MASB MALAYSIAN ACCOUNTING STANDARDS BOARD
LEMBAGA PIAWAIAN PERAKAUNAN MALAYSIA

31 March 2009

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

Dear Sir David

IASB EXPOSURE DRAFT ED 10 CONSOLIDATED FINANCIAL STATEMENTS

The Malaysian Accounting Standards Board welcomes the opportunity to provide comments to the IASB on Exposure Draft ED 10 Consolidated Financial Statements.

We support the proposal in ED 10 containing a revised 'principle based' control model to be applied to all types of entities. Nonetheless, the element of risks and rewards should be considered in the assessment of control, particularly where it may be difficult to establish power conclusively under the current guidance provided in the Standard (paragraphs 8-9). Returns have an element of risk associated with them and hence the concept of risks and rewards should continue to be relevant in assessing control. We believe this would provide additional clarity to support the intended application of the Standard, particularly as it relates to structured entities, while remaining consistent with the overarching control principle articulated in the standard. Also, some additional clarification and guidance are required to operationalise the principle as proposed, details of which are elaborated in the accompanying Appendix.

In addition, the linkage that the consolidation model has to investments in associates and joint ventures calls for the review of the definition of joint control in IAS 31 *Interests in Joint Ventures* as well as the definition of significant influence in IAS 28 *Investments in Associates*.

The IASB should also field-test the proposals in ED 10 to better understand the implications of the Standard, particularly to the financial service sector.

If you need further clarification, please contact the undersigned at +603 2240 9200 or email at beeleng@masb.org.my.

Yours sincerely,

Tan Bee Leng
Technical Director

Appendix

Question 1

Do you think that the proposed control definition could be applied to all entities within the scope of IAS 27 as well as those within the scope of SIC-12? If not, what are the application difficulties?

Yes, we agree with the proposed one model approach.

However, the proposed control definition need to be further enhanced. Returns have an element of risk associated with them and hence the concept of risks and rewards should continue to be relevant in assessing control. This would provide clarity to support the intended application of the proposals, particularly for structured entities, while remaining consistent with the control principle articulated in ED 10.

Our view is also consistent with the IASB's deliberation in January 2009 with regard to *Improved Conceptual Framework for Financial Reporting: The Reporting Entity,* whereby the IASB noted that the assessment of risks and rewards might be useful for implementing the controlling entity model in some circumstances as the basis for identifying the entities to be consolidated.

Also, in view of the revision to the control definition, we believe the definition of 'significant influence' and 'joint control' need to be revisited, as stated in our response to Question 12.

Question 2

Is the control principle as articulated in the draft IFRS an appropriate basis for consolidation?

Subject to our concerns as stated in Question 1 above, the control principle is an appropriate basis for consolidation.

Question 3

Are the requirements and guidance regarding the assessment of control sufficient to enable the consistent application of the control definition? If not, why not? What additional guidance is needed or what guidance should be removed?

To enable consistent application of the control definition, the term 'returns' needs to be clearly articulated, whether it covers both monetary and non-monetary returns, such as when a reporting entity in pursuing its objective to achieve certain social returns.

In addition, the Standard should explain further *when* an entity 'ceases to receive returns' other than in liquidation.

It is also not helpful for paragraph 28 to refer to a term 'dominant shareholder', which is not defined. Additional explanation on the term should be provided; otherwise it could lead to potential application difficulties.

Question 4

Do you agree with the Board's proposals regarding options and convertible instruments when assessing control of an entity? If not, please describe in what situations, if any, you think that options or convertible instruments would give the option holder the power to direct the activities of an entity.

The principle in the Standard with regards to options and convertible instruments when assessing control of an entity appears to be appropriate.

Question 5

Do you agree with the Board's proposals for situations in which a party holds voting rights both directly and on behalf of other parties as an agent? If not, please describe the circumstances in which the proposals would lead to an inappropriate consolidation outcome.

Yes, we agree.

Question 6

Do you agree with the definition of a structured entity in paragraph 30 of the draft IFRS? If not, how would you describe or define such an entity?

Yes, we agree.

Question 7

Are the requirements and guidance regarding the assessment of control of a structured entity in paragraphs 30–38 of the draft IFRS sufficient to enable consistent application of the control definition?

If not, why not? What additional guidance is needed?

The Standard should include some examples to illustrate the various possible structures of a structured entity that falls within the definition of the Standard.

Question 8

Should the IFRS on consolidated financial statements include a risks and rewards 'fall back' test? If so, what level of variability of returns should be the basis for the test and why? Please state how you would calculate the variability of returns and why you believe it is appropriate to have an exception to the principle that consolidation is on the basis of control.

No, we do not think it is appropriate to have a 'fall back' test because to do so, would defeat the purpose of the proposal to have a single definition of control for all entities.

Nonetheless, as stated in our response to Question 1, in determining control, the reporting entity should consider the element of risks and rewards in the assessment.

Question 9

Do the proposed disclosure requirements described in paragraph 23 provide decision-useful information? Please identify any disclosure requirements that you think should be removed from, or added to, the draft IFRS.

Yes, we believe the enhanced disclosures would provide decision-useful information.

Nonetheless, there would be application difficulties in meeting certain disclosure requirement, as stated in our response to Question 10.

Question 10

Do you think that reporting entities will, or should, have available the information to meet the disclosure requirements? Please identify those requirements with which you believe it will be difficult for reporting entities to comply, or that are likely to impose significant costs on reporting entities.

The requirements would pose application difficulties for an entity to disclose the required information of unconsolidated structured entities, particularly if there is no legal requirement for the provision of such information to its investors by the structured entities.

Question 11

(a) Do you think that reputational risk is an appropriate basis for consolidation? If so, please describe how it meets the definition of control and how such a basis of consolidation might work in practice.

No, reputational risks in not an appropriate basis for consolidation.

(b) Do you think that the proposed disclosures in paragraph B47 are sufficient? If not, how should they be enhanced?

Yes, it is sufficient.

Question 12

Do you think that the Board should consider the definition of significant influence and the use of the equity method with a view to developing proposals as part of a separate project that might address the concerns raised relating to IAS 28?

Yes, as mentioned in our response to Question 1, the IASB should consider the definition of 'significant influence' as well as 'joint control' to be in line with the proposed change on the definition of 'control'.

Other Comments

In applying IFRS 3 under paragraph 52, the Standard should include transitional provisions to deal with the following circumstances:

a) **whether an entity need to remeasure the cost of investment in associate for consolidation purpose as well as at the separate financial statements level when such associate is now a subsidiary under the spirit of this Standard;**

b) **whether any resulting negative goodwill (or discount on bargain purchase) should be recognised in the opening retained earnings or in the current year's profit or loss; and**

c) **whether remeasurement is required when in applying this Standard, a former subsidiary becomes an associate (IAS 28) or an available-for-sale investment (IAS 39).**