MASB MALAYSIAN ACCOUNTING STANDARDS BOARD
LEMBAGA PIAWAIAN PERAKAUNAN MALAYSIA

31 January 2011

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London ED 4M 6 XH
United Kingdom

Dear Sir David

IASB Request for Views on Effective Dates and Transition Methods

The Malaysian Accounting Standards Board (the Board) welcomes the opportunity to provide comments on the IASB Request for Views on Effective Dates and Transition Methods. The Board wishes to commend the IASB on its effort in seeking the views of stakeholders on this subject matter.

We prefer the single-date approach with a longer transition period to be given. This would mitigate the risks of having to change information technology systems more than once. In addition, with a longer transition period, it would allow entities to have sufficient lead time to understand and get the necessary actions in place, e.g. IT support and collaboration, if any, with other business units to ensure that the requirements of the Standards are properly applied. This is particularly important for jurisdictions that converged / will be converging with IFRS within the next few years.

Our detailed responses are enclosed in the Appendix of this letter.

If you need further clarification, please contact Ms Tan Bee Leng at +603 2240 9200 or by email at beeleng@masb.org.my.

Thank you.

Yours sincerely,

MOHAMMAD FAIZ AZMI
Chairman

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Appendix

Background Information

Question 1

Please describe the entity (or the individual) responding to this Request for Views.

(a) **Please state whether you are primarily a preparer of financial statements, an auditor, or an investor, creditor or other user of financial statements (including regulators and standard-setters). Please also say whether you primarily prepare, use or audit financial information prepared in accordance with IFRSs, US GAAP or both.**

The Malaysian Accounting Standards Board (MASB) is the accounting standards setter for companies incorporated in Malaysia.

There are two financial reporting frameworks in Malaysia. They are the Malaysian Financial Reporting Standards (FRS) and the Private Entity Reporting Standards (PERS). The Malaysian FRS is virtually identical with IFRSs except for the effective dates while the PERS framework was developed based on IASs issued prior to IASB's 2003 improvement project.

The FRS framework is mandatory for entities other than private entities while private entities have the option to apply either the FRS or PERS framework in its entirety.

(b) **If you are a preparer of financial statements, please describe your primary business or businesses, their size (in terms of the number of employees or other relevant measure), and whether you have securities registered on a securities exchange.**

Not applicable

(c) **If you are an auditor, please indicate the size of your firm and whether your practice focuses primarily on public entities, private entities or both.**

Not applicable

(d) **If you are an investor, creditor or other user of financial statements, please describe your job function (buy side/sell side/regulator/credit analyst/lending officer/standard-setter), your investment perspective (long, long/short, equity, or fixed income), and the industries or sectors you specialise in, if any.**

Not applicable

(e) **Please describe the degree to which each of the proposed new IFRSs is likely to affect you and the factors driving that effect (for example, preparers of financial statements might explain the frequency or materiality of the transactions to their business and investors and creditors might explain the significance of the transactions to the particular industries or sectors they follow).**

Not applicable

Appendix

Preparing for transition to the new requirements

Question 2

Focusing only on those projects included in the table in paragraph 18 above:

(a) Which of the proposals are likely to require more time to learn about the proposal, train personnel, plan for, and implement or otherwise adapt?

From our discussions with preparers and auditors, the proposals on Revenue, Leases, Consolidation, Impairment of Financial Assets and Insurance would require significant time to learn and transition to, requiring extensive use of resources for its implementation.

(b) What are the types of costs you expect to incur in planning for and adapting to the new requirements and what are the primary drivers of those costs? What is the relative significance of each cost component?

The initial implementation costs associated with personnel training and upgrading of accounting system and to comply with the proposals could be significant as both finance and other business units will be impacted by the implementation of the new Standards.

The personnel cost is interrelated with time and effort in understanding, planning and implementing the Standards. The primary drivers will be the time spent by personnel in understanding and interpreting the requirements in the Standards. Our preparers are also considering hiring new staff or external consultant to educate and communicate to both internal and external stakeholders whom will be affected by the new requirements.

Other than that, our preparers expect the cost of collecting and analysing the data and information will drive both personnel and system costs. The new proposal will require changes and modification in the IT system and internal control system due to different data requirements and reports. For example, the legal department will have to reassess their contract vetting process to suit the new requirement in either leases or revenue proposal. The new process will require new manpower or resources to educate existing staff.

Question 3

Do you foresee other effects on the broader financial reporting system arising from these new IFRSs? For example, will the new financial reporting requirements conflict with other regulatory or tax reporting requirements? Will they give rise to a need for changes in auditing standards?

Yes. These new financial reporting requirements could affect other regulatory or tax reporting requirements.

Appendix

Question 4

Do you agree with the transition method as proposed for each project, when considered in the context of a broad implementation plan covering all the new requirements? If not, what changes would you recommend, and why? In particular, please explain the primary advantages of your recommended changes and their effect on the cost of adapting to the new reporting requirements.

We generally agree with the transition method as proposed for each project except for the following projects. We wish to note that, for projects that require retrospective application, a delay in the effective dates is important to provide sufficient time for preparers to adapt their IT systems and accumulate the relevant data.

For IFRS 9 Phase 2, we prefer the new requirements to be applied retrospectively with adjustments to the opening reserves but without restatement of prior year or comparative numbers. We believe the efforts and costs required to apply the requirements full retrospectively would out-weight the benefits, particularly when substantial judgment is required in restating comparative numbers due to lack of data. Non-financial institutions in Malaysia generally took about 1 to 2 years to prepare for IAS 39 whilst banks have taken longer due to data limitation, processes and system requirements. In this regard we believe considerable amount of effort would be required for the proposed new impairment requirements of IFRS 9 Phase 2.

For the upcoming Standard on Insurance (this Standard), we prefer the use of prospective application. Full retrospective application of this Standard may not be practicable particularly where insurers have made distributions to policyholders and shareholders prior to the implementation of this Standard. It is also legally not possible to 'claw-back' previously distributed surpluses to policyholders and shareholders. Furthermore, it is impracticable to determine composite margins, residual margins and risk adjustments for legacy insurance contracts, should retrospective application be advocated. It is also doubtful whether this requirement would address cost-benefits to insurers and users of financial statements.

For the upcoming Standard on Leases, we are of the view that full retrospective application of lease accounting requirements should be permitted as an option as it would improve comparability of the information presented in the financial statements.

For the upcoming Standard on Revenue, we agree with the transition method provided a sufficient transitional period is given to enable entities to put in place the required systems to capture and compile the information. In our view, a transition period of more than 3 years would be required in this regard.

Effective dates for the new requirements and early adoption

Question 5

In thinking about an overall implementation plan covering all of the standards that are the subject of this Request for Views:

(a) Do you prefer the single date approach or the sequential approach? Why? What are the advantages and disadvantages of your preferred approach? How

would your preferred approach minimise the cost of implementation or bring other benefits? Please describe the sources of those benefits (for example, economies of scale, minimising disruption, or other synergistic benefits).

We prefer the single-date approach with a longer transition period to be given. This would mitigate the risks of having to change information technology systems more than once.

In addition, with a longer transition period, it would allow entities to have sufficient lead time to understand and get the necessary actions in place, e.g. IT support and collaboration, if any, with other business units to ensure that the requirements of the Standards are properly applied. This is particularly important for jurisdictions that converged / will be converging with IFRS within the next few years.

(b) Under a single date approach and assuming the projects noted in the introduction are completed by June 2011, what should the mandatory effective date be and why?

The mandatory effective date is suggested to be 1 January 2016.

Our suggestion of 2016 is derived based on the estimated timeframe required to prepare for IFRS 9 Phase 2. In our view a longer lead time will be required to develop and equip preparers in the emerging markets who are transitioning to IFRS to manage the implementation as well as to develop the necessary systems and processes.for IFRS 9 Phase 2.

(c) Under the sequential approach, how should the new IFRSs be sequenced (or grouped) and what should the mandatory effective dates for each group be? Please explain the primary factors that drive your recommended adoption sequence, such as the impact of interdependencies among the new IFRSs.

As mentioned in our response to Question 5(a), we support the single-date approach. However, if the sequential approach is adopted, the following is our recommended adoption sequence.

In our view, the effective date of amendments and new standards should be at least 6 months after publication for those that are less complex and has less pervasive effect on financial reporting. For more complex projects that require retrospective application, a delay in the effective dates is important to provide sufficient time for preparers to learn as well as adapt their IT systems and accumulate the relevant data.

With this in mind, below are our suggested effective dates.

Projects	***IASB planned issuance / effective dates***	***Our suggested effective dates***	***Note***
Group 1:			
Fair value measurements	*Q1 2011*	*2011/2012*	*1*
Other comprehensive income	*Q1 2011*	*2011/2012*	*2*

Appendix

Projects	***IASB planned issuance / effective dates***	***Our suggested effective dates***	***Note***
Group 2: *Consolidation* *Joint arrangements*	 *Q4 2011* *Q4 2011*	 *2012/2013* *2012/2013*	 *3*
Group 3: *IFRS 9 Phase 1*	 *Issued in Nov 2009 to be effective on 1 Jan 2013*	 *No change required*	 *4*
Group 4: *Leases* *Revenue*	 *Q2 2011* *Q2 2011*	 *2014* *2014*	 *5*
Group 5: *IFRS 9 Phase 2* *Insurance*	 *Q2 2011* *Q2 2011*	 *2016* *2016*	 *6*

Note:

1 *As the fair value measurement project affects all of the other projects in this Request for Views, we believe it would be important that this Standard be issued first prior to the others; this would establish a unified definition of fair value, as well as provide authoritative guidance on the application of fair value measurement to ensure consistent application of IFRS fair value requirements.*

2 *Similar to note 1 above, the project on Other Comprehensive Income should be issued earlier than others to set the conceptual basis for the requirements of presentation of items in the Other Comprehensive Income.*

3 *As consolidation and joint arrangements projects are inter-related, these 2 projects should have the same effective dates.*

4 *The effective date of IFRS 9 Phase 1 should remain at 1 January 2013 as some may have already started the implementation process of IFRS 9 Phase 1 in accordance with the timetable or even early adopted it. As for IFRS 9 Phase 3, we are still in the process of considering the Exposure Draft ED/2010/13 that was issued in December 2010.*

5 *We propose that the effective dates for both the Leases and Revenue projects be 2014 in view of the complexity and fundamental change to the principles of these 2 standards. In addition, we believe that these 2 standards should have the same effective dates as they are inter-related especially for contracts with service components and lease components.*

6 *An effective date of 5 years from the issuance date of the Standard is required for the emerging markets for the reason that a longer lead time will be required to develop and equip preparers in this part of the world who are transitioning to*

IFRS to manage the implementation as well as to develop the necessary systems and processes. In addition the effective date of the insurance standard should be aligned with that of IFRS 9 Phase 2 so that preparers could adapt information systems changes and accumulate data simultaneously to mitigate costs of implementation.

(d) Do you think another approach would be viable and preferable? If so, please describe that approach and its advantages.

No.

<u>Question 6</u>

Should the IASB give entities the option of adopting some or all of the new IFRSs before their mandatory effective date? Why or why not? Which ones? What restrictions, if any, should there be on early adoption (for example, are there related requirements that should be adopted at the same time)?

As new IFRSs are expected to improve information provided to users of financial statements, we believe entities that are ready should be allowed to exercise its judgement whether to early adopt the new IFRS.

In addition, countries that are converging with IFRS a year or two before the effective date may choose to early adopt the new IFRS to avoid having to introduce new systems to adopt IFRS for the first time, and then re-adapt them for the new IFRS.

<u>International convergence considerations</u>

<u>Question 7</u>

Do you agree that the IASB and FASB should require the same effective dates and transition methods for their comparable standards? Why or why not?

Yes. This will improve comparability across the globe and support the convergence project.

<u>Question 8</u>

Should the IASB permit different adoption dates and early adoption requirements for first-time adopters of IFRSs? Why, or why not? If yes, what should those different adoption requirements be, and why?

Yes. This would provide relief to first-time adopters of IFRS and ease their transition from local GAAP to IFRS.