Snapshot

by Capital Markets & Accounting Advisory Services

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New MFRS effective on or after 1 January 2023

Introduction

In this Snapshot, we discuss some of the key provisions surrounding the following new standard and amendments (effective on 1 January 2023) which entities with 31 December 2023 year end applying for the first time:

- MFRS 17 on insurance contracts
- Amendments to MFRS 101, MFRS Practice Statement 2 and MFRS 108 on disclosure of accounting policies and definition of accounting estimates
- Amendments to MFRS 112 on deferred tax related to assets and liabilities arising from a single transaction

Entities with 31 December year end also need to disclose that there are new MFRS issued but not yet effective and information relevant to assess the possible impact that their application will have on the financial statements under paragraph 30 of MFRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. In this Snapshot we also discuss the new amendments issued by the Malaysian Accounting Standards Board ("MASB") at the date of this publication that are effective after 1 January 2023:

- Amendments to MFRS 101 on the following:
  - Classification of liabilities as current or non-current
  - Non-current liabilities with covenants
- Amendments to MFRS 16 on sale and leaseback

This publication gives an overview of the impact of the changes, helping companies understand how are they affected. Accordingly, it is a useful read for preparers, users and auditors of MFRS financial statements.

New MFRS effective on 1 January 2023

MFRS 17 *Insurance Contracts*

MFRS 17 replaces MFRS 4 *Insurance Contracts*, which permits a wide variety of practices in accounting for insurance contracts. MFRS 17 has fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

One of the misconceptions is that MFRS 17 only applies to insurance entities. This is not true because MFRS 17 does not scope out any entities. Rather MFRS 17 applies to all contracts that meet the definition of insurance contracts, regardless of the type of entity that issues them. MFRS 17 defines insurance contracts as contracts under which one party (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. The compensation could be a cash payment or a payment in kind (for example, repairing or replacing a broken product).

One of the typical example of contracts that might be scoped into MFRS 17 is performance guarantees issued by an entity. Performance guarantees are often provided in conjunction with major infrastructure projects. Such guarantees might be an integral part of a construction contract, or they might be issued by another party which might or might not be related to the construction company. The guarantee secures the fulfilment of contractual, commercial, or legal obligations of the construction company to its customer. Performance guarantee contracts do not meet the definition of a financial guarantee, and they would be treated as insurance contracts (and scope into MFRS 17) if they transfer significant insurance risk from the customer who is compensated for an adverse event.

Hence, all entities, including those that are not insurers, will also need to consider whether they have any contracts that meet the definition of insurance contracts and hence could be affected by the adoption of MFRS 17.

Read *PwC In depth* to find out the criteria that are most relevant, for entities that are not insurers, in identifying whether a contract that it has issued is an insurance contract that is within the scope of MFRS 17 / IFRS 17.

New MFRS effective on 1 January 2023 (continued)

Amendments to MFRS 101, MFRS Practice Statement 2 and MFRS 108 on disclosure of accounting policies and definition of accounting estimates

The amendments to MFRS 101 *Presentation of Financial Statements*, MFRS Practice Statement 2 *Making Materiality Judgements* and MFRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors* aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies.

The amendments to MFRS 101 require entities to disclose "material rather than significant" accounting policies. The amendments further clarify that immaterial accounting policies do not need to be disclosed.

The amendments to MFRS 108 defines accounting estimates as monetary amounts in financial statements that are subject to measurement uncertainty. By its nature, a change in accounting estimate does not relate to prior periods and is not the correction of an error. Rather, a change in accounting estimate occurs as a result of new information, new developments or, more experience. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, but errors are corrected retrospectively.

Read *PwC In brief* to find out more.

Amendments to MFRS 112 on deferred tax related to assets and liabilities arising from a single transaction

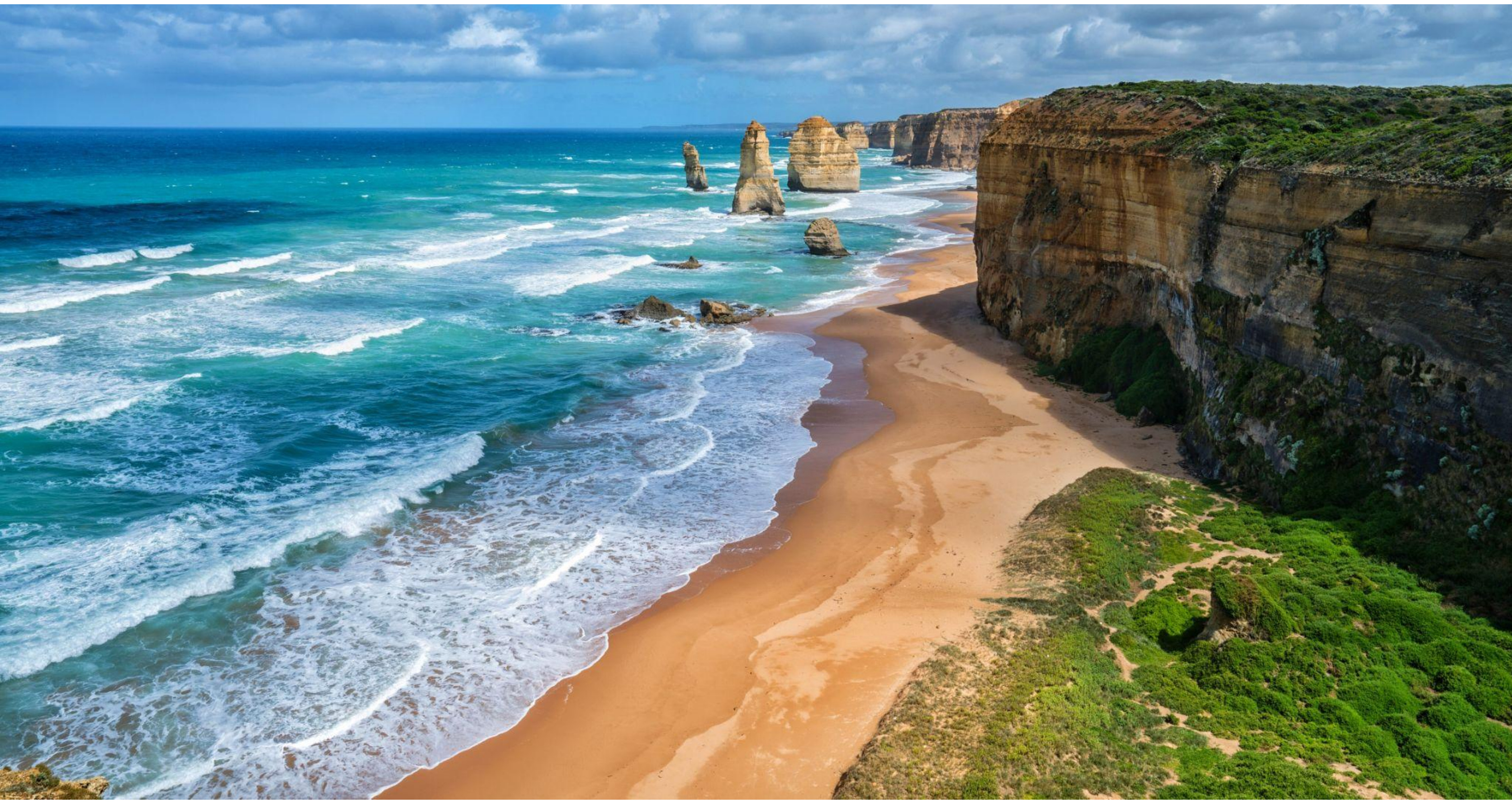
The amendments to MFRS 112 *Income Taxes* clarify that the initial exemption rule does not apply to transactions where both an asset and a liability are recognised at the same time such as leases and decommissioning obligations. Accordingly, companies are required to recognise both deferred tax asset and liability on temporary differences arising from these transactions. Read our *Snapshot* to find out more.

New MFRS effective after 1 January 2023

Amendments to MFRS 101 *Presentation of Financial Statements*

There are two amendments to MFRS 101 that will be effective for annual periods beginning on or after 1 January 2024. The first amendments on ‘classification of liabilities as current or non-current’ clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the entity’s expectations or events after the reporting date (e.g. the receipt of a waiver or a breach of covenant). In addition, the amendments clarify that when a liability could be settled by the transfer of an entity’s own equity instruments (e.g. a conversion option in a convertible bond), conversion option meeting the definition of an equity instrument in MFRS 132 *Financial Instruments: Presentation* does not impact the current or non-current classification of the convertible instrument.

The second amendments on ‘non-current liabilities with covenants’ specify 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 of a liability as current or non-current, even if the covenant is only assessed after the reporting date. Read our *Snapshot* to find out more about the amendments and how it may affect entities with liabilities that are subject to covenants.



New MFRS effective after 1 January 2023 (continued)

Amendments to MFRS 16 on sale and leaseback

The MASB has issued a narrow-scope amendments to MFRS 16 *Leases* which will be effective for annual periods beginning on or after 1 January 2024.

In a sale and leaseback transaction, one entity (the seller-lessee) transfers an asset to another party (the buyer-lessor) and leases back the right to use of that same asset. This amendments explain how a seller-lessee accounts for a sale and leaseback after the date of the transaction. The amendments deal with situations where the transfer of the asset by the seller-lessee satisfies the control test of MFRS 15 *Revenue from Contracts with Customers* to be accounted for as a sale of the asset, however the lease payments do not meet the definition of the lease payments in MFRS 16, e.g. lease payments are variable based on the usage of the asset or sales made by the lessee.

Sale and leaseback transactions where some or all the lease payments are variable lease payments that do not depend on an index or rate are most likely to be impacted. Read our *Snapshot* to find out more about the amendments.

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