

Preface to MASB Approved Accounting Standards

This *Preface* is issued to set out the objectives and due process of the Malaysian Accounting Standards Board and to explain the scope, authority and timing of application of Malaysian Approved Accounting Standards. The *Preface* was approved by the MASB in April 2015 and superseded the *Foreword to Financial Reporting Standards* published in July 1999.

- 1 The Malaysian Accounting Standards Board (MASB) was established in 1997 under the Financial Reporting Act 1997 (the FRA). The functions of the MASB as set out in section 7(1) of the FRA shall be the determination and issuance of accounting standards for the preparation of financial statements which are required to be prepared or lodged under any law administered by the following regulators:
 - (a) the Securities Commission.
 - (b) Bank Negara Malaysia.
 - (c) the Registrar of Companies.
- 2 Approval of MASB Approved Accounting Standards and related documents, such as the *Conceptual Framework for Financial Reporting*, Exposure Drafts, and other discussion documents, is the sole responsibility of the MASB.
- 3 The governance of the MASB rests with the Financial Reporting Foundation (FRF). The functions of the FRF are to oversee the carrying out of the functions of the MASB under the FRA, such as providing views to the MASB on any matter which the MASB seeks to undertake, to review the performance of the MASB and to be responsible for all financing arrangements for the operations of the MASB.
- 4 The members of the FRF and MASB are appointed by the Minister of Finance. The FRF comprises twelve members and the MASB comprises eight members and three advisors, one each from the Securities Commission, Bank Negara Malaysia and the Registrar of Companies.
- 5 The Issues Committee¹ comprises twelve voting members, all appointed by the MASB. The Issues Committee is responsible for reviewing accounting issues that have received or are likely to receive divergent views in interpretation and to provide recommendations, in the context of the *Conceptual Framework for Financial Reporting*, to the MASB for decision.
- 6 The MASB initially adopted 24 of the extant International Accounting Standards (IASs) and Malaysian Accounting Standards (MASs) issued prior to the creation of the MASB by the Councils of the Malaysian Institute of Accountants and the Malaysian Institute of Certified Public Accountants. Adoption by the MASB gave these IASs and MASs the status of approved

¹ The Issues Committee replaced the former Interpretation Committee in 2002.

accounting standards. These IASs or MASs were subsequently progressively replaced by new Standards issued by the MASB since July 1999.

- 7 Financial statements which are required to be prepared or lodged under any law administered by the Securities Commission, Bank Negara Malaysia or the Registrar of Companies are divided into two groups, namely:
- (a) private entities; and
 - (b) entities other than private entities (hereinafter referred to as non-private entities).
- 8 A private entity is a private company² incorporated under the Companies Act 1965 that:
- (a) is not itself required to prepare or lodge any financial statements under any law administered by the Securities Commission or Bank Negara Malaysia; and
 - (b) is not a subsidiary or associate of, or jointly controlled by, an entity which is required to prepare or lodge any financial statements under any law administered by the Securities Commission or Bank Negara Malaysia.
- 9 As at 1 January 2015, the Approved Accounting Standards issued by the MASB, and its applicability, are:
- (a) the *Malaysian Financial Reporting Standards* (MFRSs), which is mandatory for entities other than private entities.
 - (b) the *Financial Reporting Standards* (FRSs)³, which is an optional temporary framework for eligible entities. The eligible entities will no longer be able to apply FRSs for financial statements with annual periods beginning on or after 1 January 2017.
 - (c) the *Malaysian Private Entities Reporting Standard* (MPERS), a framework developed for private entities. A private entity that has not opted to apply MFRSs shall apply the MPERS for financial statements with annual periods beginning on or after 1 January 2016.
 - (d) the *Private Entity Reporting Standards* (PERS), which is an optional temporary framework for private entities. Private entities will no longer be able to apply PERS for financial statements with annual periods beginning on or after 1 January 2016.

² Section 15(1) of the Companies Act 1965 states that a company having a share capital may be incorporated as a private company if its memorandum or articles—

- (a) restricts the right to transfer its shares;
- (b) limits to not more than fifty the number of its members;
- (c) prohibits any invitation to the public to subscribe for any shares in or debentures of the company; and
- (d) prohibits any invitation to the public to deposit money with the company for fixed periods or payable at call, whether bearing or not bearing interest.

³ Before January 2005, FRSs were called MASB Standards.

- 10 When the term:
- (a) MASB Approved Accounting Standards is used in this *Preface*, it includes MFRSs, FRSs, MPERS, PERS and IC Interpretations approved by the MASB.
 - (b) *Conceptual Framework* is used in the *Preface*, it includes the *Conceptual Framework for Financial Reporting*, the *Framework for Financial Reporting* and Section 2 *Concepts and Pervasive Principles* of the MPERS.

Objectives of the MASB

- 11 The MASB's mission is to develop and promote high quality accounting and financial reporting standards that are consistent with international best practice for the benefit of users, preparers, auditors and the public in Malaysia. In a wider context, the MASB seeks to participate in and contribute to the development of a single set of globally accepted financial reporting standards for international use.
- 12 In the pursuit of its mission, the MASB is guided by a clear set of policy objectives:
- (a) to develop high quality, clear and enforceable national accounting standards for financial reporting that benefit users, preparers, auditors and the public.
 - (b) to participate in and contribute to the IASB⁴ (International Accounting Standards Board) standard-setting process in the development of a single set of high quality globally accepted financial reporting standards for international use.
 - (c) to promote the use and seek views on the application of accounting and financial reporting standards by way of engagement and dissemination of information to users, preparers, auditors and the public.
 - (d) to collaborate with other national standard-setters for the development of globally accepted financial reporting standards; and
 - (e) to promote and support research in the area of financial reporting, in particular, for emerging and Islamic markets.
- 13 The MASB supports the convergence of international financial reporting standards. As a consequence, the standards for non-private entities, i.e. the MFRSs, are fully in compliance with the standards issued by the IASB, that is the *International Financial Reporting Standards* (IFRSs).

⁴ The objectives of the IASB are, amongst others, to develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based on clearly articulated principles and to promote the use and rigorous application of those standards. The IASB comprises fifteen full-time members (the IFRS Foundation's Constitution provides for membership to rise to sixteen by 1 July 2012). Approval of International Financial Reporting Standards (IFRSs) and related documents, such as the *Conceptual Framework for Financial Reporting*, exposure drafts, and other discussion documents, is the responsibility of the IASB.

- 14 The Standards for private entities, i.e. the MPERS, is closely aligned with the *International Financial Reporting Standard for Small and Medium-sized Entities* (IFRS for SMEs) issued by the IASB. Accordingly, the MPERS is generally consistent with present international practice.

Scope and authority of MASB Approved Accounting Standards

- 15 The MASB achieves its objectives primarily by developing and publishing MASB Approved Accounting Standards and promoting the use of those standards in general purpose financial statements and other financial reporting. Other financial reporting comprises information provided outside financial statements that assists in the interpretation of a complete set of financial statements or improves users' ability to make efficient economic decisions. In developing MASB Approved Accounting Standards, the MASB works with the IASB and other national standard-setters, specifically the Asian-Oceanian Standard-Setters Group (AOSSG) to discuss issues and share experiences on the adoption of IFRS and to contribute to the development of a set of high quality globally accepted accounting standards.
- 16 MASB Approved Accounting Standards set out recognition, measurement, presentation and disclosure requirements dealing with transactions and events that are important in general purpose financial statements. They may also set out such requirements for transactions and events that arise mainly in specific industries. MASB Approved Accounting Standards are based on the *Conceptual Framework*, which addresses the concepts underlying the information presented in general purpose financial statements. The objective of the *Conceptual Framework* is to facilitate the consistent and logical formulation of MASB Approved Accounting Standards. The *Conceptual Framework* also provides a basis for the use of judgement in resolving accounting issues.
- 17 Section 26D of the FRA requires that where financial statements are required to be prepared or lodged under any law administered by the Securities Commission, Bank Negara Malaysia or the Registrar of Companies, such financial statements shall be prepared in compliance with MASB Approved Accounting Standards.
- 18 A complete set of financial statements is defined in the respective MASB Approved Accounting Frameworks.
- 19 Some MASB Approved Accounting Standards permit different treatments for given transactions and events. The MASB's objective is to require like transactions and events to be accounted for and reported in a like way and unlike transactions and events to be accounted for and reported differently, both within an entity over time and among entities. Consequently, the MASB intends not to permit choices in accounting treatment. Also, the MASB has reconsidered, and will continue to reconsider, those transactions and events for which MASB Approved Accounting Standards permit a choice of accounting treatment, with the objective of reducing the number of those choices.

- 20 Standards approved by the MASB include paragraphs in bold type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles. An individual standard should be read in the context of the objective stated in that standard and this *Preface*.
- 21 MFRSs are word for word IFRSs. Interpretations of IFRSs are prepared by the IASB's Interpretations Committee while the interpretations of FRSS, MPERS and PERS are prepared by the MASB. The Interpretations give authoritative guidance on issues that are likely to receive divergent or unacceptable treatment, in the absence of such guidance.
- 22 MASB Approved Accounting Standards include the following requirement:
- An entity whose financial statements comply with MASB Approved Accounting Standards shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with MASB Approved Accounting Standards unless they comply with all the requirements of MASB Approved Accounting Standards.
- Financial statements that have been prepared in accordance with MFRSs shall also make an explicit and unreserved statement of compliance with IFRSs.
- 23 Additions to the original text of IFRSs are clearly identified and would be made in a manner that preserves the format and structure of the IFRSs.
- (a) If a new paragraph or new text is added by the MASB, that paragraph or text would be underlined and shaded. Paragraphs that have been added by the MASB are identified with the prefix "MY", followed by the number of the preceding paragraph and decimal numbering.
- (b) If a paragraph is deleted by the MASB, that paragraph would be clearly indicated as "[Deleted by MASB]". The text of the deleted paragraph will be re-produced at the end of that Standard for readers' information and does not form part of the Standard. If a text is deleted by the MASB, that text would be struck through and shaded.
- 24 Circumstances that will lead the MASB in making additions or deletions to IFRSs (such as limiting options that are available in IFRSs or adding disclosure requirements to IFRSs) are rare and would be made only on the condition that the outcome will not taint the ability of entities applying MFRSs from asserting compliance with IFRSs.
- 25 Any limitation of the scope of a MASB Approved Accounting Standards is made clear in the standard.

Due process

- 26 MASB Approved Accounting Standards are based on standards issued by the IASB, that are either the IFRSs or the IFRS for SMEs. Consequently, the MASB's due process in issuing accounting standards, in most instances, follows that of the IASB. The MASB will seek comments on the draft

pronouncements issued by the IASB and will not subsequently issue Exposure Draft based on the IASB's final pronouncement.

- 27 MFRSs are word for word IFRSs. IFRSs are developed through an international due process that involves accountants, financial analysts and other users of financial statements, the business community, stock exchanges, regulatory and legal authorities, academics and other interested individuals and organisations from around the world. The IASB's due process steps are detailed in the *Preface to IFRSs* paragraphs 17-18.
- 28 Topics that become the subject of a MASB Approved Accounting Standard are identified by the MASB either from its own research, from external sources (for example, national standard-setters) or from submissions by interested parties.
- 29 When a topic is identified by the MASB as potentially requiring the issue of or revision to an Approved Accounting Standard, the MASB commissions its staff to undertake a program of investigation. This programme involves consultation and consideration of the relevant conceptual issues, any pre-existing pronouncements and practices both in Malaysia and overseas, and the economic, legal and practical implications of the introduction of particular accounting requirements.
- 30 When the relevant issues have been identified, a working group is appointed by the MASB to debate on the issues. A working group of the MASB is chaired by a member of the MASB and comprises a project manager, representatives from industry, auditors and regulatory authorities. Following from the research and deliberation, the findings are presented to the MASB for review.
- 31 For MFRSs issues, prior to submitting to the IASB for consideration with the aim of adding to the IASB's work plan, the MASB may bring the matter for discussion at regional or international meeting among national standard-setters such as the International Forum of Accounting Standard Setters, the Asian-Oceanian Standard-Setters Group or the IASB Consultative Emerging Economies Group.
- 32 For MPERS issues, the MASB decides whether to make a submission to the IASB or to amend them to improve the financial information for users of financial statements of those entities that qualify to apply the Standard. For the latter, a draft pronouncement, such as an Exposure Draft, is published to allow an opportunity for interested parties to comment on the proposals and for the MASB to gauge the appropriateness and level of acceptance of those proposals. The MASB is conscious of the need to operate with maximum possible consultation and to be transparent in its deliberations. For this reason, the MASB's due process is based upon consultation with preparers, users, industry representatives, auditors, regulatory authorities and other interested parties. In addition, the due process provides opportunities for interested parties to make input to any proposed pronouncement at several stages. An Exposure Draft may be amended in the light of feedback resulting from the period of public exposure. In some circumstances, there may be a further period of public or selective exposure prior to revising MPERS.

Although the MASB weighs carefully the views of interested parties, the ultimate content of the MPERS must be determined by the MASB's own judgement based on research, public consultation and careful deliberation as to the benefits and costs of providing the resulting information.

- 33 The table in Appendix 1 summarises the MASB due process steps for the development of MASB Approved Accounting Standards.

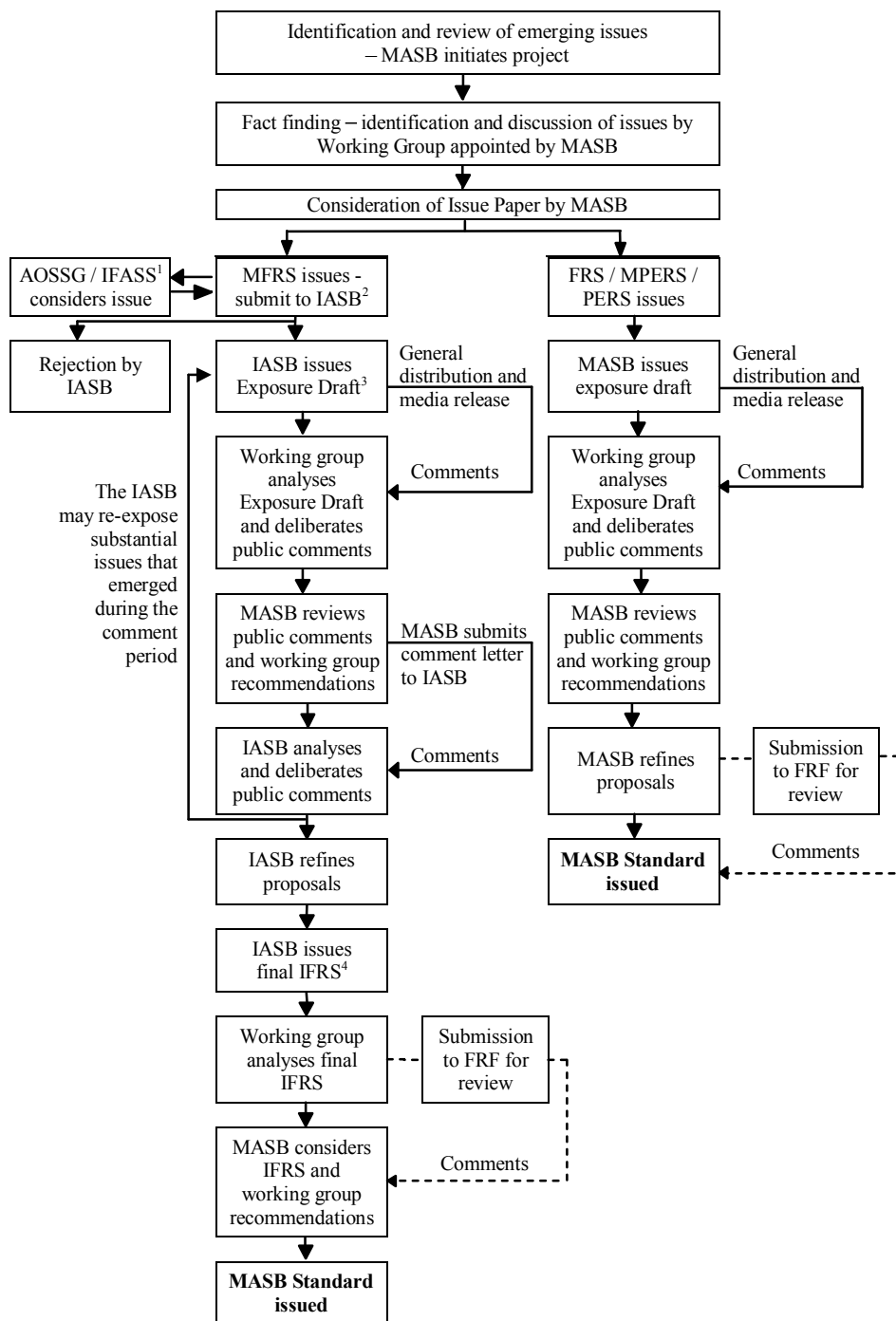
Timing of application of MASB Approved Accounting Standards

- 34 MASB Approved Accounting Standards apply from a date specified in the document. New or revised MASB Approved Accounting Standards set out transitional provisions to be applied on their initial application.
- 35 The MASB has no general policy of exempting transactions occurring before a specific date from the requirements of new MASB Approved Accounting Standards. When financial statements are used to monitor compliance with contracts and agreements, a new MASB Approved Accounting Standard may have consequences that were not foreseen when the contract or agreement was finalised. For example, covenants contained in banking and loan agreements may impose limits on measures shown in a borrower's financial statements. The MASB believes the fact that financial reporting requirements evolve and change over time is well understood and would be known to the parties when they entered into the agreement. It is up to the parties to determine whether the agreement should be insulated from the effects of a future MASB Approved Accounting Standard, or, if not, the manner in which it might be renegotiated to reflect changes in reporting rather than changes in the underlying financial condition.
- 36 Exposure Drafts are issued for comment and their proposals are subject to revision. Until the effective date of a MASB Approved Accounting Standard, the requirements of any MASB Approved Accounting Standard that would be affected by proposals in an Exposure Draft remain in force.

Language

- 37 The approved text of any discussion document, Exposure Draft or MASB Approved Accounting Standard is that approved by the MASB in the English language.

Appendix 1 – Due Process Steps for Development of MASB Approved Accounting Standards



¹ Asian-Oceanian Standard-Setters Group / International Forum of Accounting Standard Setters

² For the purpose of this table, IASB represents the IASB and the IFRS Interpretations Committee.

³ The IASB would normally put together a proposal to develop a new Standard or make major amendments to a Standard only after it has published a Discussion Paper. The IASB might conclude that a Discussion Paper is not necessary because it has sufficient input from a research paper, Request for Information or other research to proceed directly to an Exposure Draft. (IASB and IFRS Interpretations Committee Due Process Handbook, February 2013, paragraph 5.5).

⁴ For the purpose of this table, IFRS represents Standard and IFRIC Interpretation issued by the IASB.