LEMBAGA PIAWAIAN PERAKAUNAN MALAYSIA
MALAYSIAN ACCOUNTING STANDARDS BOARD

11 January 2008

The Chairman
International Accounting Standards Board
30 Cannon Street
LONDON EC4M 6XH
UNITED KINGDOM

Dear Sir David,

IASB EXPOSURE DRAFT OF *PROPOSED IMPROVEMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS* (ED)

The Malaysian Accounting Standards Board (MASB) appreciates the opportunity to offer its views on Exposure Draft of Proposed Improvements to IFRSs, as set out in the accompanying pages.

In general, we are in support of IASB's annual improvement initiatives to deal with non-urgent matters and minor amendments raised by IFRIC and suggestions from staff or practitioners as highlighted in the ED.

Having reviewed the ED, we believe that the proposed amendments are in fact significant and merit considerable debate. The following are areas which we believe are major proposals worthy of further reconsideration.

(1) *IAS 1 Presentation of Financial Statements*

We strongly disagree with the proposal to require an entity to make unreserved statement of compliance with IFRSs as proposed in paragraph 16A. The requirement is unnecessary and redundant given the existing provision of such requirement in the current IAS 1.

The existing provision in IAS 1 states that "financial statements shall not be described as complying with IFRS unless they comply with all the requirements of IFRS". Such provision is sufficient to accord the level of assurance of compliance with IFRS. The proposal is likewise unnecessary because it has been understood in practice that a framework that modifies IFRS or only made reference to IFRS is not considered as IFRS framework.

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(2) *IAS 17 Leases*

We disagree with the proposal to delete the guidance in IAS 17.14. We believe such deletion would not eliminate a perceived inconsistency between the specific classification guidance for leases of land and building and the general lease classification.

Instead, we recommend that paragraph 14 of IAS 17 not only be maintained but expanded to clarify how an entity should account for, say, long term leases of land in order to reflect the economics of the land element. Such clarification in the standard would eliminate the perceived inconsistency between the general and specific classifications of the leases.

(3) *IAS 20 Accounting for Government Grants and Disclosure of Government Assistance*

We disagree with the proposal to require benefit of a loan received from a government with a below-market rate of interest to be quantified by imputation of interest in accordance with IAS 39 and such benefit to be accounted for under IAS 20.

We believe the requirement would only inflate both the assets and liabilities of the balance sheet with no tangible benefits to users. Users will find it practically difficult to impute such benefit in the absence of a market for the government loan. Please see the elaborated comments in the accompanying pages.

We also wish to point out that there are amendments proposed in the ED that are inconsistent, namely with those in IFRS 7, IAS 18, IAS 32 and IAS 39, details of which are set out in the accompanying pages. Similarly, there are also amendments which require further clarification, such as those in IFRS 5 and IAS 39. Other amendments that could be further improved include the ones in IAS 10.

The above are broad comments we have on the ED. Comments on specific issues are set out in the accompanying pages.

If you need further clarification on the responses above, please feel free to contact the undersigned at +603 2715 9199 or e-mail at nordin@masb.org.my.

Yours sincerely,

Nordin

Dr. Nordin Mohd Zain
Executive Director

IASB Exposure Draft
Proposed Improvements to IFRSs

Question 1: IFRS 1 – Restructuring of IFRS 1

Do you agree with the Board's proposed restructuring of IFRS 1? If not, why?

Agree

Question 2: IFRS 5 – Plan to sell the controlling interest in a subsidiary

Do you agree with the proposal to add paragraph 8A to IFRS 5 to clarify that assets and liabilities of a subsidiary should be classified as held for sale if the parent has a sale plan involving loss of control of the subsidiary? If not, why?

We support paragraph 8A which clarifies that where the sale of a subsidiary involves loss of control, all the subsidiary's assets and liabilities should be classified as held for sale and not merely limited to the portion of the interest to be disposed of. However, to provide a more comprehensive guidance we suggest IASB to clarify the subsequent measurement basis with regards to the non-controlling interest retained after the loss of control of the subsidiary. This is due to the different measurement basis provided in IFRS 5 and IAS 39 *Financial Instruments: Recognition and Measurement*.

When an entity is committed to a sale plan involving the loss of control of a subsidiary, all the assets and liabilities of that subsidiary is accounted for as held for sale and would be carried at lower of carrying amount and 'fair value less cost to sell'. After the sale is completed, the investment would be accounted for in accordance with IAS 39 from the date it ceases to be a subsidiary provided it does not become an associate or a jointly controlled entity. In accordance with IAS 39, such investment would be carried at fair value unless the fair value could not be reliably determined. Therefore, when the sale plan involving the loss of control of a subsidiary is crystallized, an entity may recognise a 'day 1' gain with regards to the non-controlling interest retained by the entity if the 'fair value less cost to sell' measured in accordance with IFRS 5 is lower than the fair value measured in accordance with IAS 39. However, IAS39.AG76A only permits the recognition of 'day 1' gain or loss to the extent that it arises from a change in a factor that market participants would consider in setting a price.

In addition, we suggest IASB to clarify the term 'sale' as applied in the Standard. It is not clear from IFRS 5 on whether cases involving dilution of interest resulting from planned issuance of shares to specific party would be considered as 'sale'.

Lastly, we suggest IASB to clarify whether common control sale is within the scope of IFRS 5 as business combination involving common control is scoped out from IFRS 3 Business Combinations. We also noted that there is a proposal to amend IAS 27 to clarify

certain provision does not apply to situation where there is no change in the substance of the revised organization structure.

Question 3: IFRS 7 – Presentation of finance costs

The Board proposes to amend paragraph IG13 of the guidance on implementing IFRS 7 *Financial Instruments: Disclosures* to resolve the potential conflict with IAS 1. Do you agree with the proposal? If not, why?

Agree

<u>Other comment – consequential amendment from IAS 28 and IAS 31 to IFRS 7 and IAS 32</u>

We have no objection to the amendment in IFRS 7.3 to delete the disclosure requirement in IAS 28 and IAS 31; however, we disagree with the amendment in IFRS 7.3 to delete the disclosure requirement in IAS 27 *Consolidated and Separate Financial Statements*.

The consequential amendment is meant to resolve inconsistency between certain provisions in IAS 28 and IAS 31 with IFRS 7, and we see no reason to the deletion of the disclosure requirement in IAS 27.

Also, by deleting reference to IAS 27, an entity that chooses to measure its investment in subsidiaries under IAS 39 would no longer be required to disclose items specified in IAS 27.

On the same note, we also disagree with the amendment in IAS 32.4 to delete the disclosure requirement in IAS 27 *Consolidated and Separate Financial Statements*.

Question 4: IAS 1 – Statement of compliance with IFRSs

Do you agree with the proposal to require an entity that cannot make an unreserved statement of compliance with IFRSs to describe how its financial statements would have been different if prepared in full compliance with IFRSs? If not, why?

We disagree with the proposal to require a statement of compliance with IFRSs. The requirement is superfluous, redundant and impractical. The existing provision in IAS 1 which states that "financial statements shall not be described as complying with IFRS unless they comply with all the requirements of IFRS" should suffice. It should be noted that a framework which modifies IFRS or makes reference to IFRS would not be considered as IFRS framework.

Also, we believe the proposal is beyond the scope and objective of the improvement project that deals with minor and miscellaneous amendments, which focuses on clarification of meaning and removal of unintended inconsistencies between standards.

Question 5: IAS 1 – Current/non-current classification of convertible instruments

Do you agree with the proposal to clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current? If not, why?

Agree

Question 6: IAS 1 – Current/non-current classification of derivatives

Do you agree with the proposal to amend the examples in paragraphs 68 and 71 of IAS 1 to remove the potential implication that financial assets and financial liabilities that are classified as held for trading in accordance with IAS 39 are required to be presented as current? If not, why?

We suggest the term 'held-for-trading' in the Standards on Financial Instruments to be reconsidered so as to avoid any confusion vis-à-vis the provision in IAS 1.69 and the explanation provided in IAS 1.68 & IAS 1.71.

Question 7: IAS 8 – Status of implementation guidance

Do you agree with the proposal to amend paragraphs 7, 9 and 11 of IAS 8 to clarify the status of implementation guidance? If not, why?

Agree

Question 8: IAS 10 – Dividends declared after the end of the reporting period

Do you agree with the proposal to amend paragraph 13 of IAS 10 to clarify why a dividend declared after the reporting period does not result in the recognition of a liability at the end of the reporting period? If not, why?

We suggest that paragraphs 12 and 13 to be combined into one paragraph instead as both paragraphs are explaining the same matter, ie why dividend declared after the reporting period does not result in the recognition of a liability for that reporting period.

Question 9: IAS 16 – Recoverable amount

Should the definition of recoverable amount in IAS 16 be amended to remove the perceived inconsistency with 'recoverable amount' used in other IFRSs? If not, why?

Agree

Question 10: IAS 16 - Sale of assets held for rental

Do you agree with the proposal to amend paragraph 68 of IAS 16 and paragraph 14 of IAS 7? If not, why?

Agree

Question 11: IAS 17 – Classification of leases of land and buildings

Do you agree with the proposal to amend paragraphs 14 and 15 of IAS 17 to eliminate a perceived inconsistency between the specific classification guidance for leases of land and buildings and the general lease classification guidance in IAS 17? If not, why?

We disagree with the proposal to remove IAS 17.14 and the amendment in IAS 17.15.

We believe IAS 17.14 should not only be maintained but be expanded to provide further clarification in order to eliminate the perceived inconsistency between the guidance on specific classification for lease of land & building and general lease classification.

For example, IAS 17.14 and IAS 17.15 could be expanded to explain the lease classification for say 999-year lease of land and building in order to reflect the economics of the land element, as articulated in the staff paper (agenda paper 5D) presented to the IASB board in July 2007.

Question 12: IAS 17 – Contingent rents

Do you agree with the proposal that contingent rent relating to an operating lease should be recognised as incurred? If not, why?

Agree

Question 13: IAS 18 – Costs of originating a loan

Do you agree with the proposed amendment to the guidance on IAS 18 to explain that the definition of the transaction costs to be applied to the accounting for financial asset origination fees are those defined in IAS 39? If not, why?

We support the amendment to remove the inconsistency between IAS 39 and IAS 18 Appendix - paragraph 14(i). We believe the amendment should also be made to Appendix - paragraphs 14 (ii) and 14 (iii) dealing with the same issue, ie the related direct costs of a financial instrument.

Question 14: IAS 19 – Curtailments and negative past service cost

(a) Do you agree that IAS 19 should be amended to clarify that when a plan amendment reduces benefits for future service, the reduction relating to future service is a curtailment and any reduction relating to past service is negative past service cost? If not, why?

Agree

(b) Do you agree that the Board should delete the following sentence from paragraph 111 of IAS 19: 'An event is material enough to qualify as a curtailment if the recognition of a curtailment gain or loss would have a material effect on the financial statements.'? If not, why?

Agree

Question 15: IAS 19 – Plan administration costs

Do you agree with the proposal to amend the definition of return on plan assets in paragraph 7 of IAS 19 to require the deduction of plan administration costs only to the extent that such costs have not been reflected in the measurement of the defined benefit obligation? If not, why?

Agree

Question 16: IAS 19 – Replacement of term 'fall due'

Do you agree with the proposal to replace in IAS 19 the term 'fall due' with the notion of employee entitlement in the definitions of short-term employee benefits and other long-term employee benefits? If not, why?

Agree

Question 17: IAS 19 – Guidance on contingent liabilities

Should the reference in IAS 19 to recognising contingent liabilities be removed? If not, why?

Agree

Question 18: IAS 20 – Consistency of terminology with other IFRSs

Do you agree with the proposal to conform terminology used by IAS 20 to the equivalent defined or more widely used terms? If not, why?

Agree

Question 19: IAS 20 – Government loans with a below-market rate of interest

Do you agree with the proposed amendments to IAS 20 to clarify that the benefit of a loan received from a government with a below-market rate of interest should be quantified by the imputation of interest in accordance with IAS 39? If not, why?

We disagree with the proposal to require the benefit of a loan received from a government with a below-market rate of interest to be quantified by the imputation of interest in accordance with IAS 39.

We see no tangible benefits or usefulness of this new requirement. In addition, there would be practical difficulties to impute such benefit in the absence of a market for the government loan. Also, most of the time there might not even be a comparable market rate for such loan.

We understand that the imputation of market interest rate may reveal the viability of an entity because of the government subsidised interest rate. However, government loans are normally given to entities with different developmental objectives and are 'non-profit' driven. Government loans are not uncommon in developing economies and are normally granted for specific purposes and for the interests of the country. Hence, to equate such government loans to commercial loans, and requiring the differential in the interest rates to be imputed and recognised as benefits may not represent faithfully the transaction it purports to represent as the objective and characteristics of these two types of loans are substantially different.

We, however, do need to understand the intent of the board in defining what government loan is. The proposal should be directed at loans given by the government where such loans are readily available in the market and for commercial purposes.

In addition, we believe IASB should not review IAS 20 on a piecemeal basis as there is an ongoing project to revise the Standard. Since IAS 20 allows a government grant to be carried at nominal value, it would then be internally inconsistent if the Standard mandates the benefit of such government subsidised loan to be 'fair valued'.

Question 20: IAS 23 – Components of borrowing costs

Do you agree with the proposal to amend paragraph 6 of IAS 23 to refer to the guidance in IAS 39 *Financial Instruments: Recognition and Measurement* relating to effective interest rate when describing the components of borrowing costs? If not, why?

Agree

Question 21: IAS 27 – Measurement of subsidiary held for sale in separate financial statements

Do you agree with the proposal to require investments in subsidiaries that are accounted for in accordance with IAS 39 in the parent's separate financial statements to continue to be accounted for on that basis when classified as held for sale (or included in a disposal group that is classified as held for sale)? If not, why?

Agree

Question 22: IAS 28 – Required disclosures when investments in associates are accounted for at fair value through profit or loss

Do you agree with the proposal to clarify the disclosures required of an investor in an associate that accounts for its interest in the associate at fair value in accordance with IAS 39, with changes in fair value recognised in profit or loss? If not, why?

Agree

Question 23: IAS 28 – Impairment of investment in associate

Do you agree with the proposal to amend paragraph 33 of IAS 28 to clarify the circumstances in which an impairment charge against an investment in an associate should be reversed? If not, why?

Agree

Question 24: IAS 29 – Consistency of terminology with other IFRSs

Do you agree with the proposal to update the description of historical cost financial statements in paragraph 6 of IAS 29 and to conform terminology in IAS 29 to the equivalent defined or more widely used terms? If not, why?

Agree

Question 25: IAS 31 – Required disclosures when interests in jointly controlled entities are accounted for at fair value through profit or loss

Do you agree with the proposal to clarify the disclosures required of a venturer in a jointly controlled entity that accounts for its interest in the jointly controlled entity at fair value in accordance with IAS 39, with changes in fair value recognised in profit or loss? If not, why?

Agree

Question 26: IAS 34 – Earnings per share disclosures in interim financial reports

Do you agree with the proposal to amend paragraph 11 of IAS 34 to require the presentation of basic and diluted earnings per share only when the entity is within the scope of IAS 33? If not, why?

Agree

Question 27: IAS 36 – Disclosure of estimates used to determine recoverable amount

Do you agree with the proposal to amend paragraph 134(e) of IAS 36 to require the same disclosures to be given for fair value less costs to sell as are required for value in use when discounted cash flows are used to calculate fair value less costs to sell? If not, why?

Agree

Question 28: IAS 38 – Advertising and promotional activities

(a) Do you agree that IAS 38 should emphasise that an entity should recognise expenditure on an intangible item as an expense when it has access to the goods or has received the services? If not, why?

Agree

(b) Do you agree that paragraph 70 of IAS 38 should be amended to allow an entity to recognise a prepayment only until it has access to the related goods or has received the related services? If not, why?

Agree

Question 29: IAS 38 – Unit of production method of amortisation

Do you agree with the proposal to remove the last sentence of paragraph 98 of IAS 38 regarding the amortisation method used for intangible assets? If not, why?

Agree

Question 30: IAS 39 – Definition of a derivative

Do you agree with the proposal to amend IAS 39 by removing from the definition of a derivative the exclusion relating to contracts linked to non-financial variables that are specific to a party to the contract? If not, why?

Although the IASB believes that the proposed amendment would not affect the scope of IAS 39, we note that there may be unintended consequential effects from the revised definition.

The proposed new definition may potentially require underwriting arrangements or performance bonds to be recognised as a derivative and accounted for accordingly under IAS 39. If performance bond fits into the new definition of a derivative, the IASB should then clarify whether this bond to be recognised and accounted for under IAS 39, IFRS 4 or a choice between IAS 39 and IFRS 4. This is because performance bond is also quoted as an example of insurance in IFRS 4.

Question 31: IAS 39 – Reclassification of financial instruments into or out of the classification of at fair value through profit or loss

(a) Do you agree with the proposal to amend IAS 39 to clarify the definitions of a financial instrument classified as held for trading? If not, why?

Agree

(b) Do you agree with the proposal to insert in IAS 39 paragraph 50A to clarify the changes in circumstances that are not reclassifications into or out of the fair value through profit or loss category? If not, why?

Agree

Question 32: IAS 39 – Designating and documenting hedges at the segment level

Do you agree with the proposal to amend paragraph 73 of IAS 39 to remove the references to segments and segment reporting? If not, why?

We support the amendment to remove the conflict between IFRS 8 and IAS 39 - paragraph 73. Similar amendment should also be made to IAS 39.80 which makes reference to 'segments'.

Question 33: IAS 39 – Applicable effective interest rate on cessation of fair value hedge accounting

Do you agree with the proposal to amend paragraph AG8 of IAS 39 to clarify that the revised effective interest rate calculated in accordance with paragraph 92 should be used, when applicable, to remeasure the financial instrument in accordance with paragraph AG8? If not, why?

Agree

Question 34: IAS 39 – Treating loan prepayment penalties as closely related embedded derivatives

Do you agree with the proposal to amend paragraph AG30(g) of IAS 39 to clarify that prepayment options, the exercise price of which compensates the lender for loss of interest by reducing the economic loss from reinvestment risk, as described in paragraph AG33(a), are closely related to the host debt contract? If not, why?

Agree

Question 35: IAS 40 – Property under construction or development for future use as investment property

The exposure draft proposes to include property under construction or development for future use as an investment property within the scope of IAS 40. Do you agree with the proposal? If not, why?

Agree

Question 36: IAS 40 – Consistency of terminology with IAS 8

Do you agree with the proposal to conform terminology used in paragraph 31 of IAS 40 to the terminology used in IAS 8? If not, why?

Agree

Question 37: IAS 40 – Investment property held under lease

Should paragraph 50(d) of IAS 40 be amended to clarify the accounting for investment property held under a lease? If not, why?

Agree

Question 38: IAS 41 – Point-of-sale costs

Do you agree with the proposal to replace the terms ‘point-of-sale costs’ and ‘estimated point-of-sale costs’ in IAS 41 with ‘costs to sell’? If not, why?

Agree

Question 39: IAS 41 – Discount rate for fair value calculations

Do you agree with the proposed amendment to IAS 41 to permit either a pre-tax or a post-tax discount rate to be used according to the valuation methodology used to determine fair value? If not, why?

Agree

Question 40: IAS 41 – Additional biological transformation

Do you agree with the proposal to remove the exclusion of ‘additional biological transformation’ from paragraph 21 of IAS 41? If not, why?

Agree

Question 41: IAS 41 – Examples of agricultural produce and products

Do you agree with the proposed amendments to the examples in paragraph 4 of IAS 41? If not, why?

Agree