MALAYSIAN ACCOUNTING STANDARDS BOARD
LEMBAGA PIAWAIAN PERAKAUNAN MALAYSIA

15 January 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 OF INVESTMENTS IN DEBT INSTRUMENTS – PROPOSED AMENDMENTS TO IFRS 7

The Malaysian Accounting Standards Board welcomes the opportunity to provide comments to the IASB on Exposure Draft of Investments In Debt Instruments – Proposed Amendments to IFRS 7.

While we understand the Board's proposal to amend the IFRS 7 disclosure requirements is motivated by the present market conditions, we are concerned that any piecemeal amendments may result in inconsistent requirements with existing disclosures as well as the recent IASB exposure draft of Improving Disclosures about Financial Instruments. Any piecemeal amendments should be considered carefully so as to achieve a balance between not overburdening users and preparers with excessive detail, and not obscuring significant information with excessive information.

Whilst we support the proposal to disclose the impact to pre-tax profit or loss for debt instruments that had been carried at amortised cost as if it had been accounted at fair value, we disagree that such disclosure is necessary for instruments carried at fair value to disclose the impact to pre-tax profit or loss as if it had been accounted at amortised cost. Our detailed comments on the specific questions are appended in Appendix 1 for your consideration.

If you need further clarification, please contact Dr Nordin Mohd Zain at +603 2240 9200 or email at nordin@masb.org.my or beeleng@masb.org.my

Thank you.

Yours sincerely,

Dato' Zainal Abidin Putih
Chairman

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MALAYSIAN ACCOUNTING STANDARDS BOARD
IASB EXPOSRE DRAFT OF INVESTMENTS IN DEBT INSTRUMENTS – PROPOSED AMENDMENTS TO IFRS 7

Question 1

The exposure draft proposes in paragraph 30A(a) to require entities to disclose the pre-tax profit or loss as though all investments in debt instruments (other than those classified as at fair value through profit or loss) had been (i) classified as at fair value through profit or loss and (ii) accounted for at amortised cost. Do you agree with that proposal? If not, why? What would you propose instead, and why?

Response:

We agree on the disclosure for impact to pre-tax profit or loss as if the debt instruments had been classified at fair value through profit or loss. However, we disagree the disclosure for the impact to pre-tax or loss as if the debt instruments had been carried at amortised cost.

If a debt instrument has not been classified at fair value through profit or loss, it would have been classified under available-for-sale or carried at amortised cost (either under held-to-maturity or at rare circumstances, under loans and receivables).

Recognition of income, foreign exchange differences (if denominated in the currency other than the entity's functional currency) and impairment losses are the same for instruments under available-for-sale and those carried at amortised cost. There would be almost (except for the measurement of impairment loss, which is discussed below) no impact to the pre-tax result if these instruments were to be carried at amortised cost, and hence, the proposed disclosure requirement is unnecessary.

Impairment of a debt instrument under available-for-sale is measured with reference to its fair value, whereas for a debt instrument under held-to-maturity or loans and receivables, the measurement is with reference to estimated net future cash flows discounted at original effective interest rate. In this regard, it is (only a slight different in approach for a variable-rate instrument, i.e. at the re-calculated current effective interest rate using original credit spread. This difference is the impact to pre-tax result which would be required to be disclosed for an available-for-sale instrument. We believe this difference is not imperative to warrant a disclosure.

In addition, the methods of recovery are distinctly different in many cases for instruments under available-for-sale, and those under held-to-maturity or loans and receivables. For those under loans and receivables, typically they are recovered through continuing collection efforts, negotiation, foreclosure etc.

On the other hand, an available-for-sale instrument is normally recovered e.g. through selling, or participated as one of the holders in a restructuring scheme etc., which could mean the use of fair value should be more appropriate for measuring

impairment. This is unlike held-to-maturity instruments which are subject to similar impairment computation as loans and receivables under IAS 39, which we agree that disclosure of the impact if their impairment is calculated based on fair value will be useful.

In conclusion, the information on the impact to pre-tax result if debt instruments under available-for-sale, held-to-maturity or loans and receivables had been carried at fair value through profit or loss is useful, as it tells the readers about the relevant impact if these instruments were to be e.g. sold at current market values. However, this will not be so for the available-for-sale instruments carried at amortised cost.

Question 2

The exposure draft proposes to require disclosing the pre-tax profit or loss amount that would have resulted under two alternative classification assumptions. Should reconciliations be required between profit or loss and the profit or loss that would have resulted under the two scenarios? If so, why and what level of detail should be required for such reconciliations?

<u>Response</u>:

As stated in the response to Question 1, we believe only the reconciliation with the pre-tax result if those debt instruments were carried at fair value through profit or loss should be disclosed. The disclosure should be made consistent with other existing IFRS 7 requirements, i.e. by categories and by classes of the instruments.

Though we support better disclosures, we suggest the level of disclosure required and its usefulness, particularly those resulting from the current piecemeal amendments to be considered carefully so as to achieve a balance between not overburdening users and preparers with excessive detail, and not obscuring significant information with excessive information.

Question 3

The exposure draft proposes in paragraph 30A(b) to require entities to disclose for all investments in debt instruments (other than those classified as at fair value through profit or loss) a summary of the different measurement bases of these instruments that sets out (i) the measurement as in the statement of financial position, (ii) fair value and (iii) amortised cost. Do you agree with that proposal? If not, why? What would you propose instead, and why?

<u>Response</u>:

Consistent with our explanation in the response to Question 1, this requirement should not be necessary.

The proposal to disclose amortised cost amount for an available-for-sale instrument could be meaningless or not useful, as it may not represent the recoverable amount. In addition, the disclosure of fair values of held-to-maturity instruments and loans and receivables are already required under existing IFRS 7 requirements.

It would be more useful if the following information is required to be disclosed:

(i) analysis of the unrealised reserve of available-for-sale debt instruments (that is now included under equity under IAS 39), including the reasons for not recognising the negative reserve amount of an instrument to profit or loss as impairment loss as at the reporting date;

(ii) analysis of the differences between fair values and carrying amounts of held-to-maturity debt instruments and loans and receivables, including the reasons for the differences between the impairment recognised (using incurred loss model under IAS 39 which generally uses original effective interest rate) and those derived from the fair value of these instruments (which are already required to be disclosed under IFRS 7).