



Snapshot

by Capital Markets & Accounting Advisory Services (CMAAS)

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Amendments to MFRS 101: Non-current liabilities with covenants



What is the issue?

MFRS 101 "Presentation of financial statements" requires that, for an entity to classify a liability as non-current, the entity must have the right at the reporting date to defer settlement of the liability for at least twelve months after that date.

In March 2020, the Malaysian Accounting Standards Board ("MASB") issued the amendments to MFRS 101 "Classification of liabilities as current or non-current" ("2020 Amendments"). The 2020 Amendments originally had an effective date for reporting periods beginning on or after 1 January 2023. Applying the 2020 Amendments, an entity does not have the right to defer settlement of a liability (and thus classifies the liability as current) when the entity would not have complied with covenants based on its circumstances at the reporting date, even if compliance with such covenants were tested only within twelve months after that date.

In response to the concerns of the stakeholders on applying the 2020 Amendments, the International Accounting Standards Board ("IASB") published the Exposure Draft: Non-current Liabilities with Covenants (proposed amendments to IAS 1) in November 2021. Read further in our [Snapshot](#).

The MASB, on 15 December 2022, issued the amendments to MFRS 101 "Non-current liabilities with covenants" ("2022 Amendments") after the IASB has finalised the amendments. The 2022 Amendments clarify that covenants of loan arrangements which an entity must comply with only after the reporting date would not affect classification of a liability as current or non-current at the reporting date. However, those covenants that an entity is required to comply with on or before the reporting date would affect classification as current or non-current, even if the covenant is only assessed after the entity's reporting date.



What is the issue? (continued)

The 2022 Amendments introduce additional disclosure requirements. When an entity classifies a liability arising from a loan arrangement as non-current and that liability is subject to the covenants which an entity is required to comply with within twelve months of the reporting date, the entity shall disclose information in the notes that enables users of financial statements to understand the risk that the liability could become repayable within twelve months of the reporting period, including:

- (a) the carrying amount of the liability;
- (b) information about the covenants;
- (c) facts and circumstances, if any, that indicate the entity may have difficulty complying with the covenants. Such facts and circumstances could also include the fact that the entity would not have complied with the covenants based on its circumstances at the end of the reporting period.



What is the impact and for whom?

We do not expect the 2022 Amendments to significantly change an entity's classification of liabilities as current or non-current from the existing guidance. However, the 2022 Amendments may result in a significant change to classification if an entity early adopted the 2020 Amendments. The 2022 Amendments will typically result in additional disclosure being required.



When does it apply?

The 2022 Amendments are effective for annual reporting periods beginning on or after 1 January 2024 and should be applied retrospectively in accordance with MFRS 108 “Accounting Policies, Changes in Accounting Estimates and Errors”. The 2022 Amendments override the 2020 Amendments on classification of liabilities with covenants. The 2022 Amendments also changed the effective date of the 2020 Amendments to MFRS 101 on “Classification of liabilities as current or non-current” to 1 January 2024.

Paragraph 30 of MFRS 108 requires entities to disclose the possible impact of new MFRS which are not yet effective. Accordingly, entities are required to disclose the potential impact of the 2022 Amendments in their 31 December 2022 financial statements.

Earlier application of 2022 Amendments is permitted but if an entity early applies the 2020 Amendments after the issue of the 2022 Amendments, it is required to apply both these amendments at the same time.

Do you need further information on this topic?	<p>Contact: Michelle Loh Assurance Director from PwC Malaysia CMAAS Email: michelle.s.loh@pwc.com Tel: +60 (3) 2173 0858</p>
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