MASB MALAYSIAN ACCOUNTING STANDARDS BOARD
LEMBAGA PIAWAIAN PERAKAUNAN MALAYSIA

18 March 2022

Mr. Andreas Barckow
Chairman
International Accounting Standards Board (IASB)
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Mr. Barckow,

IASB Exposure Draft ED/2021/9
***Non-current Liabilities with Covenants* (Proposed amendments to IAS 1)**

The Malaysian Accounting Standards Board (MASB) welcomes the opportunity to provide comments on ED/2021/9.

We have significant concerns about the proposed paragraph 72C and believe that any changes to IAS 1 should be narrowly focused on addressing the issue arising from the earlier actions of the IFRS Interpretations Committee's Tentative Agenda Decision on *Classification of Debt with Covenants as Current or Non-current* published in December 2020*.* In particular, the proposed paragraph 72C(a) seems to presume there is a 'bright line' between cases when a loan is callable by the lender or third party and when it is not. On the contrary, in practice, the extent to which this is the case depends on a range of factors that might affect the commercial substance of a lender's or third party's rights to call-in a loan, including the legal or commercial environment in which the entity operates. We urge that the IASB should not seek to add requirements beyond those needed to clarify the application of IAS 1.69(d).

Also, we do not support the proposed disclosures about 'specified conditions', and the proposed separate presentation of some liabilities classified as non-current. We believe any work on additional presentation and disclosure requirements should occur in the wider context of the IASB's project on Primary Financial Statements and the IASB's Disclosure Initiative.

Our responses to the respective questions are detailed in the **Appendix** to this letter. If you need further clarification, please contact the undersigned by email at beeleng@masb.org.my or at +603 2273 3100.

Thank you.

Yours sincerely,

TAN BEE LENG
Executive Director

Appendix

Question 1—Classification and disclosure (paragraphs 72B and 76ZA(b))

The Board proposes to require that, for the purposes of applying paragraph 69(d) of IAS 1, specified conditions with which an entity must comply within twelve months after the reporting period have no effect on whether an entity has, at the end of the reporting period, a right to defer settlement of a liability for at least twelve months after the reporting period. Such conditions would therefore have no effect on the classification of a liability as current or non-current. Instead, when an entity classifies a liability subject to such conditions as non-current, it would be required to disclose information in the notes that enables users of financial statements to assess the risk that the liability could become repayable within twelve months, including:

(a) the conditions (including, for example, their nature and the date on which the entity must comply with them);

(b) whether the entity would have complied with the conditions based on its circumstances at the end of the reporting period; and

(c) whether and how the entity expects to comply with the conditions after the end of the reporting period.

Paragraphs BC15–BC17 and BC23–BC26 of the Basis for Conclusions explain the Board's rationale for this proposal.

Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.

Response

We support clarifying the manner in which specified conditions are considered at the end of the reporting period. Accordingly, we support the addition of paragraph 72B.

We consider that, it is necessary to make clear that specified conditions with which an entity must comply within twelve months after the reporting period have no effect on assessing whether an entity has, at the end of the reporting period, a right to defer settlement of a liability for at least twelve months after the reporting period.

However, we are not supportive of the disclosure requirements proposed in paragraph 76ZA(b) for the following reasons.

- **We support a broad-ranging and principle-based approach to the topic of presentation and disclosure in the financial statements and does not support introducing specific new requirements (outside the IASB's project on Primary Financial Statements and the IASB's Disclosure Initiative) in the absence of an urgent need.**

- **We consider that the existing classification issue at stake can be addressed without the proposed additional disclosures. A broader approach to the disclosures relating to non-current liabilities would, in our view, involves considering a range of factors beyond the scope of ED/2021/9 and includes the following:**

  - **if the existence of "specified conditions" is regarded as a suitable basis for subclassification, a thorough examination should be undertaken to determine what constitutes relevant "specified conditions", which we note are not explained in the proposals.**

    Although the term 'specified conditions' was already included in IAS 1.72A (by virtue of the January 2020 amendments to IAS 1), the proposals would magnify the significance of this term to the application of IAS 1 and the term would warrant greater explanation if the proposals were to proceed.

  - **whether subclassifications of current or non-current liabilities are needed and the basis for those subclassifications;**

  - **whether additional subclassifications might be needed when entities apply a liquidity presentation basis to the statement of financial position; and**

  - **how any new subclassification requirements might interact with the disclosure requirements for financial instruments that fall within the scope of IFRS 7.**

- **Many liabilities have conditions attached and we are concerned about entities having to determine which conditions are worthy of disclosure and the extent those of disclosures should be. In particular, we are concerned about the potential for information 'clutter' as a result of applying the proposed paragraph 76ZA(b)(i).**

- **Asking entities to disclose whether and how they expect to comply with specified conditions after the end of the reporting period as specified in the proposed paragraph 76ZA(b)(iii) seems to require provision of forward-looking information on future compliance with covenants. Also, this may also be likely to impinge on areas already addressed in Management Commentary. For example, a specified condition might be that borrowing expenses do not exceed a certain percentage of profit, which could involve the entity in explaining its profit projections and how it plans to achieve them.**

We consider that more thought needs to be given to the circumstances in which it might be relevant for the IASB to introduce disclosures about meeting conditions attaching to liabilities either as at a current reporting date or a future reporting date.

Question 2—Presentation (paragraph 76ZA(a))

The Board proposes to require an entity to present separately, in its statement of financial position, liabilities classified as non-current for which the entity's right to defer settlement for at least twelve months after the reporting period is subject to compliance with specified conditions within twelve months after the reporting period.

Paragraphs BC21–BC22 of the Basis for Conclusions explain the Board's rationale for this proposal.

Do you agree with this proposal? Why or why not? If you disagree with the proposal, do you agree with either alternative considered by the Board (see paragraph BC22)? Please explain what you suggest instead and why.

Response

We are not supportive of the presentation requirement proposed in paragraph 76ZA(a). Nor are we supportive of the alternative identified in paragraph BC22 of specifically requiring separate presentation only for liabilities with conditions with which an entity would not have complied based on its circumstances at the reporting date.

As noted in our response to Question 1, we support a broad-ranging and principle-based approach to the topic of presentation and disclosure in the financial statements and do not support introducing specific new requirements in the absence of an urgent need.

We consider that the existing classification issue at stake can be addressed without the proposed additional presentation requirement.

Question 3—Other aspects of the proposals

The Board proposes to:

(a) clarify circumstances in which an entity does not have a right to defer settlement of a liability for at least twelve months after the reporting period for the purposes of applying paragraph 69(d) of IAS 1 (paragraph 72C);

(b) require an entity to apply the amendments retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, with earlier application permitted (paragraph 139V); and

(c) defer the effective date of the amendments to IAS 1, *Classification of Liabilities as Current or Non-current*, to annual reporting periods beginning on or after a date to be decided after exposure, but no earlier than 1 January 2024 (paragraph 139U).

Paragraphs BC18–BC20 and BC30–BC32 of the Basis for Conclusions explain the Board's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

Response

Paragraph 72C

We would prefer that the IASB not proceed with the proposed paragraph 72C for the following reasons.

- **The proposal appears to presume there is a 'bright line' between cases when a loan is callable by the lender or third party and when it is not. However, in practice, the extent to which this is the case depends on a range of factors that might affect the commercial substance of a lender's or third party's rights to call-in a loan.**

- **The meaning of "unaffected by the entity's future actions" is not clear in the context of liabilities generally. The examples provided in proposed paragraph 72C(b) [financial guarantees and insurance contracts] presumably relate to a counterparty's creditworthiness and a policyholder having a valid insurance claim – both of which are beyond the entity's control.**

  However, in the context of a borrowing, it is unclear what types of factors would be identified as being beyond the entity's control. For example, there might be cases when an entity's profitability, revenues, or interest expense are among the factors affecting conditions attaching to the continuation of a loan. It seems equally plausible, depending on the circumstances, to consider that these factors would be unaffected by the entity's future actions; or, alternatively, that they could be affected by the entity's future actions.

- **We consider that proposed paragraph 72C is not needed to address the current issue. The notion that the accounting (including presentation) for an asset or liability would be based on whether it is "unaffected by the entity's future actions" seems to be a potentially broadly applicable benchmark.**

  Before introducing new presentation notion/concept to the IFRS Standards, we encourage the IASB to give this matter greater thought in a wider context.

However, in the event that the IASB decides to retain a paragraph along the lines of proposed paragraph 72C, we strongly believe further improvements are required.

(a) In relation to identifying cases when a loan is callable by the lender or third party and when it is not [proposed paragraph 72C(a)], a paragraph similar to IFRS 17.2 should be considered. This is because in our jurisdiction, there have been various legal cases which have upheld that, in the absence of a default being committed by the borrower, the lender is not entitled to exercise its right pursuant to the overriding clause to demand for repayment of the term loan from the borrower at any time due to the repayment tenure.

It is imperative that only terms of a liability contract that have commercial substance are considered and that any terms are assessed in the context of the relevant regulatory and business environment. For example, a paragraph along the following lines might be relevant:

An entity shall consider the discretions available to the counterparty or a third party to a liability based on the substantive rights and obligations, whether they arise from the contract, a law or regulation. Contractual terms include all terms in a contract, explicit or implied, but an entity shall disregard terms that have no commercial substance (i.e. no discernible effect on whether the liability would be callable). Implied terms in a contract include those imposed by law or regulation. The practices and processes for establishing contracts with counterparties vary across legal jurisdictions, industries and entities. In addition, they may vary within an entity (for example, they may depend on the class of counterparty or the nature of the liability). There may be, for example, cases in which the terms of a contract have no commercial substance due to the impacts of the legal or commercial environment in which the entity operates.

(b) In relation to explaining the meaning of "unaffected by the entity's future actions" [proposed paragraph 72C(b)], we suggest the IASB might consider specifying cases of when an uncertain future event or outcome occurs (or does not occur) and its occurrence (or non-occurrence), rather than simply providing examples. That might involve only specifying financial guarantees and insurance contract liabilities, and possibly provisions recognised under IAS 37. This would help provide certainty about what is meant until the IASB has the opportunity to (possibly) consider the application of this notion of 'unaffected by the entity's future actions' in a wider context, such as the Primary Financial Statements project or the IASB's Disclosure Initiative.

Retrospective application

We support requiring an entity to apply the amendments retrospectively in accordance with IAS 8, with earlier application permitted in the interests of inter-period comparability of financial information.

We consider that it would be worthwhile making it clearer in the Basis for Conclusions that entities do not apply hindsight when preparing the comparative information.

Application in 2024

We support an application date in 2024.