MASB MALAYSIAN ACCOUNTING STANDARDS BOARD
LEMBAGA PIAWAIAN PERAKAUNAN MALAYSIA

23 November 2015

Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London, EC4M 6XH
United Kingdom

Dear Mr Hoogervorst

EXPOSURE DRAFT ED/2015/3 *CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING*

The Malaysian Accounting Standards Board (MASB) welcomes the opportunity to provide comments on the IASB Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting*.

Our responses to the respective questions are detailed in the Appendix to this letter.

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

Thank you.

Yours sincerely,

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Appendix

Question 1—Proposed changes to Chapters 1 and 2

Do you support the proposals:

(a) to give more prominence, within the objective of financial reporting, to the importance of providing information needed to assess management's stewardship of the entity's resources;

(b) to reintroduce an explicit reference to the notion of prudence (described as caution when making judgements under conditions of uncertainty) and to state that prudence is important in achieving neutrality;

(c) to state explicitly that a faithful representation represents the substance of an economic phenomenon instead of merely representing its legal form;

(d) to clarify that measurement uncertainty is one factor that can make financial information less relevant, and that there is a trade-off between the level of measurement uncertainty and other factors that make information relevant; and

(e) to continue to identify relevance and faithful representation as the two fundamental qualitative characteristics of useful financial information?

Why or why not?

We support the proposals.

Question 2—Description and boundary of a reporting entity

Do you agree with:

(a) the proposed description of a reporting entity in paragraphs 3.11–3.12; and

(b) the discussion of the boundary of a reporting entity in paragraphs 3.13–3.25?

Why or why not?

Description of a reporting entity

We agree that a reporting entity is not necessarily a legal entity; and that a reporting entity can comprise a portion of an entity, or two or more entities.

The boundary of a reporting entity

We disagree with the IASB's conclusion in paragraph BC3.15 that there is no need to embed the notions of joint control and significant influence in the *Conceptual Framework*.

This is because, we believe, paragraph 3.13 would have already encapsulated the notion of joint control and significant influence. Furthermore, paragraph 4.17 has provided an example of joint control.

Therefore by omitting the notion of joint control and significant influence, we are of the view that discussions about the reporting entity boundary concept that is being introduced in this revised *Conceptual Framework* are incomplete.

Boundary of a reporting entity – unconsolidated financial statements of a parent

The definition in paragraph 3.15(a) and the discussion in paragraph 3.19 regarding direct control seems to imply that the parent's unconsolidated financial statements would be restricted to reporting resources based merely on their legal form and no consideration needs to be given to the underlying substance of the transaction.

However, IFRS 11 *Joint Arrangements* requires a joint operator's separate financial statements (being one type of unconsolidated financial statements) to recognise the assets and liabilities in relation to its interest in the joint arrangement.

In this regard, it is unclear how the assets and liabilities in relation to the parent's (i.e. the joint operator) interest a joint operation that is structured through a separate vehicle would fit in this notion of "direct control".

We therefore believe it is necessary for the IASB to include discussions about the notions of joint control and significant influence in the *Conceptual Framework*.

Moreover, in the absence of any further explanation by the IASB, it would appear that IFRS 11 is in conflict with the *Conceptual Framework* with regards to the boundary of a parent preparing unconsolidated financial statements.

A reporting entity that is not a parent

The discussion in paragraph 3.19 is restricted to unconsolidated financial statements of a parent. We would presume this to be referring to separate financial statements as defined in IAS 27 *Separate Financial Statements*, being financial statements presented by a parent in addition to consolidated financial statements.

However, there are other forms of financial statements prepared by a reporting entity that is not a parent such as:

(i) financial statements of an investor that does not have investments in subsidiaries but has investments in associates or joint ventures in which the investments in associates or joint ventures are required by IAS 28 *Investments in Associates and Joint Ventures* to be accounted for using the equity method (IAS 27 paragraph 6).

(ii) financial statements of an entity that does not have a subsidiary, associate or joint venturer's interest in a joint venture (IAS 27 paragraph 7).

(iii) financial statements of a joint operator that does not have a subsidiary, associate or joint venturer's interest in a joint venture.

We are uncertain whether the above forms of financial statements would fall within the category of unconsolidated financial statements.

If the IASB's intention is to restrict unconsolidated financial statements to separate financial statements of a parent, we believe it should be made clearer and that further discussions should be included for other forms of financial statements. We are not able to comprehend the IASB's rationale for restricting discussions to a parent's unconsolidated financial statements.

If otherwise, it would be helpful if the *Conceptual Framework* includes examples of the types of financial statements prepared by reporting entities that would meet the unconsolidated financial statements definition.

Combined financial statements – paragraph 3.17

We think the discussion about combined financial statements do not sufficiently distinguish it from unconsolidated and consolidated financial statements. We therefore would like to recommend the IASB to consider further clarifying that combined financial statements are those that do not meet the definition of consolidated and unconsolidated financial statements.

Combined financial statements - scope (paragraph BC3.16)

We note that the *IFRS for SMEs* defines combined financial statements as a single set of financial statements of two or more entities under common control [*IFRS for SMEs* paragraph 9.28]. However, paragraph BC3.16 states the IASB has tentatively taken the position that the preparation of combined financial statements is not restricted to entities under common control.

While we understand that full IFRSs and the *IFRS for SMEs* are two distinct frameworks, the latter's requirements are based on pervasive principles that are derived from the IASB's *Framework for the Preparation and Presentation of Financial Statements* [IFRS for SMEs paragraph 2.35]. In September 2010 the IASB replaced the *Framework* with the *Conceptual Framework for Financial Reporting.*

In this regard, we believe the IASB ought to consider whether it is necessary to align the explanation on combined financial statements in these two frameworks.

Question 3—Definitions of elements

Do you agree with the proposed definitions of elements (excluding issues relating to the distinction between liabilities and equity):

(a) an asset, and the related definition of an economic resource;

(b) a liability;

(c) equity;

(d) income; and

(e) expenses?

Why or why not? If you disagree with the proposed definitions, what alternative definitions do you suggest and why?

We agree with the proposed definitions.

Paragraph 4.9

We find the wording of this paragraph to be confusing and would like to make the following suggestion for the IASB's consideration:

> 4.9 Goods or services (for example, employee services) that are received and immediately consumed are momentarily rights to obtain economic benefits until they are ~~consumed~~ used.

IASB research project

We believe it is important for the IASB to continue to give priority to the Conceptual Framework even after the revised *Conceptual Framework* has been finalised. We therefore would like to request the IASB to acknowledge or clarify in the Basis for Conclusions of the possibility the definitions of liability and equity may be revised in the future in view of the research project on Financial Instruments with Characteristics of Equity. This would ensure that inconsistency, if any, between the *Conceptual Framework* and the Standards' level requirements are minimised (though we do acknowledge that departure from the *Conceptual Framework* may be unavoidable in rare circumstances).

Question 4—Present obligation

Do you agree with the proposed description of a present obligation and the proposed guidance to support that description? Why or why not?

We agree with the proposed description.

Paragraph 4.33(a)

We find the wording of this paragraph to be confusing and would like to make the following suggestion for the IASB's consideration:

> 4.33 If an entity prepares financial statements on a going concern basis, the entity:
>
> (a) has no practical ability to avoid a transfer ~~that could be avoided only~~ other than by liquidating the entity or ceasing trading; but

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Question 5—Other guidance on the elements

Do you have any comments on the proposed guidance?

Do you believe that additional guidance is needed? If so, please specify what that guidance should include.

Unit of account

We agree with the proposed definition.

However, we disagree with paragraph 4.59 that it may be appropriate to select one unit of account for recognition and a different unit of account for measurement.

We believe that the *Conceptual Framework* should specify that the unit of account for recognition and measurement should be the same. Otherwise we fail to see the purpose and relevance of determining the unit of account for recognition purposes.

In addition, we are of the view that the example quoted in paragraph 4.59 regarding the measurement of contracts on a portfolio basis is a matter of practical expedient. We do not think the example clearly illustrates the principle to justify the proposal in paragraph 4.59.

Question 6—Recognition criteria

Do you agree with the proposed approach to recognition? Why or why not? If you do not agree, what changes do you suggest and why?

We agree with the proposed approach to recognition except for the cost constraint criterion (see below).

We also find the indicators stated in BC5.12 to be helpful and we would like to request the IASB to consider reinstating them in the *Conceptual Framework*.

Cost constraint – paragraph 5.24

Paragraph IN1 states that one of the purposes of the *Conceptual Framework* is to assist preparers to develop consistent accounting policies when no Standard applies to a particular transaction or event, or when a Standard allows a choice of accounting policy.

In such a situation, we are concerned whether preparers might use the cost constraint criterion to avoid recognition without giving due consideration to relevance and faithful representation.

In this regard, we would like to request the IASB to consider providing further explanation how this criterion can be applied by parties other than the IASB, for example, whether it is necessary to give more prominence to relevance and faithful representation or equal consideration is to be given to all the three criteria.

Question 7—Derecognition

Do you agree with the proposed discussion of derecognition? Why or why not? If you do not agree, what changes do you suggest and why?

We agree with the guidance.

Nevertheless, we continue to believe that the IASB's preliminary view as stated in the Discussion Paper (July 2013), i.e. an entity should derecognise an asset or a liability when it no longer meets the recognition criteria, is a helpful way to further clarify the proposed paragraph 5.25.

In addition, we think that the Exposure Draft has not clearly articulated the principle that distinguishes between partial derecognition and full derecognition. For example, IAS 28 *Investments in Associates and Joint Ventures* prohibits an entity to remeasure the retained interest if an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. On the other hand, IFRS 10 *Consolidated Financial Statements* requires a parent that loses control of a subsidiary to recognise any investment retained in the former subsidiary at its fair value at the date when control is lost.

In other words, we believe that for partial derecognition situation, it is important to distinguish whether the portion retained is considered as a 'new' asset / liability, or as a 'portion' of the original asset / liability. If this principle is clear, it would help the IASB to determine the measurement basis of the retained asset / liability.

Question 8—Measurement bases

Has the IASB:

(a) correctly identified the measurement bases that should be described in the *Conceptual Framework*? If not, which measurement bases would you include and why?

(b) properly described the information provided by each of the measurement bases, and their advantages and disadvantages? If not, how would you describe the information provided by each measurement basis, and its advantages and disadvantages?

Current value – value in use

In existing Standards, value in use is used only in determining whether an asset measured at historical cost is impaired. In our view, it is arguable that value in use is a subset of the cost model and currently it is not a valid measurement basis on its own because its use is limited to determining recoverable historical cost.

However the IASB is proposing to describe value in use as a current value measurement and as a separate measurement basis as there may be situations in the future when the IASB decides that an entity should measure an asset using value in use (ie an entity-specific current value) instead of fair value (paragraph BC6.26).

In this regard, by categorising value in use under current value, we are concerned whether an entity would be required to continuously remeasure the asset that has been subjected to impairment at every reporting date.

Question 9—Factors to consider when selecting a measurement basis

Has the IASB correctly identified the factors to consider when selecting a measurement basis? If not, what factors would you consider and why?

We agree with the factors identified by the IASB.

Question 10—More than one relevant measurement basis

Do you agree with the approach discussed in paragraphs 6.74–6.77 and BC6.68? Why or why not?

We agree with the proposed approach.

Nevertheless, we are of the view that relevance of information is not limited to the selection of the measurement basis.

We believe the Conceptual Framework should also explain why in some cases recognising income or expenses in other comprehensive income will provide more relevant information than recognising income or expenses in profit or loss. One way is to contrast the revaluation model of IAS 16 *Property, Plant and Equipment*, which requires surplus to be recognised in other comprehensive income (OCI), with the fair value model of IAS 40 *Investment Property*, which requires fair value changes to be recognised in profit or loss, apart from the reason that one is called the revaluation model and another the fair value model.

In other words, we recommend the IASB to explain in the Conceptual Framework why it had decided that:

(a) recognising revaluation surplus in OCI would provide more relevant information than recognising revaluation surplus in profit or loss for property, plant and equipment though it is termed as revaluation model.

(b) recognising fair value changes in profit or loss would provide more relevant information than recognising fair value changes in OCI for investment property though it is termed as fair value model.

Question 11—Objective and scope of financial statements and communication

Do you have any comments on the discussion of the objective and scope of financial statements, and on the use of presentation and disclosure as communication tools?

We agree with the discussion.

Question 12—Description of the statement of profit or loss

Do you support the proposed description of the statement of profit or loss? Why or why not?

If you think that the *Conceptual Framework* should provide a definition of profit or loss, please explain why it is necessary and provide your suggestion for that definition.

We agree with the alternative view in paragraphs AV2-AV3 that the proposals in the Exposure Draft lack conceptual basis for the use of other comprehensive income (OCI) and this will leave the IASB in effectively the same position that it is now.

We are hopeful that the IASB to take one final attempt to reconsider its proposals, though we fully appreciate the difficulty in doing so.

Alternatively, perhaps the IASB could consider not to require a total or subtotal for profit or loss given that many investors and analysts, according to paragraph BC7.32, commented that no single performance number would be suitable for all users' needs, the use of OCI and of recycling are not well understood by the user community and OCI is not looked at by many users.

Question 13—Reporting items of income or expenses in other comprehensive income

Do you agree with the proposals on the use of other comprehensive income? Do you think that they provide useful guidance to the IASB for future decisions about the use of other comprehensive income? Why or why not?

If you disagree, what alternative do you suggest and why?

Please see our responses to Question 12.

Question 14—Recycling

Do you agree that the *Conceptual Framework* should include the rebuttable presumption described above? Why or why not?

If you disagree, what do you propose instead and why?

Please see our responses to Question 12.

Question 15—Effects of the proposed changes to the Conceptual Framework

Do you agree with the analysis in paragraphs BCE.1–BCE.31? Should the IASB consider any other effects of the proposals in the Exposure Draft?

We agree with the analysis.

We further note that the proposed definition for consolidated financial statements is different from the definition in IFRS 10 *Consolidated Financial Statements*.

We recommend the IASB to clarify the effects of the proposed definition to IFRS 10.

Question 16—Business activities

Do you agree with the proposed approach to business activities? Why or why not?

We believe the Conceptual Framework should include discussion on business model concept given that the IASB has used it in prescribing the classification and measurement requirements of financial assets under IFRS 9 *Financial Instruments* and IAS 12 *Income Taxes* in accounting for deferred tax liability or asset arising from investment property that is measured using the fair value model, unless the IASB plans to limit the business model only in these two Standards.

Question 17—Long-term investment

Do you agree with the IASB's conclusions on long-term investment? Why or why not?

We agree with the IASB's conclusions.

Question 18—Other comments

Do you have comments on any other aspect of the Exposure Draft? Please indicate the specific paragraphs or group of paragraphs to which your comments relate (if applicable).

As previously noted, the IASB is not requesting comments on all parts of Chapters 1 and 2, on how to distinguish liabilities from equity claims (see Chapter 4) or on Chapter 8.

We do not have comments on other aspect of the Exposure Draft.