Snapshot

by Capital Markets & Accounting Advisory Services

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Newly applicable MFRS for 31 December 2020 year end entities and MFRS 16 amendments on COVID-19-related rent concessions

Introduction

In this Snapshot, we discuss some of the key provisions surrounding the following new amendments (effective on or after 1 January 2020) which entities with 31 December 2020 year end applying for the first time:

- Amendments to MFRS 3 on definition of business;
- Amendments to MFRS 101 and MFRS 108 on definition of materiality;
- Amendments to MFRS 9, 139 and 7 on interest rate benchmark reform (Phase 1); and
- The Conceptual Framework for Financial Reporting (revised 2018)

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.

As a result of the COVID-19 pandemic, many lessees are seeking rent concessions from lessors such as rent holidays or temporary rent reductions. In view of this, we have also included in this Snapshot the key provisions and related impacts on the amendments to MFRS 16 "Leases" on COVID-19-related rent concessions. Even though the MFRS 16 amendments are only effective for annual reporting periods beginning on or after 1 June 2020, lessees with 31 December 2020 year end may opt to early adopt these amendments to take advantage of the exemption from assessing whether a rent concession related to COVID-19 is a lease modification.

Amendments to MFRS 3 on the definition of business

The International Accounting Standards Board ("IASB") has made amendments on the definition of business following a post implementation review on IFRS 3 "Business Combinations" to address various concerns raised by the stakeholders. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations. The Malaysian Accounting Standards Board ("MASB") adopted these amendments in December 2018.

The changes to the definition of a business will likely result in more acquisitions being accounted for as asset acquisitions across all industries, particularly real estate, pharmaceutical, and oil and gas. Application of the changes would also affect the accounting for disposal transactions.

The key provisions and impacts of the amendments to MFRS 3 "Business Combinations are outlined in our publication *Insights: The new definition of a business will likely result in more transactions qualifying as asset acquisitions instead of business combinations*.

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Amendments to MFRS 101 and MFRS 108 on definition of materiality

Key provisions

The amendments to MFRS 101 “Presentation of Financial Statements” and MFRS 108 “Accounting Policies, Changes in Estimates and Errors” and consequential amendments to other MFRSs:

(i) use a consistent definition of materiality throughout MFRSs and the Conceptual Framework for Financial Reporting;
(ii) clarify the definition of material; and
(iii) incorporate some of the guidance in MFRS 101 about immaterial information.

The definition of ‘material’ has been revised as “Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.”

The amendments also:

- clarify that an entity assess materiality in the context of the financial statements as a whole and explain the concept of obscuring information in the new definition. Information is obscured if it have the effect similar as omitting or misstating of that information. For e.g, material transaction is scattered throughout the financial statements, dissimilar items are inappropriately aggregated, or material information is hidden by immaterial information.
- clarify the meaning of ‘primary users of general purpose financial statements’ to whom those financial statements are directed, by defining them as ‘existing and potential investors, lenders and other creditors’ that must rely on general purpose financial statements for much of the financial information they need.

Impact

The amendments clarify the definition of material and make MFRSs more consistent, but are not expected to have a significant impact on the preparation of financial statements.

Amendments to MFRS 9, 139 and 7 on Interest Rate Benchmark Reform (Phase 1)

The replacement of benchmark interest rates such as the London Interbank Offered Rate (‘LIBOR’) and other interbank offered rates has become a priority for global regulators. Given the pervasive nature of LIBOR-based contracts, there are significant potential impacts of these changes on financial reporting under MFRS.

The amendments to MFRS 9 “Financial Instruments”, MFRS 139 “Financial Instruments: Recognition and Measurement” and MFRS 7 “Financial Instruments: Presentation” issued by the MASB in October 2019 provide temporary exceptions to specific hedge accounting requirements. The key provisions and impacts of these amendments are outlined in our publication *Snapshot: How does IASB’s amendments on IBOR reform impact hedge accounting*.

The Conceptual Framework for Financial Reporting (revised 2018)

The IASB has revised its Conceptual Framework. This will not result in any immediate change to IFRS, but the IASB Board and Interpretations Committee will use the concepts in the revised Conceptual Framework in setting future standards. The MASB adopted this revised Conceptual Framework in April 2018.

Key provisions
Some of the key changes to the revised Conceptual Framework are as follows:

- *Objective of general purpose financial reporting* - clarify that the objective of financial reporting is to provide useful information to the users of financial statements for resource allocation decisions and assessment of management's stewardship.
- *Qualitative characteristics of useful financial information* - reinstatement of the concepts of prudence when making judgement of uncertain conditions and "substance over form" concept to ensure faithful representation of economic phenomenon.
- *Clarification on reporting entity for financial reporting*- introduction of new definition of a reporting entity, which might be a legal entity or a portion of a legal entity.
- *Elements of financial statements* - the definitions of an asset and a liability have been refined. Guidance in determining unit of account for assets and liabilities have been added, by considering the nature of executory contracts and substance of contracts.
- *Recognition and derecognition* - the probability threshold for asset or liability recognition has been removed. New guidance on de-recognition of asset and liability have been added.
- *Measurement* - explanation of factors to consider when selecting a measurement basis have been provided.
- *Presentation and disclosure* - clarification that statement of profit or loss ('P&L') is the primary source of information about an entity's financial performance for a reporting period. In principle, recycling of income/expense included in other comprehensive income to P&L is required if this results in more relevant information or a more faithful representation of P&L.

Impacts
The Conceptual Framework is not MFRS standard and does not override any existing standard, so nothing will change in the short term. The revised Conceptual Framework will be used in future standard-setting decisions, but no changes will be made to current MFRS. Preparers might also use the Conceptual Framework to assist them in developing accounting policies where an issue is not addressed by a specific MFRS.

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Amendments to MFRS 16 on COVID-19-Related Rent Concessions

The new amendments to MFRS 16 grants an optional practical expedient for lessees to account for COVID-19 rent concessions on payments due on or before 30 June 2021 in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as a variable lease payment in the period(s) in which the event or condition that triggers the reduced payment occurs. The amendment, however, does not make any changes to lessor accounting.

The key provisions and impacts of these amendments are outlined in our publication *Snapshot: Amendments to MFRS 16 on COVID-19-Related Rent Concessions*.

We have also published a *Disclosure Guide* explaining the disclosure requirements of the amendments with relevant illustrations for entity that early adopts the amendments in its 31 December 2020 annual financial statements.

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