9 July 2013

Mr. Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London ED 4M 6 XH
United Kingdom

Dear Mr Hoogervorst

IASB Exposure Draft (2013/3) – Financial Instruments: Expected Credit Losses

The Malaysian Accounting Standards Board welcomes the opportunity to provide comments on the IASB ED (2013/3) Financial Instruments: Expected Credit Losses.

We support the proposal to establish a single impairment model that would be applied to all financial assets and we agree with the objective of reducing delay in the recognition of credit losses. As noted in our previous comment letters, we continue to support a more forward looking provisioning model.

We appreciate the efforts that IASB and FASB made to jointly revise and improve their accounting standards for financial instruments, in particular on impairment of financial assets. However alignment and convergence have yet to be achieved. We believe it is important for both Boards to work together in order to achieve a high-quality converged standard for the recognition of impairment of financial assets. The lack of comparability resulting from divergence would create difficulties for users of financial statements. The implementation of different IASB and FASB proposals by entities which need to apply both IFRS and U.S. GAAP would also be operationally challenging.

The IASB is proposing a dual measurement impairment model which would require the recognition of lifetime expected credit losses for financial assets whose credit risk has deteriorated significantly since initial recognition and a 12 month expected loss allowance for other assets. Even though there is no conceptual basis for the 12 month expected loss allowance, overall we support this model because we are of the view that this proposal is a reasonable compromise between reflecting the underlying economics of the transaction and the operational complexities that would result from allocating the initial estimate of credit losses over the life of the asset via the credit adjusted effective interest rate.

We wish to highlight that should IASB decide to proceed with this proposal, our constituents are of the view that, practically, a lead time of 3 full years from the issuance of the final standard is required to implement the requirements in this ED.

Suite 5.2, Level 5, Wisma UOA Pantai, No. 11, Jalan Pantai Jaya, 59200 Kuala Lumpur
Tel : (603) 2240-9200 Fax : (603) 2240-9300 E-mail : masb@masb.org.my Website : www.masb.org.my

Our detailed responses are enclosed in the Appendix of this letter. If you need further clarification or have any queries regarding this letter, please contact Ms Christine Lau at +603 2240 9200 or by email at christine@masb.org.my.

Yours sincerely

Mohammad Faiz Azmi
Chairman

APPENDIX

IASB Exposure Draft (2013/3) – Financial Instruments: Expected Credit Losses

Question 1 - Objective of an expected credit loss impairment model

(a) ***Do you agree that an approach that recognises a loss allowance (or provision) at an amount equal to a portion of expected credit losses initially, and lifetime expected credit losses only after significant deterioration in credit quality, will reflect:***

(i) ***the economic link between the pricing of financial instruments and the credit quality at initial recognition; and***

(ii) ***the effects of changes in the credit quality subsequent to initial recognition?***

If not, why not and how do you believe the proposed model should be revised?

It is observed that when a financial instrument is priced, part of the yield i.e. the embedded credit risk premium compensates the holder for the initial expected credit losses. An entity will typically demand a higher yield for those instruments with higher expected credit losses.

Hence we agree in principle with an approach that recognizes a loss allowance which reflects the economic link between the pricing of financial instruments and its credit quality at initial recognition. Majority of our respondents, particularly financial institutions also agree that the pricing of financial instruments do incorporate a credit risk premium. However as acknowledged by the IASB, it may not be practical (if not impossible) to reliably isolate and measure the portion of the credit spread that is intended to compensate the holder for undertaking the credit risk. In our view, due to the presence of factors, other than credit, which could influence the pricing of a financial instrument, the economic link could still exist although the quantum may not be clear in all circumstances.

For example, in certain retail products which are fully collateralized, risk based pricing may not reflect the credit of the obligor but risks relating to the collateral. Hence applying this proposed impairment approach may result in day one economic losses unless the reporting entity has sufficient evidence to support zero loss when the collateral is foreclosed and realized if the obligor defaults.

We agree with the Board that effects of changes in credit quality are relevant to a users' understanding of the likelihood of the collection of future contractual cash flows on the financial asset. Hence an approach which distinguishes financial assets which suffer from credit quality and those which did not, provides relevant information.

However there are views that suggest that at Stage 2, when significant credit deterioration has taken place, a 12 month expected credit loss allowance is still appropriate. The assets are still performing in Stage 2 albeit credit risk is higher. Hence recognizing lifetime expected credit losses may result in over provisioning. A 12 month expected credit loss model for Stage 2 assets may still allow sufficient and early recognition of credit losses on a total basis.

Suite 5.2, Level 5, Wisma UOA Pantai, No. 11, Jalan Pantai Jaya, 59200 Kuala Lumpur
Tel : (603) 2240-9200 Fax : (603) 2240-9300 E-mail : masb@masb.org.my Website : www.masb.org.my

APPENDIX

(b) ***Do you agree that recognizing a loss allowance or provision from initial recognition at an amount equal to lifetime expected credit losses, discounted using the original effective interest rate, does not faithfully represent the underlying economics of financial instruments? If not, why not?***

Given that initial expectation of expected credit losses is already reflected in the price of the asset, recognizing a loss allowance at an amount equal to lifetime expected credit losses at initial recognition will result in an overstatement of expected credit losses. This excessive provision will be more apparent for longer term assets. This approach would also not provide relevant information about the effects of changes in the credit quality subsequent to initial recognition and economic losses which may arise as a result of the credit deterioration.

In addition, this approach does not reflect the credit risk management approach and processes applied by reporting entities particularly the banks.

Question 2 - The main proposals in this Exposure Draft

(a) ***Do you agree that recognizing a loss allowance (or provision) at an amount equal to 12-month expected credit losses and at an amount equal to lifetime expected credit losses after significant deterioration in credit quality achieves an appropriate balance between the faithful representation of the underlying economics and the costs of implementation? If not, why not? What alternative would you prefer and why?***

As noted in BC61, the IASB acknowledged that the proposal which recognizes expected loss at an amount equal to 12 month expected credit losses and an amount equal to lifetime expected credit losses after significant deterioration in credit quality is an operational simplification and that there is no conceptual justification for the 12 month time horizon.

The impairment ED has been subject to several rounds of drafting since the 2008 financial crisis. We believe regulators are also demanding for an early finalization of a revised impairment standard. In our mind the final standard should have a reasonable conceptual basis, is practical to implement and also should not bring about adverse commercial and economic consequences to the countries implementing it.

On this basis, majority of our respondents agree with the above proposal. The 12-month period also coincides with the annual financial reporting and the period used by banks in complying with regulatory capital requirements.

Nevertheless we would like to share an alternative view put forth by a respondent with regards to the 12 month expected credit loss requirement. This respondent suggested a

APPENDIX

'principle-based approach' which permits preparers to measure expected credit losses over a period between the greater of 12 months or a period which can be reliably estimated. The respondent believes that this approach is more in line with the entity's risk management policies and entities could leverage on their existing loan loss estimation methodologies and processes.

(b) Do you agree that the approach for accounting for expected credit losses proposed in this Exposure Draft achieves a better balance between the faithful representation of the underlying economics and the cost of implementation than the approaches in the 2009 ED and the SD (without the foreseeable future floor)?

We agree that this proposed approach achieves a better balance between the faithful representation of the underlying economics and the cost of implementation. Even though the approach proposed in the 2009 ED most faithfully represents expected credit losses where the entity would be required to measure a financial asset at amortized cost at the present value of expected cash flows discounted at credit-adjusted effective interest rate, the implementation of such model would bring about significant operational challenges.

(c) Do you think that recognizing a loss allowance at an amount equal to the lifetime expected credit losses from initial recognition, discounted using the original effective interest rate, achieves a better balance between the faithful representation of the underlying economics and the cost of implementation than this Exposure Draft?

We do not think recognizing a loss allowance at an amount equal to lifetime expected credit losses from initial recognition, discounted using the original effective interest rate achieves a better balance between the faithful representation of the underlying economics of the transaction and the cost of implementation. The original effective interest rate already takes into consideration the initial expected credit losses. Requiring an entity to recognize lifetime expected credit losses would result in the entity double counting its initial estimate of expected credit losses and hence will result in the carrying amount of the asset to be lower than its transacted price. This outcome does not reflect the economics of the transaction.

From an operational perspective, the estimation of lifetime expected credit losses involves significant judgment and the complexity of estimating such lifetime losses should not be underestimated, especially when the life of the asset extends well into future periods. Financial institutions have also indicated that recognizing lifetime expected credit losses on initial recognition would result in them not being able to leverage on their existing risk management systems and models. This is especially relevant for financial institutions which are already on Basel IRB ('Internal Rating Based'). In addition, as discussed above, this does not reflect the state of underlying credit risk of the financial assets as at reporting date and the credit risk management approach/processes applied by reporting entities particularly the banks.

APPENDIX

Question 3 – Scope

(a) Do you agree with the proposed scope of this Exposure Draft? If not, why not?

We generally support the proposal for a single expected credit loss model that covers the items specified in the ED. However we do have some concerns relating to the application of this model to loan commitments and financial guarantees. Please refer to our response to Q9(a).

(b) Do you agree that, for financial assets that are mandatorily measured at FVOCI in accordance with the Classification and Measurement ED, the accounting for expected credit losses should be as proposed in this Exposure Draft? Why or why not?

We agree with the proposal that assets measured at FVOCI be subject to the same impairment model. These assets are managed within the same business model as that of assets measured at amortized cost and hence applying the same expected credit loss requirements would enhance comparability and consistency.

We hope IASB will consider incorporating a practical expedient where entities could elect not to apply the impairment model for assets measured at FVOCI if there is reasonable evidence to suggest that the expected credit losses of the asset are insignificant, e.g. when fair value of the financial asset is greater than or equal to the amortized cost of the assets.

Question 4 - 12-month expected credit losses

Is measuring the loss allowance (or a provision) at an amount equal to 12-month expected credit losses operational? If not, why not and how do you believe the portion recognized from initial recognition should be determined?

In our view, the proposed 12 month expected credit loss model is operational but the implementation lead time and cost will vary considerably between financial institutions. Factors such as data availability, sophistication of the financial institutions' credit risk management systems and the extent of integration with the financial accounting processes will all have an integral part in the implementation work-plan.

Suite 5.2, Level 5, Wisma UOA Pantai, No. 11, Jalan Pantai Jaya, 59200 Kuala Lumpur
Tel : (603) 2240-9200 Fax : (603) 2240-9300 E-mail : masb@masb.org.my Website : www.masb.org.my

APPENDIX

Question 5 - Assessing when an entity shall recognise lifetime expected credit losses

(a) ***Do you agree with the proposed requirement to recognize a loss allowance (or a provision) at an amount equal to lifetime expected credit losses on the basis of a significant increase in credit risk since initial recognition? If not, why not and what alternative would you prefer?***

Majority of our constituents agree with the proposed requirement to recognize a loss allowance at an amount equal to lifetime expected credit losses on the basis of a significant increase in credit risk since initial recognition. As the credit risk for these assets have deteriorated significantly since their initial recognition, recognizing a lifetime expected credit loss would reflect this assessment and the economic substance of the assets.

(b) ***Do the proposals provide sufficient guidance on when to recognize lifetime expected credit losses? If not, what additional guidance would you suggest?***

The term "significant deterioration in credit risk" is not defined in the ED. Instead the ED provides illustrative examples on when to recognize lifetime expected credit losses. As the ED does not propose an approach which is based on the absolute credit quality of an asset at the reporting date, the assessment of whether a significant deterioration in credit quality has taken place and hence recognizing lifetime expected credit losses, may vary from one reporting entity to the other. Reporting entities would be required to develop their own criteria and credit policies in determining significant increase in credit risk and such criteria are expected to be different for the various types of financial assets held by the entity and across different entities. Whilst the illustrative examples are useful in guiding both financial and non-financial institutions in their assessment, there are some who are of the view that the term "significant deterioration" could be more clearly defined in the ED, failing which, may result in the respective market players, be they preparers, auditors and regulators setting their own local interpretation of the term.

When considering the lifetime expected credit losses, the ED proposes that an entity shall estimate the probability of default occurring on the financial instrument during its remaining life and the maximum period to consider is the maximum contractual period over which the entity is exposed to credit risk and not a longer period, even if that longer period is consistent with business practice. There are views that lifetime period should also consider the "expected lifecycle or behavioral of the product" as opposed to solely looking at the contractual terms. For example for credit cards, the behavioral lifecycle is generally longer than the contractual period.

APPENDIX

(c) ***Do you agree that the assessment of when to recognize lifetime expected credit losses should consider only changes in the probability of a default occurring, rather than changes in expected credit losses (or credit loss given default ('LGD'))? If not, why not and what would you prefer?***

We agree that the assessment of when to recognize lifetime expected credit losses should only consider changes in the probability of default ("PD") and not LGD as this provides more relevant information on the state of credit quality of the asset i.e. the chances of the obligors defaulting as at the reporting date.

(d) ***Do you agree with the proposed operational simplifications, and do they contribute to an appropriate balance between faithful representation and the cost of implementation?***

The ED proposes two operational simplifications for evaluating whether lifetime expected credit losses should be recognized, namely (i) if an entity estimates that the financial instrument has a low credit risk at the reporting date (for example, it is investment grade) then the loss allowance is measured at an amount equal to 12 month expected credit losses regardless whether there has been a significant increase in credit risk and (ii) a rebuttable presumption that a significant increase in credit risk has occurred when payments are more than 30 days past due.

The terms "significant deterioration in credit risk" and "investment grade" are not defined in the ED and instead, the IASB has provided examples to illustrate these concepts. As noted in our comments in Q5(b) above, there are views supporting the need to define the term "significant deterioration" in credit risk.

Paragraph 6 of the ED also states that credit risk on a financial instrument is low if the default is not imminent and any adverse economic conditions or changing circumstances may lead, at most, to a weakened capacity of the borrower to meet its contractual cash flow obligations. The ED also provides an example where an investment grade financial instrument would be considered to have low credit risk. The criteria for this operational simplification may not be that easy to apply in practice. The ED uses the phrase "default is not imminent" and depending on how the entities define the terms "default" and "imminent", this may mean that the credit quality of an asset can deteriorate even up to a significant level and yet because default is assessed by the entity as not imminent, the asset is assessed as having a low credit risk. In this instance the entity will continue to apply the 12 month expected credit loss requirement instead of moving to lifetime losses.

With regards to the second operational simplification, we do not believe the rebuttable presumption of 30 days past due is appropriate in the context of the credit fact pattern in Malaysia. The behavioral trend of contractual payments suggests that a 60-90 day period is more reasonable.

APPENDIX

There are also some who are of the view that this operational simplification is not necessary as the entities should be in a position to apply judgment and assess when risk has increased for the products, customers and business environment in which they are operating in.

(e) ***Do you agree with the proposal that the model shall allow the re-establishment of a loss allowance (or a provision) at an amount equal to 12-month expected credit losses if the criteria for the recognition of lifetime expected credit losses are no longer met? If not, why not, and what would you prefer?***

We agree with this proposal as we believe a consistent principle should be applied to both favorable and unfavorable changes in credit quality.

Question 6 – Interest Revenue

(a) ***Do you agree that there are circumstances when interest revenue calculated on a net carrying amount (amortized cost) rather than on a gross carrying amount can provide more useful information? If not, why not, and what would you prefer?***

We agree with the proposal in the ED for a decoupled approach which considers the recognition of interest revenue and the recognition of expected credit losses separately. Interest revenue is calculated using the effective interest method on the gross carrying amount of the asset. However when there is objective evidence of impairment, interest revenue is calculated using the effective interest method on the net carrying amount. Under this circumstance, we also agree that calculating interest revenue on the net carrying amount provides useful information.

(b) ***Do you agree with the proposal to change how interest revenue is calculated for assets that have objective evidence of impairment subsequent to initial recognition? Why or why not? If not, for what population of assets should the interest revenue calculation change?***

This proposal is consistent with the existing treatment under IAS 39. We agree that interest should be recognized based on the net carrying amount for assets with objective impairment (i.e. impaired assets), which is reflective of the interest income that is recoverable for these assets.

Suite 5.2, Level 5, Wisma UOA Pantai, No. 11, Jalan Pantai Jaya, 59200 Kuala Lumpur
Tel : (603) 2240-9200 Fax : (603) 2240-9300 E-mail : masb@masb.org.my Website : www.masb.org.my

APPENDIX

(c) Do you agree with the proposal that the interest revenue approach shall be symmetrical (ie that the calculation can revert back to a calculation on the gross carrying amount)? Why or why not? If not, what approach would you prefer?

The ED proposes that an entity that calculates interest revenue on the net carrying amount in one period shall calculate interest revenue on the gross carrying amount in the subsequent period if there is no longer objective evidence of impairment. We agree with this proposal as it promotes consistency and enhances comparability in accordance with the state of credit quality of the assets.

Question 7 – Disclosure

(a) Do you agree with the proposed disclosure requirements? Why or why not? If not, what changes do you recommend and why?

The ED generally requires disclosures about the amounts arising from expected credit losses and the effect of deterioration and improvement in the credit risk of financial instruments. To meet these 2 disclosure objectives, the ED introduces many new disclosures which are at a granular level and which would require substantial effort to collect.

For financial institutions, some of these disclosures are already required under Pillar 3 of Basel II. For operational simplicity, perhaps IASB should consider aligning the disclosure requirements in the ED with the Basel Committee's requirements. As the direction is for financial institutions to move towards the Basel Committee's requirements, such an alignment will certainly promote consistency between the two frameworks and reduce compliance costs.

(b) Do you foresee any specific operational challenges when implementing the proposed disclosure requirements? If so, please explain.

Feedback from our constituents indicates that the disclosure requirements in Paragraph 38 which relates to financial assets whose contractual cash flows have been modified are too onerous. Significant operational challenges will be faced in tracking these assets and the respective changes in the measurement of the loss allowances. We suggest retaining the previous requirement under IFRS 7 to disclose carrying amounts of financial assets that would otherwise be past due or impaired whose terms have been renegotiated or modified.

Paragraph 44 requires an entity to disclose by credit risk grades, the gross carrying amount of financial assets and the amount recognized as provision for loan commitments and financial guarantee contracts in a grade. As the measurement of expected credit losses is

Suite 5.2, Level 5, Wisma UOA Pantai, No. 11, Jalan Pantai Jaya, 59200 Kuala Lumpur
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APPENDIX

not directly linked to the credit risk grade of the financial asset, we would like to propose that entities be given the flexibility to disclose on a consistent basis, information which is meaningful and consistent with their respective credit risk monitoring and impairment assessment methodology.

(c) What other disclosures do you believe would provide useful information (whether in addition to, or instead of, the proposed disclosures) and why?

At this juncture, we do not have any examples of any additional disclosures that would provide useful information.

Question 8 - Application of the model to assets that have been modified but not derecognised

Do you agree with the proposed treatment of financial assets on which contractual cash flows are modified, and do you believe that it provides useful information? If not, why not and what alternative would you prefer?

It is proposed in the ED that if the contractual cash flows of the asset are renegotiated or modified, the entity shall adjust the gross carrying amount of the asset to reflect the revised contractual cash flows. The gross carrying amount should be discounted at the present value at the asset's original effective interest rate. For the purpose of determining whether significant increase in credit risk has occurred, the entity shall consider the credit risk under the modified terms and compare to the credit risk at initial recognition under the original unmodified contractual terms. We noted that the requirement to adjust the carrying amount is consistent with IAS 39, and we agree with the proposal in the ED in assessing the credit risk when such modification takes place.

However we would like to seek clarification for scenarios where the terms of the contract are modified due to circumstances other than those related to credit risk, e.g. adjustment to interest rate due to customers' request and market competition. In such an instance we do not believe the above proposal should apply and in particular the discount rate should be allowed to be adjusted to reflect the economics of the modified assets.

APPENDIX

Question 9 – Application of the model to loan commitments and financial guarantee contracts

(a) Do you agree with the proposals on the application of the general model to loan commitment and financial guarantee contracts? Why or why not? If not, what approach would you prefer?

Conceptually the proposal to apply the general model to loan commitments and financial guarantees seems reasonable. These financial instruments are managed within the same business strategy and shares similar risk profiles as assets which are measured at amortized cost and hence there is no compelling reason to apply a different impairment model.

However, our constituents have expressed their concerns and majority does not agree with this proposal for the following reasons.

(a) The entity is required to estimate future drawdowns for loan commitments; cash flows which are expected to be drawn down in the next 12 months when estimating 12 month expected credit losses and cash flows that are expected to be drawn down during the life of the instrument when estimating lifetime expected credit losses. There is a lot of judgment involved in estimating such future drawdown and coupled with the inherent uncertainties, not to mention operational complexity, it is questionable whether the information obtained during this process is relevant and useful.

(b) The ED also requires that drawdown be determined over the period for which the entity has contractual obligation to extend credit. The ED does not define the term "present contractual obligation to extend credit". As financial institutions offer many types of loan commitments with varying terms and conditions, it may not be clear whether such terms and conditions amount to present contractual obligation to extend credit within the scope of this ED. For example the terms of the facility may allow the financial institution to revoke the facility without notice when there is a change in certain loan covenants. In such an example, it is not clear whether the financial institution has a present contractual obligation to extend credit without performing detailed review of the loan covenants in question.

(c) The application of the general model to loan commitments and guarantee contracts will result in a provision in the statement of financial position. Our constituents view this as "providing too much too early". Recognizing a provision ahead of the actual drawdown, in our mind, may result in overprovision. The need for any such provision is currently already covered under IAS 37.

(d) In the Malaysian lending environment, it is very common for borrowers to approach more than one financial institution for credit facilities. For the same credit facility applied, a customer may have accepted letters of offer from several institutions. If this general model is applied to loan commitments, these institutions will be booking their respective expected credit losses whereas in reality, there would be only one actual drawdown. This will result in unnecessary work and overprovision.

APPENDIX

These constituents proposed that loan commitments and financial guarantees be scoped out from this ED and losses arising from such instruments be accounted as they are currently, within the scope of IAS 37.

If the scope in the ED remains status quo, there is a proposal to report any such allowance in Other Comprehensive Income. The amount will then be recycled to profit or loss when the underlying loan is drawn down or when the credit risk crystalizes. We believe this approach will address the concern of recognizing a credit loss allowance ahead of revenue.

Another general observation is that the ED makes use of terms which are widely used in regulatory capital requirements which may not necessarily carry the same meaning in financial reporting. For users of financial statements, the reading and interpretation of such terms may be confusing. As accounting standards and regulatory rules serve different purposes, their interaction need to be considered carefully.

(b) Do you foresee any significant operational challenges that may arise from the proposal to present expected credit losses on financial guarantee contracts or loan commitments as a provision in the statement of financial position? If yes, please explain.

Most respondents foresee there will be significant operational challenges to estimate drawdown of loan commitments and estimating when a guarantee will be called upon. Considerable effort will be needed to collect and analyze the data in order to arrive at expected credit losses which are reasonable and supportable. Please see also our response to Question 9(a) above.

Question 10 - Simplified approach for trade receivables and lease receivables

(a) Do you agree with the proposed simplified approach for trade receivables and lease receivables? Why or why not? If not, what changes do you recommend and why?

For trade receivables that do not constitute a financing component in accordance with IAS 18, loss allowance is to be measured at an amount equal to lifetime expected credit losses. For trade receivables that do constitute financing transactions and lease receivables, entities are given the option to elect an accounting policy to either apply the general model or measure the loss allowance at an amount equal to lifetime expected credit losses from initial recognition and throughout the life of the asset.

We agree with the proposed simplified approach as it would alleviate the practical concerns of tracking credit deterioration for entities which do not have sophisticated credit risk

APPENDIX

management mechanism or systems.

Currently the ED only scopes in trade receivables which are within the scope of IAS 18. We would like IASB to clarify if the proposed simplified approach also applies to trade receivables that result from transactions that are within the scope of IAS 11. We believe similar consideration should be accorded to both types of transactions.

(b) Do you agree with the proposed amendments to the measurement on initial recognition of trade receivables with no significant financing component? If not, why not and what would you propose instead?

Most trade receivables with no significant financing component usually have a maturity that is not longer than one year and so, lifetime expected credit losses and 12 month expected credit losses would be very similar, if not the same. Given this, we agree with the proposal.

Question 11 - Financial assets that are credit-impaired on initial recognition

Do you agree with the proposals for financial assets that are credit-impaired on initial recognition? Why or why not? If not, what approach would you prefer?

It is proposed in the ED that when a financial asset has objective evidence of impairment on initial recognition, an entity is required to include the initial expected credit losses in the estimated cash flows when computing the effective interest rate ['EIR"]. Interest income is calculated using this credit adjusted-EIR on the amortized cost balance. This is an exception to the general model where interest revenue is calculated on the gross carrying amount of the asset.

We noted that this proposal is consistent with the current IAS 39 requirements. We agree with the proposal.

Question 12 - Effective date and transition

(a) What lead time would you require to implement the proposed requirements? Please explain the assumptions that you have used in making this assessment. As a consequence, what do you believe is an appropriate mandatory effective date for IFRS 9? Please explain.

The IASB acknowledged that the implementation and ongoing application of an expected credit loss approach is complex and costly. IASB also acknowledged that the proposal in

APPENDIX

the ED is different from a credit risk management perspective because an entity is required to assess the change in credit quality since initial recognition and not credit quality at a point in time. Hence the implementation will require substantial system changes, time and resources resulting in significant costs for most entities including those that are already calculating expected credit losses for regulatory purposes.

We would like to add that for global or even regional financial institutions, with operations in different jurisdictions which are in various stages of regulatory capital requirement implementation (Basel I, Basel II Standardized, Basel II internal rating-based (IRB), Basel III and so on), the implementation efforts cannot be underestimated. In addition with IASB and FASB issuing their respective impairment standards, such global institutions will have to deal with not one but two impairment models and sometimes, even more depending on respective jurisdictions' regulatory requirements. It would be a great challenge to make the necessary changes to the risk and data management systems to implement the proposals in this ED.

Our respondents are of the view that, practically, a lead time of 3 full years from the issuance of the final standard is required to implement the requirements in this ED.

(b) Do you agree with the proposed transition requirements? Why or why not? If not, what changes do you recommend and why?

Entities are required to apply the proposed standard retrospectively except when it is not possible to determine (without undue cost and effort) whether the credit risk of a financial instrument has increased significantly since initial recognition. For such instruments a loss allowance at an amount equal to lifetime expected credit losses would be recognized until the financial instrument is derecognized. It is proposed in the ED that comparative information is not required to be restated.

We agree with the proposed transition requirements. However we observe that this ED makes use of the term "undue cost or effort" whilst IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* uses the term "impractical" in the context of limitations on retrospective application. We hope IASB will clarify if the 2 terms are synonymous; as we move towards a principle based financial reporting regime, it is necessary to ensure there is consistency in the understanding and application of these principles.

(c) Do you agree with the proposed relief from restating comparative information on transition? If not, why?

We agree with the proposed relief from restating comparative information on transition from a practical standpoint.

APPENDIX

Question 13 - Effects analysis

Do you agree with the IASB's assessment of the effects of the proposals? Why or why not?

We appreciate the extensive analysis which has been carried out by IASB and which are documented in BC 164 – BC 216.

With regards to convergence between IASB and FASB, we remain convinced that a converged impairment standard is crucial. We hope that IASB and FASB would continue to work closely, consider the comments received on the two EDs and work out how best to incorporate recommendations from both Boards with the ultimate objective of issuing a converged standard.

Suite 5.2, Level 5, Wisma UOA Pantai, No. 11, Jalan Pantai Jaya, 59200 Kuala Lumpur
Tel : (603) 2240-9200 Fax : (603) 2240-9300 E-mail : masb@masb.org.my Website : www.masb.org.my