

30 December 2015

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

Dear Mr Hoogervorst

Request for Views – 2015 Agenda Consultation

The Malaysian Accounting Standards Board (the Board) welcomes the opportunity to provide comments on the IASB's 2015 Agenda Consultation.

We support the IASB's initiative to gather public input on the strategic direction and overall balance of its work plan as well as on the priority of individual projects or agendas over the next three years.

Research projects – Financial Instruments with Characteristics of Equity (FICE)

The Board would like the IASB to give FICE high priority. The clarity on determining whether a financial instrument is a liability or equity would be relevant to Islamic financial products, such as perpetual sukuk and unrestricted investment accounts.

Perpetual sukuk

Currently, there is a discussion whether perpetual sukuk is a liability or equity. Perpetual sukuk is akin to perpetual bonds in that there is no maturity and payments of an indicative profit (or "interest", under IFRS) are made into perpetuity or until redemption by the issuer. The issuer of perpetual sukuk typically has the discretion to defer profit distribution, but not the discretion to determine the amount of profit. If profit is deferred, the issuer is required to pay the 'past profit' at the next agreed distribution date, i.e. profit payment is usually cumulative. Hence, this obligation to pay profits may support classification as a liability.

However, many perpetual sukuk with terms for cumulative profit are being classified as equity, and there is often inadequate disclosure for the user to discern why equity classification was judged appropriate.

Unrestricted investment accounts (URIA)

URIA is based on the profit-sharing, loss-bearing concept of *mudarabah*, whereby the investor would share investment profit with the bank at a pre-agreed ratio, but

must bear all losses on its own. Practically, this means that the principal contributed by the investor is not guaranteed.

Under the current definitions of liability and equity, URIA would most likely be classified as a liability. However, there are those who believe this classification is misleading. They believe that:

- (a) classifying deposits and URIA similarly as liabilities fails to reflect the considerably lower risk the bank bears towards URIA and
- (b) since the bank is not liable to compensate for any loss of principal, the bank does not have a 'liability' as it is commonly understood.

As Islamic financing is growing significantly and gaining greater prominence in a number of jurisdictions, the Board recommends the IASB to give FICE a high priority.

Other research projects

For other research projects, we believe the IASB should give high priority to Equity Method, Goodwill and Impairment and Income Taxes as they are issues frequently encountered by most, if not all, entities.

Please contact the undersigned at +603 2240 9200 or by email at beeleng@masb.org.my if you need further information or clarification.

Thank you.

Yours sincerely,



TAN BEE LENG
Executive Director