

14 November 2012

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

Dear Mr Hoogervorst,

IASB Request for Information – Comprehensive Review of the IFRS for SMEs

The Malaysian Accounting Standards Board (MASB) welcomes the opportunity to provide comments on the IASB Request for Information – Comprehensive Review of the *IFRS for SMEs*.

We support the IASB's comprehensive review of the *IFRS for SMEs* and we provide our responses to the respective questions as enclosed in the Appendix to this letter.

Generally we are supportive for amendments to the *IFRS for SMEs* when it relates to an existing IFRS that is already effective.

However, for IFRSs that are not yet effective we believe they should only be considered in the next comprehensive review as the new IFRSs has yet to be implemented. We believe that it would be important to leverage on the implementation experience of IFRS users before incorporating the new requirements into the *IFRS for SMEs*.

If you need further clarification, please contact Ms Tan Bee Leng at +603 2240 9200 or by email at beeleng@masb.org.my.

Thank you.

Yours sincerely,



Mohammad Faiz Azmi
Chairman

Question S1 - Use by publicly traded entities (Section 1)

Are the scope requirements of the IFRS for SMEs currently too restrictive for publicly traded entities?

- (a) No—do not change the current requirements. Continue to prohibit an entity whose debt or equity instruments trade in a public market from using the *IFRS for SMEs*.

The *IFRS for SMEs* scope requirements for publicly traded entities should not be changed as these entities have the obligation to provide high quality financial statements to address the needs of the users. In order to achieve this, full application of IFRSs by public traded entities would be appropriate as compared to *IFRS for SMEs*.

Besides that, the comparability of the financial statements of a publicly accountable entity traded in public markets would raise a concern to the users if different accounting frameworks are applied.

Question S2 - Use by financial institutions (Section 1)

Are the scope requirements of the IFRS for SMEs currently too restrictive for financial institutions and similar entities?

- (a) No—do not change the current requirements. Continue to prohibit all financial institutions and other entities that hold assets for a broad group of outsiders as one of their primary businesses from using the *IFRS for SMEs*.

We are of the opinion that it would be inappropriate to consider the size of financial institutions by allowing small financial institutions to apply a different framework. Financial institutions are publicly accountable entities that have both the fiduciary duty and responsibility to provide high quality financial statements to address the needs of the users.

Question S3 - Clarification of use by not-for-profit entities (Section 1)

Should the IFRS for SMEs be revised to clarify whether an NFP entity is eligible to use it?

- (c) No—do not revise the *IFRS for SMEs* for this issue.

Clarification is not required so as to allow the flexibility to NFP entities in respective jurisdictions to determine whether to apply *IFRS for SMEs* or otherwise.

Question S4 - Consideration of recent changes to the consolidation guidance in full IFRSs (Section 9)

Should the changes outlined above be considered, but modified as appropriate to reflect the needs of users of SME financial statements and cost-benefit considerations?

- (a) No—do not change the current requirements. Continue to use the current definition of control and the guidance on its application in Section 9. They are appropriate for SMEs, and SMEs have been able to implement the definition and guidance without problems.

We do not agree for a change in the current requirements of Section 9 at this juncture. In our view, IFRSs should be implemented first before the IASB considers whether to incorporate the new requirements into the *IFRS for SMEs*. This is because the implementation experience of IFRS users will provide an insight on the suitability of the new requirements to SMEs.

In this regard, Section 9 should only be modified after IFRS 10 has been implemented for at least one or two years.

Question S5 - Use of recognition and measurement provisions in full IFRSs for financial instruments (Section 11)

How should the current option to use IAS 39 in the *IFRS for SMEs* be updated once IFRS 9 has become effective?

(c) Other—please explain.

The update to Section 11 in the *IFRS for SMEs* should only be considered after IFRS 9 *Financial Instruments* has been implemented in 1 January 2015. Prior to that, in our view it is difficult to ascertain whether the requirements to IFRS 9 are suitable for SMEs.

Question S6 - Guidance on fair value measurement for financial and non-financial items (Section 11 and other sections)

Should the fair value guidance in Section 11 be expanded to reflect the principles in IFRS 13, modified as appropriate to reflect the needs of users of SME financial statements and the specific circumstances of SMEs (for example, it would take into account their often more limited access to markets, valuation expertise, and other cost-benefit considerations)?

(a) No—do not change the current requirements. The guidance for fair value measurement in paragraphs 11.27–11.32 is sufficient for financial and non-financial items.

We do not agree for a change in the current requirements of Section 11 at this juncture.

In our view, IFRSs should be implemented first before the IASB considers whether to incorporate the new requirements into the *IFRS for SMEs*. This is because the implementation experience of IFRS users will provide an insight on the suitability of the new requirements to SMEs.

In this regard, Section 11 should only be expanded after IFRS 13 has been implemented for at least one or two years.

Question S7 - Positioning of fair value guidance in the Standard (Section 11)

Should the guidance be moved into a separate section? The benefit would be to make clear that the guidance is applicable to all references to fair value in the *IFRS for SMEs*, not just to financial instruments.

(c) Other—please explain.

We agree to move the fair value guidance from Section 11 into a separate section but for consistency purposes, references to fair value made in other sections should also be moved accordingly to the proposed section. In this way, guidance on fair value will then be clearer and also any inconsistency in requirement will be apparent.

Question S8 - Consideration of recent changes to accounting for joint ventures in full IFRSs (Section 15)

Should the changes above to joint venture accounting in full IFRSs be reflected in the *IFRS for SMEs*, modified as appropriate to reflect the needs of users of SME financial statements and cost-benefit considerations?

- (a) No—do not change the current requirements. Continue to classify arrangements as jointly controlled assets, jointly controlled operations and jointly controlled entities (this terminology and classification is based on IAS 31 *Interests in Joint Ventures*). The existing Section 15 is appropriate for SMEs, and SMEs have been able to implement it without problems.

We do not agree for a change in the current requirements of Section 15 at this juncture.

In our view, IFRSs should be implemented first before the IASB considers whether to incorporate the new requirements into the *IFRS for SMEs*. This is because the implementation experience of IFRS users will provide an insight on the suitability of the new requirements to SMEs.

In this regard, Section 15 should only be changed after IFRS 11 has been implemented for at least one or two years.

Question S9 - Revaluation of property, plant and equipment (Section 17)

Should an option to use the revaluation model for PPE be added to the *IFRS for SMEs*?

- (b) Yes—revise the *IFRS for SMEs* to permit an entity to choose, for each major class of PPE, whether to apply the cost-depreciation-impairment model or the revaluation model (the approach in IAS 16).

The revaluation model for PPE should be permitted to be consistent with the approach taken in IAS 16 *Property, Plant and Equipment*. In addition, we are of the opinion that restricting the cost model is a step backward since the revaluation model is allowed in IFRSs and has been applied in many jurisdictions including developing ones.

In addition, allowing the choice may improve support for the *IFRS for SMEs*.

Question S10 - Capitalisation of development costs (Section 18)

Should the *IFRS for SMEs* be changed to require capitalisation of development costs meeting criteria for capitalisation (on the basis of on the criteria in IAS 38)?

- (b) Yes—revise the *IFRS for SMEs* to require capitalisation of development costs meeting the criteria for capitalisation (the approach in IAS 38).

The *IFRS for SMEs* should be revised to require capitalisation of development costs to be consistent with the approach taken in IAS 38 *Intangible Assets* allows an entity to capitalise provided the criteria mentioned can be met.

Question S11 - Amortisation period for goodwill and other intangible assets (Section 18)

Should paragraph 18.20 be modified to state: “If an entity is unable to make a reliable estimate of the useful life of an intangible asset, the life shall be presumed to be ten years unless a shorter period can be justified”?

- (a) No—do not change the current requirements. Retain the presumption of ten years if an entity is unable to make a reliable estimate of the useful life of an intangible asset (including goodwill).

The current requirements should remain for the consistency of having the presumption of 10 years as the useful life when an entity is unable to make a reliable estimate. Furthermore, we are of the view the current requirement would enhance comparability of financial statements.

Question S12 - Consideration of changes to accounting for business combinations in full IFRSs (Section 19)

Should Section 19 be amended to incorporate the above changes, modified as appropriate to reflect the needs of users of SME financial statements and cost-benefit considerations?

- (c) Others – Please explain.

We support a revision to Section 19 incorporating the main changes introduced by IFRS 3 (2008) to address the deficiencies of the previous version of IFRS 3 (2004). However, we request for additional guidance on fair value to be provided which takes into account the main changes especially in the application of fair value to assist SMEs in applying the requirements of IFRS 3 (2008).

Question S13 - Presentation of share subscriptions receivable (Section 22)

Should paragraph 22.7(a) be amended either to permit or require the presentation of the receivable as an asset?

- (c) Yes—add an additional option to paragraph 22.7(a) to permit the subscription receivable to be presented as an asset, ie the entity would have a choice whether to present it as an asset or as an offset to equity.

We support the change to allow the option to entities to present their subscription receivable as an asset or as an offset to equity depending on the respective jurisdiction’s laws.

Question S14 - Capitalisation of borrowing costs on qualifying assets (Section 25)

Should Section 25 of the *IFRS for SMEs* be changed so that SMEs are required to capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, with all other borrowing costs recognised as an expense when incurred?

- (b) Yes—revise the *IFRS for SMEs* to require capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (the approach in IAS 23).

The *IFRS for SMEs* should be revised to require capitalisation of borrowing costs to be consistent with the approach taken in IAS 23 *Borrowing Costs* which provides an accounting policy choice for entities in a variety of business practices. Furthermore, capitalisation of borrowing costs would be consistent with the principles of the *Conceptual Framework*.

Question S15 - Presentation of actuarial gains or losses (Section 28)

- (b) Yes—revise the IFRS for SMEs so that an entity is required to recognise all actuarial gains and losses in other comprehensive income (ie removal of profit or loss option in paragraph 28.24).

We support a change for actuarial gains or losses to be recognised in the other comprehensive income only as it would improve comparability between entities especially in the long-term.

Question S16 - Approach for accounting for deferred income taxes (Section 29)

Should SMEs recognise deferred income taxes and, if so, how should they be recognised?

- (a) Yes—SMEs should recognise deferred income taxes using the temporary difference method (the approach currently used in both the *IFRS for SMEs* and full IFRSs).

We support for SMEs to recognise deferred income taxes using the temporary difference method as it is consistent with the rules of IAS 12 *Income Taxes*.

Question S17 - Consideration of IAS 12 exemptions from recognising deferred taxes and other differences under IAS 12 (Section 29)

Should Section 29 be revised to conform it to IAS 12, modified as appropriate to reflect the needs of the users of SME financial statements?

- (b) Yes—revise Section 29 to conform it to the current IAS 12 (modified as appropriate for SMEs).

Section 29 should be revised accordingly if the option to recognise deferred tax on a temporary difference method basis is required to be consistent with approach in IAS 12.

Question S18 - Rebuttable presumption that investment property at fair value is recovered through sale (Section 29)

Should Section 29 be revised to incorporate a similar exemption from paragraph 29.20 for investment property at fair value?

- (b) Yes—revise Section 29 to incorporate the exemption for investment property at fair value (the approach in IAS 12).

Section 29 should be revised accordingly if the option to recognise deferred tax on a temporary difference method basis is required to be consistent with approach in IAS 12.

Question S19 - Inclusion of additional topics in the IFRS for SMEs

Are there any topics that are not specifically addressed in the IFRS for SMEs that you think should be covered (ie where the general guidance in paragraphs 10.4–10.6 is not sufficient)?

- (a) No.

Question S20 - Opportunity to add your own specific issues

Are there any additional issues that you would like to bring to the IASB's attention on specific requirements in the sections of the IFRS for SMEs?

- (b) Yes

We believe Section 16 Investment Property should allow the option of cost or fair value as in IAS 40 *Investment Property*. In addition we think it is an anomaly to prohibit revaluation of property, plant and equipment in Section 17 but mandate the use of the fair model for investment property in Section 16 given that the characteristics of some of these assets, i.e. land and buildings, are similar.

Question G1 - Consideration of minor improvements to full IFRSs

How should the IASB deal with such minor improvements, where the IFRS for SMEs is based on old wording from full IFRSs?

- (b) Changes should only be made where there is a known problem for SMEs, ie there should be a rebuttable presumption that changes should not be incorporated in the IFRS for SMEs.

We support minor improvements to be made when there are known problems and agree with the statement that regular changes would unnecessarily increase the reporting burden of SMEs.

Question G2 - Further need for Q&As

Do you believe that the current, limited programme for developing Q&As should continue after this comprehensive review is completed?

- (a) Yes—the current Q&A programme should be continued.

The current Q&A programme should be continued as it is a useful resource to assist SMEs in addressing a particular issue.

Question G3 - Treatment of existing Q&As

Should the Q&As be incorporated into the IFRS for SMEs?

- (c) Other—please explain.

We are of the opinion that Q&As which have a fundamental impact should be incorporated in the IFRS for SMEs and the others retained as a separate guidance.

Question G4 – Training material

Do you have any comments on the IFRS Foundation's *IFRS for SMEs* training material available on the link above?

(b) Yes

The training materials could include illustrations and related guidance on transaction flows to understand its application rather than following pre-set examples.

Question G5 – Opportunity to add any further general issues.

(a) No.

Question G6 - Use of *IFRS for SMEs* in your jurisdiction

1) What is your country/jurisdiction?

Malaysia.

2) Is the *IFRS for SMEs* currently used in your country/jurisdiction?

Malaysia has not adopted the *IFRS for SMEs*.

3) If the *IFRS for SMEs* is used in your country/jurisdiction, in your judgement what have been the principal benefits of the *IFRS for SMEs*? (Please give details of any benefits.)

Not applicable.

4) If the *IFRS for SMEs* is used in your country/jurisdiction, in your judgement what have been the principal practical problems in implementing the *IFRS for SMEs*? (Please give details of any problems.)

Not applicable.