS 17	Initial Application of IFRS 9 and IFRS 17 – Comparative Information	1 January 2023
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred

* Annual reporting periods beginning on or after

Impact and key consideration 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 IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16 - Interest Rate Benchmark Reform – Phase 2
As a result of the interest rate benchmark reform, work is underway in many jurisdictions to transition to alternative benchmark interest rates in response to systemic risk concerns. This is the second part of the two-phase project on Interest Rate Benchmark Reform undertaken by the IASB. The amendments affect the following key areas: changes in the basis for determining the contractual cash flows as a result of benchmark interest rate reform, hedge accounting and disclosures.

Changes in the basis for determining the contractual cash flows as a result of interest rate benchmark reform
The amendments provide specific guidance on how to treat financial assets and financial liabilities where the basis for determining the contractual cash flows changes as a result of interest rate benchmark reform. As a practical expedient, the amendments require an entity to apply IFRS 9:B5.4.5, such that the change in the basis for determining the contractual cash flows is applied prospectively by revising the effective interest rate. This practical expedient only applies when the change in the basis for determining the **contractual cash flows is necessary as a direct consequence of interest rate benchmark reform** and the new basis for determining the **contractual cash flows is economically equivalent** to the previous basis. Similar practical expedient is available for lease liabilities in IFRS 16. Like the practical expedient in IFRS 9, the change in the contractual cash flows is applied prospectively by applying IFRS 16:42.

Hedge accounting
The amendments to IFRS 9 and IAS 39 introduce an exception to the existing requirements so that changes in the formal designation and documentation of a hedge accounting relationship that are needed to reflect the changes required by interest rate benchmark reform do not result in the discontinuation of hedge accounting or the designation of a new hedging relationship. These changes to the hedge relationship must be made by the end of the reporting period during which a change required by interest rate benchmark reform occurs.

Financial instruments disclosures
The amendments to IFRS 7 require that an entity provide disclosures that enable a user to understand the nature and extent of risks arising from interest rate benchmark reform, how the entity is managing those risks, its progress in completing the transition from interest rate benchmarks to alternative benchmark interest rates and how it is managing the transition.

The amendments apply to all entities and are not optional. Restatement of prior periods is not required, however, the entity may restate prior periods if, and only if, it is possible without the use of hindsight.

- Consider what are the alternative benchmark interest rates available in your respective jurisdiction and whether there are any specific transitional provisions that are set out by regulators and how they are applied in the context of the IFRS requirements.
- Consider whether the alternative benchmark interest rates will have implication on the SPPI test from a lender's perspective as the alternative benchmark interest rates may possess new features which may affect the compensation of time value of money.
- Consider whether there are any hedge relationships subject to the exception as introduced by the amendments.
- Consider whether those changes in the basis for determining the contractual cash flows is necessary as a direct consequence of interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis. When the contractual cash flows are re-negotiated or otherwise modified in addition to changes required by the IBOR reform, consider the accounting implications on whether such an event a modification that does not result in derecognition or a modification that results in derecognition.
- Consider potential effects on the accounting for financial liabilities in the context of IBOR reform, changes resulted by the IBOR reform may affect the economic characteristic and risks of the cash flows of the instrument, include existence of any embedded derivatives which may require bifurcation.

For more information: IFRS in Focus Newsletter

Amendments to IFRS 16 - COVID-19-Related Rent Concessions beyond 30 June 2021

In May 2020, the IASB amended IFRS 16 to provide lessees with a practical expedient that relieves a lessee from assessing whether a COVID-19-related rent concession is a lease modification. As a result of the practical expedient, the lessee may elect not to assess whether a COVID-19-related rent concession is a lease modification. Among other conditions, this amendment in 2020 permits a lessee to apply the practical expedient to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2021.

Due to the ongoing nature of the pandemic, the Board has extended that date to permit a lessee to apply the practical expedient to rent concessions for which any reduction in lease payments affects only payments originally due **on or before 30 June 2022**, in a 2021 amendment.

The new amendment (March 2021) is effective for annual reporting periods beginning on or after 1 April 2021. The entity applies the amendment retrospectively.

Consider the applicability of rent concessions that spans between the period of 30 June 2021 to 30 June 2022, and determine whether the practical expedient is available to the entity. This may require judgement and is also driven by the entity's choice of adoption made for the earlier May 2020 amendments.

The amendment does not allow a lessee to elect to apply the practical expedient if the lessee has previously elected not to apply it to eligible rent concessions. A lessee must also apply the practical expedient consistently to eligible contracts with similar characteristics and in similar circumstances.

For more information: IFRS in Focus Newsletter

Amendments to IFRSs - Annual Improvements to IFRS Standards 2018 – 2020

The Annual Improvements comprise four amendments to the IFRSs:

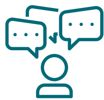
a. **IFRS 1 *First-time adoption of International Financial Reporting Standards* – Subsidiary as a First-time Adopter**
   Paragraph D16(a) of IFRS 1 allows subsidiaries that become a first-time adopter later than its parent to measure its assets and liabilities at the carrying amounts that would be included in the parent's consolidated financial statements. This amendment extends this relief to the cumulative translation differences for all foreign operations, the subsidiary can now elect to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRSs.

The election is to measure the cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements based on the parent's date of transition to IFRS. This means that the subsidiary will be required to perform a "cumulative catch up" from that date onwards to its own date of transition to IFRSs to determine the impact of its adoption to IFRS.

b. **IFRS 9 *Financial Instruments* – Fees in the '10 per cent' Test for Derecognition of Financial Liabilities**
   This amendment clarifies which fees an entity includes when it applies the '10 per cent' test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognise a financial liability when there is an exchange between an existing borrower and the lender of debt instruments with substantially different terms (including a substantial modification of the terms of an existing financial liability or part of it). An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

The amendment clarifies that the entity includes only fees paid or received between the entity (the borrower) and the lender in the '10 per cent' test. Entities will need to ensure that the identification of the parties in which the fees are paid or received are between the entity and the lender, and not those that are collected on behalf of a third party by the entity or the lender (e.g. legal fees collected by lender on behalf of the lender's lawyers).

c. **Illustrative Examples accompanying IFRS 16 *Leases* – Lease Incentives**
This amendment removes the illustration of the reimbursement of leasehold improvements by the lessor from the example in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example. The example does not clearly explain the conclusion as to whether the reimbursement would meet the definition of a lease incentive in IFRS 16.

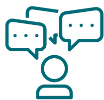


Where previous reference was made to the Illustrative Example to account for certain reimbursement relating to leasehold improvements, entities should reassess whether those reimbursement meet the definition of a lease incentive.

If it is determined that the reimbursement is a payment for work carried out for the benefit of the lessor, such payments do not meet the definition of lease incentive and is accounted for applying other applicable Standards.

Judgement should be exercised to evaluate the nature of the leasehold improvements in respect of whether they represent an asset of the lessee or the lessor.

d. **IAS 41 *Agriculture* – Taxation in Fair Value Measurements**
In 2008, the IASB removed from IAS 41 the requirement to use a pre-tax discount rate when measuring fair value. However, at that time, it did not remove from IAS 41:22 the requirement to use pre-tax cash flows when measuring fair value. To resolve this conflict, the IASB has now removed the requirement in IAS 41 for entities to exclude cash flows for taxation when measuring fair value. This aligns the fair value measurement in IAS 41 with the requirements of IFRS 13 to use internally consistent cash flows and discount rates which enable preparers to determine whether to use pre-tax or post-tax cash flows and discount rates for the most appropriate fair value measurement.

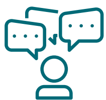


Entities shall now apply judgement to determine whether a pre-tax or post-tax cash flows and the corresponding pre-tax or post-tax discount rate would be more appropriate for its fair value measurement. In addition, entities are to ensure consistency in the application i.e. when a pre-tax cash flows is used, a pre-tax discount rate is used and vice versa when a post-tax basis is used.

For more information: IFRS in Focus Newsletter

Amendments to IFRS 3 - Reference to Conceptual Framework

The amendments update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also added to IFRS 3 a requirement that, for obligations within the scope of IAS 37, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 *Levies*, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. Finally, the IASB adds to IFRS 3 an explicit statement, that an acquirer does not recognise contingent assets acquired in a business combination.



Acquirers would need to carefully consider whether a present obligation exists as a result of past events based on guidance in IAS 37 or IFRIC 21. This will affect the corresponding goodwill that would be recognised from the acquisition of business within IFRS 3.

For more information: IFRS in Focus Newsletter

Amendments to IAS 16 - Property, Plant, and Equipment – Proceeds before Intended Use

There has been diversified treatment on proceeds from selling items produced by property, plant and equipment before it is available for its intended use. In this amendment, the IASB decided to amend IAS 16 to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognises such sales proceeds and related costs in profit or loss. The entity measures the cost of those items in accordance with IAS 2.

Clarification is also made to the meaning of 'testing whether an asset is functioning properly' by specifying this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or administrative purposes.

- Consider whether an entity's existing accounting policy requires revision to align with the amendments which prohibits deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced before that asset is available for use. These may require significant judgement.
- An entity applies the amendments retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments.

For more information: IFRS in Focus Newsletter

Amendments to IAS 37 - Onerous Contracts – Costs of Fulfilling a Contract

Before this, IAS 37 did not provide any guidance on which costs an entity should consider when assessing whether a contract is onerous, which resulted in varied practices. In this amendment, the IASB amended IAS 37 by specifying that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (e.g. direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (e.g. the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

Consider whether existing contracts currently assessed as not being onerous, under the current accounting requirements, may potentially be onerous when the amendments take effect. These amendments are to be applied to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments.

For more information: IFRS in Focus Newsletter

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

The Amendments to IFRS 4, to extend the temporary exemption from applying IFRS 9, was issued on 25 June 2020 and was effective immediately. This exemption permits, but does not require, an insurer meeting certain criteria to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023.

For more information: IFRS in Focus Newsletter

IFRS 17 *Insurance Contracts*

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

Scope

An entity shall apply IFRS 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 IFRS 15 to these contracts, provided certain criteria are met.

Level of aggregation

IFRS 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 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 25 June 2020, the IASB issued the Amendments to IFRS 17, which includes deferral of IFRS 17's effective date to annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted if IFRS 9 has also been applied. Other amendments to IFRS 17 are discussed below. Three possible approaches are introduced for transition to IFRS 17, including Full Retrospective Approach, Modified Retrospective Approach and Fair Value Approach.

- 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 IFRS 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 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.

For more information: IFRS in Focus Newsletter

Amendments to IFRS 17 - Insurance Contracts

Targeted amendments made to the following aspect of IFRS 17:
- Deferral to 1 January 2023 of the effective date of IFRS 17 and the fixed expiry date for the temporary exception in IFRS 4 from applying IFRS 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 IFRS 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.

Apart from taking into consideration of 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.

For more information: IFRS in Focus Newsletter

Amendments to IAS 1 - Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to IAS 1 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 15 July 2020, the Board defers 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 IFRIC published a tentative agenda decision about how an entity applies the IAS 1 amendments to particular fact patterns. Respondents to that tentative agenda decision provided information about situations the Board did not specifically consider when developing the 2020 amendments.

The Board has now tentatively decided to amend IAS 1 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.

- Consider whether existing classification of liabilities requires reclassification to align with the amendments.
- Take note of the deferral.
- Keep abreast of latest update from IASB on the potential amendments.

For more information: IFRS in Focus Newsletter

Amendments to IAS 1 - Disclosure of Accounting Policies

The amendments change the requirements in IAS 1 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 IAS 1 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 IASB has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2.

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 whether a particular accounting policy under its circumstances would be considered as material.

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

For more information: IFRS in Focus Newsletter

Amendments to IAS 8 - Definition of Accounting Estimates

Before the amendments, IAS 8 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.

IAS 8 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 IASB 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.

Identifying accurately whether a change is arising from a change in accounting estimates or accounting policy is critical as the former entails a prospective accounting application whilst the latter is to be applied retrospectively.

For more information: IFRS in Focus Newsletter

Amendments to IAS 12 - Deferred Tax related to Assets and Liabilities arising from a Single Transaction

Before this amendment, it was not clear whether IAS 12 required recognition of deferred taxes for the offsetting of temporary differences arising from simultaneous recognition of asset and liability or whether 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 IASB amends IAS 12 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.

Consider whether 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.

For more information: IFRS in Focus Newsletter

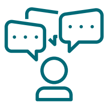
Amendments to IFRS 17 – Initial Application of IFRS 9 and IFRS 17 – Comparative Information

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

For entities that apply IFRS 17 and IFRS 9 at the same time, the amendment relates to financial assets for which comparative information presented on initial application of IFRS 17 and IFRS 9 has not been restated for IFRS 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 IFRS 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 IFRS 9.

The amendment is also available for entities that have applied IFRS 9 before they apply IFRS 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 IFRS 17 based on how the entity expects the asset would have been designated at initial application of IFRS 17.

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



Consider whether to apply the classification overlay as it is optional on an instrument-by-instruments basis and to ensure clear disclosure of such election for readers to understand the basis of the comparative information presented on its initial application of IFRS 17.

For more information: IFRS in Focus Newsletter

Amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

In September 2014, the IASB 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 whether the assets sold or contributed constitute a business. However, in December 2015, the IASB issued amendments to defer the effective date of the September 2014 amendments to these standards indefinitely until the research project on the equity method has been concluded.

For more information: IFRS in Focus Newsletter

Section 2

Other Financial Reporting Matters

Other financial reporting matters

Deloitte issues IFRS in Focus – Closing out 2021

This special edition of IFRS in Focus sets out financial reporting issues that may be relevant for years ending on or after 31 December 2021 as a result of areas of regulatory focus, the current economic environment or changes in accounting standards.

For further details, please refer to the following:
- IFRS in Focus – Closing out 2021

GPPC publishes "The Auditor's Response to the Risks of Material Misstatement arising from estimates made in applying IFRS 17 *Insurance Contracts*"

The Global Public Policy Committee (GPPC) has published "The Auditor's Response to the Risks of Material Misstatement arising from estimates made in applying IFRS 17 *Insurance Contracts*". This new paper is designed to provide guidance primarily to those charged with governance on their oversight role of the external auditors and in assessing the effectiveness of the external auditors' response. More specifically the paper focuses on the auditors' approach to auditing estimates and associated judgements made in the application of IFRS 17, taking into account the requirements set forth by the relevant International Standards on Auditing (ISA's).

For further details, please refer to the following:
- The Auditor's Response to the Risks of Material Misstatement arising from estimates made in applying IFRS 17 *Insurance Contracts*

MIA FSRC issues Financial Statements Review Annual Report 2020/2021

One of the functions of the Financial Statements Review Committee ("FSRC") of the Malaysian Institute of Accountants (MIA) is to share good financial reporting practices, based on common findings identified during its review process.

The theme for the Financial Statements Review Annual Report 2020/2021 is "Driving Quality of Financial Reporting". Through this report, the FSRC continues to share the key review findings and financial reporting best practices which preparers should consider in the preparation of financial statements.

The reviews identified the following significant findings on common disclosure omissions and deficiencies:
a. MFRS 16 *Leases*
b. Impairment of non-financial asset
c. Financial instruments – Financial Guarantee Contract

The FSRC also shares a list of common findings on non-compliance with the applicable accounting standards identified during the review. The FSRC wishes to reiterate that the responsibility of preparation of financial statements lies with the management and board of directors of a company. Nevertheless, all participants in the financial reporting ecosystem, the preparers, management, board of directors, audit committee and auditors, should work together and strive to uphold the quality of financial statements.

For further details, please refer to the following:
- MIA Circular 99/2021 (accessible by MIA member only)

MIA FSRC publishes article on "Financial Reporting Disclosures for Financial Guarantee Contracts"

The MIA FRSC has recently published an article on "Financial Reporting Disclosures for Financial Guarantee Contracts" in the July 2021 edition of the MIA's e-Accountants Today publication.

The article lists down the observations noted by the FSRC on common deficiencies relating to disclosure of FGCs arising from the review of financial statements of public-listed entities for the review period from July 2020 to June 2021. The financial statements under review are those with financial years ended ranging from December 2019 to December 2020.

This article reiterates the FSRC's message that financial guarantee contracts (FGCs) are generally within the scope of MFRS 9 *Financial Instruments*. Consequently, the disclosure requirements as in MFRS 7 *Financial Instruments: Disclosures* will apply to FGCs (e.g. liquidity risk disclosures). An illustrative disclosure is included at the end of this article to provide example of how the relevant disclosures should be made.

For further details, please refer to the following:
- MIA e-Accountants Today (July 2021 edition)

Section 3

Emerging Issues

Emerging Issues

Climate change

Climate change continues to be an area of specific focus for investors, regulators and other business stakeholders who increasingly demand better disclosures on climate change matters and challenging companies who are not factoring the effects of climate change into their critical accounting judgements. Investors want:

- to see how the impacts of climate change have been reflected in the measurement and recognition of assets and liabilities;
- more transparency on the assumptions used and sensitivities to those assumptions; and
- to be confident that there is consistency between climate scenarios included in the narrative in the front end of the annual report and the numbers disclosed in the financial statements.

There are several aspects of IFRS Standards that require an entity to 'predict the future' by developing expectations that affect the items recognised or disclosed in financial statements. These assumptions can be driven by external factors (macroeconomic conditions, government action, etc.), planned actions of the entity itself, or a combination of the two.

The table below sets out possible impacts in relation to relevant IFRS Standards(s) due to climate change:

Issue	Relevant IFRS Standards(s)	Possible impacts of climate risks
Asset impairment, including goodwill, and effects on impairment calculations because of increased costs or reduced demand	IAS 36	The impact of changing policies and technology as we shift to a low-carbon economy may lead to potential impact to cash flow forecasts used in impairments review. Climate-related risks can impact a value in use calculation in a number of ways, including: • Incorporation of expected changes in consumer behaviour and government action into estimates of future cash flows when they represent management's best estimate supported by appropriate evidence. • Incorporation of changes expected to occur beyond the period covered by financial budgets and forecasts via modification to the expected long-term growth rate. Such changes could arise in a variety of ways, for example from decreasing revenues as carbon-intensive production facilities are phased out or increased costs due to the introduction of government levies (cost of compliance), increased cost of resources, or rising cost of insurance. • Consideration of whether a planned restructuring or replacement of assets should be incorporated into forecast cash flows. • Future cash flow forecast incorporating different climate scenarios, for example, the varying degrees of change in temperature due to global warming may produce very different outcome. • Changes in forecast periods due to expected changes in policy. Scenario analysis is useful to understand the potential impact of different climate outcome. However, entities are to decide what is considered to be the most likely scenario, as this would form the basis of the cash flow forecasting. Disclosure of the key assumptions on which cash flow projections have been based on and management's approach to determining the value assigned to these key assumptions is also required (particularly for goodwill or indefinite-life intangible assets), with information about how potentially significant effects of climate-related risks have been factored into recoverable amount calculations being relevant for the users of the financial statements.

Issue	Relevant IFRS Standards(s)	Possible impacts of climate risks
Changes in the recognition and useful life of assets	IAS 16, IAS 38	Climate-related risks could affect the depreciation or amortisation of assets (through a change in their useful lives) or the recognition of those assets (whether expenses satisfy the definition of an asset when incurred). The estimated useful lives of assets could be affected by physical factors (for example, precipitation levels affecting the viability of agricultural operations) or by economic or legislative ones (for example, fossil fuel power generation equipment being taken out of use while still operational). Entities also should not assume availability to dispose the asset at the end of the useful lives at the current equivalent market prices. Therefore, entities should carefully consider the potential impact of climate change risk on existing estimates of asset useful lives and residual values. In either case, a change in the estimated useful life will be accounted for via a prospective change in the depreciation or amortisation rate and should be disclosed and explained. Adaption of an entity's business to address climate issues could also result in additional research and development activities, requiring disclosure and consideration of the criteria for capitalisation.
Changes in the fair valuation of assets	IFRS 13	Fair valuation of assets applying the principles in IFRS 13 is required for a broad range of assets which could be affected by either climate change or actions pursuant to the Paris Agreement and these factors could affect inputs into valuation models in a number of ways (adjustment to the cash flows or discount rate used in a discounted cash flow calculation, to prices when applying the market approach etc.). Equity premiums may change depending on the assumed future climate scenario and its impact on the underlying asset. Equity volatility may be affected by the uncertainty of climate change. When fair value, rather than value in use, is used in an impairment test under IAS 36, the prohibition on including the effects of future restructurings (IAS 36:44) does not apply. The effect of a restructuring is relevant to a fair value calculation if, and only if, a third party purchaser would factor that into the price they would be willing to pay for the asset (or cash-generating unit). The entity's own intentions are not directly relevant. The broad scope of IFRS 13's requirements could also mean that the effects of climate risks on fair values becomes significant for entities whose own business might not be thought of as being directly affected by the more apparent physical and economic risks of climate change. For example, 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 IFRS 13 and those values should reflect the risks (including climate) to which the underlying investee is exposed. Demographic assumptions and investment performance can vary under different climate scenarios.

Issue	Relevant IFRS Standards(s)	Possible impacts of climate risks
Changes in provisions and contingent liabilities arising from fines and penalties or in provisions for onerous contracts because of increased costs or reduced demand	IAS 37	Climate-related risks could affect: • The recognition of provisions (if reductions in revenue or increases in cost mean that a customer contract becomes onerous, due to regulatory requirements to remediate environmental damage, restructurings or redesigning products or services to achieve climate-related targets). • The measurement of provisions (if regulatory changes or shortening of project lives affect the timing or amount of expenses of decommissioning assets or rehabilitating environmental damage). Cash flows and discount rates used in measuring provisions needs to take into account the risks and uncertainties of climate change and accompanying regulations. • The recognition of liabilities or disclosure of contingent liabilities for potential fines or penalties under environmental regulations or where litigation is brought by another interested party. This entails not only identifying new obligations, but also a reassessment of existing obligations and its probability for provisions and a shift from previously considered remote obligation becoming possible, that require disclosures. It should also be noted that liabilities under IAS 37 or levies accounted for under IFRIC 21 are recognised only when incurred under enacted legislation. In contrast, it is not necessary to wait for the enactment or substantive enactment of a change in environmental or other regulation before it is incorporated into a value in use calculation for the purposes of impairment testing. The consequences of such expected government action should be factored in when they reflect management's best estimate of future cash flows (based on reasonable and supportable assumptions).
Changes in expected credit losses for loans and other financial assets	IFRS 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 has significantly changed the borrower's ability to meet its debt obligations (and, therefore, whether credit risk has increased significantly since initial recognition). For example, a climate disaster may have a dramatic impact on unemployment, economic strength and property values, thus significantly affecting the recoverability of mortgages. As such, banks with loans to businesses (or investments in projects) affected by climate-related risk will need to consider how those risks affect the expected credit losses on those loans or investments. Uncertainty over the physical effects of climate change and the introduction of policy and regulatory measures means that when determining expected credit losses (ECLs), there is a variety of possible adverse economic scenarios that might exist in the future. Each of these scenarios may have potentially differing degrees of adverse economic conditions that could affect the probability of borrowers defaulting and the extent of losses that the lender may incur in the event of borrower default. Specifically: • There may be a greater range of downside economic scenarios to consider. • The credit losses under each of these scenarios could be more severe than previously estimated with the potential increase in the probability of individual loans defaulting or in the loss in the event of default as a result of falling collateral values due to asset write-downs or stranded assets.

Issue	Relevant IFRS Standards(s)	Possible impacts of climate risks
Accounting for financial instruments	IFRS 9	Investors are increasingly demanding that businesses set climate targets which they use in making their investment decision directly affecting the availability and cost of capital. Innovative finance products such as green finance are emerging. For example, green bond interest rate favour green behaviour and green activities. Loan contracts might include terms linking contractual cash flows to a company's achievement of climate-related targets. Those targets may affect how the loan is classified and measured (i.e. the lender would need to consider those terms in assessing whether the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding). For the borrower, those targets may affect whether there are embedded derivatives that need to be separated from the host contract.
Disclosure of market risks over financial assets	IFRS 7	IFRS 7 requires disclosure of an entity's exposure to market risks arising from financial instruments, its objectives in managing these risks and changes from the previous period. This could be relevant to entities (for example investment funds and insurance companies) holding investments in industries that may be affected by climate-related risk. Quantitative information, such as an analysis of investments by industry or sector, could specifically identify sectors exposed to climate-related risks and explain the company's policy of managing its exposure to those sectors. Disclosures of this nature could also be relevant as investors look to assess the strategies of large institutional investors from a sustainability point of view and for consistency with any commitments made to divert capital away from carbon intensive sectors.

Issue	Relevant IFRS Standards(s)	Possible impacts of climate risks
Presentation of financial statements	IAS 1	**Sources of estimation uncertainty and significant judgements** The requirement of IAS 1:125 to disclose information about the assumptions management has made about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. This means disclosure of assumptions about climate-related matters may be required, for example when those matters create uncertainties that affect assumptions used to develop estimates, such as which climate scenario management considers to be the most likely in the preparation of its cash flow forecast. Companies must present that disclosure in a manner that helps investors understand the judgements that management makes about the future. IAS 1:122 also requires disclosure of the judgements (apart from those involving estimations) that management has made that have the most significant effect on the amounts recognised in the financial statements. For example, a company operating in an industry particularly affected by climate-related matters might test an asset for impairment applying IAS 36 *Impairment of Assets* but recognise no impairment loss. That company would be required to disclose judgements management has made, for example, in identifying the asset's cash-generating unit if such judgements are among those that have the most significant effect on the amounts recognised in the company's financial statements. **Going concern** IAS 1 requires management to assess a company's ability to continue as a going concern when preparing financial statements. In assessing whether the going concern basis of preparation is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, 12 months from the end of the reporting period. If climate-related matters create material uncertainties related to events or conditions that cast significant doubt upon a company's ability to continue as a going concern, IAS 1 requires disclosure of those uncertainties. When management has concluded that there are no material uncertainties related to the going concern assumption that require disclosure but reaching that conclusion involved significant judgement (for example, about the feasibility and effectiveness of any planned mitigation), IAS 1 requires disclosure of that judgement.
Valuation of inventories 	IAS 2	Climate-related matters may cause a company's inventories to become obsolete, selling prices to decline or costs of completion to increase. When estimating net realisable value, entities are required to consider all relevant facts and circumstances. Estimates of net realisable value could be materially affected by, for example, a regulatory change that renders inventories obsolete, a significant weather event that causes physical damage to inventories, a decrease in demand for an entity's goods resulting from changes in consumer behaviour or an increase in completion costs because of raw material sourcing constraints. If, as a result, the cost of inventories is not recoverable, IAS 2 requires the company to write down those inventories to their net realisable value. Estimates of net realisable value are based on the most reliable evidence available, at the time that estimates are made, of the amount the inventories are expected to realise.

Issue	Relevant IFRS Standards(s)	Possible impacts of climate risks
Recognition of deferred tax assets	IAS 12	IAS 12 generally requires companies to recognise deferred tax assets for deductible temporary differences and unused tax losses and credits, to the extent it is probable that future taxable profit will be available against which those amounts can be utilised. Climate-related matters may affect a company's estimate of future taxable profits and may result in the company being unable to recognise deferred tax assets or being required to derecognise deferred tax assets previously recognised.
Insurance contracts	IFRS 17	Climate-related matters may increase the frequency or magnitude of insured events, or may accelerate the timing of their occurrence. Examples of insured events that could be affected by climate-related matters include business interruption, property damage, illness and death. Climate-related matters may, therefore, affect the assumptions used to measure insurance contract liabilities applying IFRS 17. Climate-related matters may also affect required disclosures about (a) the significant judgements and changes in judgements made in applying IFRS 17, and (b) a company's exposure to risks, concentrations of risk, how it manages risks and sensitivity analysis showing the effect of changes in risk variables.

For further details, please refer to the following:
- Climate-related Resources
- Deloitte's Climate Change Website

Section 4

Appendices

Appendices

Appendix A: Abbreviations

FSRC	Financial Statements Review Committee of MIA
GAAP	Generally Accepted Accounting Principles
IASB	International Accounting Standards Board
IFRIC	Interpretation of IFRS by the IFRS Interpretations Committee
IFRS	International Financial Reporting Standards
ISA	International Standards on Auditing
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

Appendix B: Effective dates of local GAAP and other pronouncements

Effective dates of MFRSs as of 31 December 2021

Effective for annual periods beginning on or after 1 January 2021

MFRS	Title
Amendments to MFRS 9, MFRS 139, MFRS 7, MFRS 4, and MFRS 16	Interest Rate Benchmark Reform – Phase 2

Effective for annual periods beginning on or after 1 April 2021

MFRS	Title
Amendments to MFRS 16	COVID-19-Related Rent Concessions beyond 30 June 2021

Effective for annual periods beginning on or after 1 January 2022

MFRS	Title
Amendments to MFRSs	Annual Improvements to MFRS Standards 2018 –2020 [Note 1]
Amendments to MFRS 3	Reference to Conceptual Framework
Amendments to MFRS 116	Property, Plant, and Equipment – Proceeds before Intended Use
Amendments to MFRS 137	Onerous Contracts – Costs of Fulfilling a Contract

Effective immediately for annual periods beginning before 1 January 2023

MFRS	Title
Amendments to MFRS 4	Extension of the Temporary Exemption from Applying MFRS 9 [Note 2]

Effective for annual periods beginning on or after 1 January 2023

MFRS	Title
MFRS 17	Insurance Contracts
Amendments to MFRS 17	Insurance Contracts
Amendments to MFRS 101	Classification of Liabilities as Current or Non-current [Note 3]
Amendments to MFRS 101	Disclosure of Accounting Policies
Amendments to MFRS 108	Definition of Accounting Estimates
Amendments to MFRS 112	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to MFRS 17	Initial Application of MFRS 9 and MFRS 17 – Comparative Information

Effective date deferred to a date to be announced by MASB

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

Note:

1. Comprise amendments to four MFRSs:
   (a) MFRS 1 *First-time adoption of International Financial Reporting Standards* – Subsidiary as a First-time Adopter
   (b) MFRS 9 *Financial Instruments* – Fees in the '10 per cent' Test for Derecognition of Financial Liabilities
   (c) Illustrative Examples accompanying MFRS 16 *Leases* – Lease Incentives
   (d) MFRS 141 *Agriculture* – Taxation in Fair Value Measurements
2. The Amendments to MFRS 4 to extend the temporary exemption to apply MFRS 9 was issued on 18 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.
3. The effective date of Amendments to MFRS 101 Classification of Liabilities as Current or Non-current is deferred to 1 January 2023 following notice of deferral of the effective date issued by MASB on 18 August 2020.

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 last quarter of 2021. 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
4 June 2020	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

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