



MALAYSIAN INSTITUTE OF ACCOUNTANTS  
FINANCIAL REPORTING STANDARDS IMPLEMENTATION COMMITTEE  
("FRSIC")

**FRSIC Issue No. 37 [2010]**

***Classification of a Term Loan that Contains a Repayment on Demand Clause by the Borrower***

The issue:

Should a long term loan that is callable by the lender at any time be classified as non-current or current?

Current accounting practice as observed by the Submitter:

Most entities, if not all, classified such loans as non-current.

Reasons for the FRSIC to address the issue:

FRS 101.69 states that:

"An entity shall classify a liability as current when:

- a) it expects to settle the liability in its normal operating cycle;
- b) it holds the liability primarily for the purpose of trading;
- c) the liability is due to be settled within twelve months after the reporting period; or
- d) it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification."

Based on FRS 101.69(d), it would therefore appear that such long term loans that are callable by the lender at any time should be classified as current – which is what is practiced in Malaysia.

We understand that this matter was referred to IFRIC and IFRIC did not take up this issue in their agenda because IAS 1 is clear. We also understand that recently Hong Kong CPA have also arrived at the same conclusion that the loan should be classified as current.

Submitter's proposal or recommendation to address the issue:

To classify such loans as current unless it can be established that the callable clause in the loan agreement is determined to be non-enforceable and non-operative.

Submitted on:

22 November 2010

Corresponding Guidance:

FRSIC Consensus 15 – *Classification of a Term Loan that Contains a Repayment on Demand Clause by the Borrower* [To view, click on the Consensus title]