

**LEMBAGA PIAWAIAN PERAKAUNAN MALAYSIA
MALAYSIAN ACCOUNTING STANDARDS BOARD**

Technical Release 3

**Guidance on Disclosures of
Transition to IFRSs**

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TECHNICAL RELEASE 3
GUIDANCE ON DISCLOSURES OF
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Technical Release 3 *Guidance on Disclosures of Transition to IFRSs* is issued by the MASB in respect of its application in Malaysia.

Introduction

IN1 The Malaysian Accounting Standards Board (MASB) together with its trustee body, the Financial Reporting Foundation, announced on 1 August 2008 the decision to fully converge with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) on 1 January 2012.

A staggered approach to full convergence was adopted whereby FRS 139 *Financial Instruments: Recognition and Measurement* and IFRSs and Interpretations issued by the IASB (IFRICs) that are closely related to FRS 139 was mandated with effect from 1 January 2010. Other new or revised or amendments to IFRSs and IFRICs will be issued from now to 1 January 2012.

IN2 In order to ensure a smooth transition to full convergence, MASB has established a Convergence Task Force (CTF) comprising representatives from the Securities Commission, Companies Commission of Malaysia, Bursa Malaysia, Inland Revenue Board, Malaysian Institute of Accountants, Malaysian Institute of Certified Public Accountants, Chartered Tax Institute of Malaysia and Institute of Internal Auditors.

The CTF objective is to coordinate the convergence efforts carried out by the various key players in the financial reporting value chain. This will ensure there is a holistic and comprehensive blueprint that acts as a reference point for all stakeholders.

IN3 In line with its stated mandate the CTF has established an action plan that comprehensively charts the way forward to a smooth transition to full convergence with IFRSs. The action plan adopts a time frame immediate (2010–2012) and post-2012 periods. The action plan is focused on five key areas:

- (i) continued momentum (immediate);
- (ii) disclosure initiatives (immediate);
- (iii) education and training (immediate and post-2012);
- (iv) continued active international participation (immediate and post-2012); and
- (v) research (immediate and post-2012).

(Details of the CTF Action Plan are shown in the Appendix).

IN4 This Guidance is part of the immediate action plan that the CTF Action Plan proposes. As evidenced from other jurisdictions an immediate step to ensuring a smooth transition is to adequately prepare investors and other users of financial statements by providing appropriate and useful information during the transition phase from MASB Financial Reporting Standards to IFRSs. This Guidance addresses the following issues: (a) objective; (b) scope and (c) disclosures for 2010* and 2011 annual reports.

* The 2010 annual report refers to annual report for financial periods ending on or after 31 December 2010. For entities with financial periods end other than 31 December, disclosures prescribed in this Guidance are applicable to their annual reports for the immediate two years before the entities' first IFRS financial statements.

TECHNICAL RELEASE 3

Guidance on Disclosures of Transition to IFRSs

Objective

- 1 The experience of jurisdictions that have converged with International Financial Reporting Standards (IFRSs) demonstrated that the transition phase can be a challenging period for both entities and users of financial statements in terms of the learning curve. Efforts to ensure smooth transition need to focus on key players in the financial reporting value chain comprising preparers of financial statements, investors, lenders, regulators, and many other users of financial statements.
- 2 This Guidance aims to assist preparers in providing adequate and useful information to investors and other users of financial statements regarding the impact of the adoption of IFRSs.
- 3 It prescribes the disclosure guidelines regarding the entity's preparation for the transition to IFRSs.

Scope and status

- 4 This Guidance is applicable for entities that are required to apply IFRSs in 2012.

Two different milestones in the transition process that coincide with the publication of the 2010* and 2011 annual reports are identified. An entity that chooses to provide disclosures recommended in paragraphs 8–10 in its 2010 annual report is also encouraged to provide the disclosures recommended in paragraphs 11–15 in the entity's 2011 annual report.

* The 2010 annual report refers to annual report for financial periods ending on or after 31 December 2010. For entities with financial periods end other than 31 December, disclosures prescribed in this Guidance are applicable to their annual reports for the immediate two years before the entities' first IFRS financial statements.

- 5 The disclosure requirements are intended to be voluntary in nature. When an entity complies with this Guidance the disclosure requirements shall be complied in their entirety.
- 6 The disclosures should be presented as part of the annual report.

Disclosure requirements

- 7 The disclosure requirements are categorised as follows:
 - (a) Voluntary disclosures on preparation for adoption of IFRSs in 2012 in 2010 annual report; and
 - (b) Voluntary disclosures on impact of adoption of IFRSs in 2012 in 2011 annual report.

Preparation of 2010 annual report

Voluntary disclosures on preparation for adoption of IFRSs in 2012 in 2010 annual report

- 8 An entity is encouraged to describe plans and degree of achievements in the transition towards IFRSs adoption in its 2010 annual report.
- 9 This description may:
 - (a) include the general policies to address the operational and control issues that may affect the business;
 - (b) identify significant differences between accounting policies under IFRSs and the ones in their 2010 financial statements. At this stage, this information may be presented entirely in narrative form.
- 10 To the extent that the analysis is not comprehensive, the entity is encouraged to provide explanations to indicate the circumstances that may result in the non-comprehensiveness of the disclosures.

Preparation of 2011 annual report

Voluntary disclosures on impact of adoption of IFRSs in 2012 in 2011 annual report

- 11 Disclosure of relevant information on the impact of adopting IFRSs on the 2011 financial statements is encouraged. Guidance is provided under IFRS 1 *First-time Adoption of International Financial Reporting Standards*.
- 12 To the extent that an entity knows or is able to reliably estimate the quantitative impact of some, but not all of the key accounting policy changes, the disclosures may comprise the quantified impacts of those accounting policy changes that can be reliably estimated.
- 13 An entity takes into account whether adequate quality control and/or audit checks have been performed when considering the reliability and relevance of published quantified information on the impact of the change to IFRSs.
- 14 If the entity is not in a position to follow this recommendation when preparing its 2011 annual report, provision of a narrative explanation on such position is suggested.
- 15 An entity is encouraged to refer to the Implementation Guidance IG63 of IFRS 1* for the form and content of the quantified information as follows:
 - (a) A reconciliation of shareholders' equity at the date of transition (for example 1 January 2011) from MASB Financial Reporting Standards (FRSs) to IFRSs.

It can take the form of a 3-column table presenting a summarised opening statement of financial position under FRSs, the effect of the transition to IFRSs and the corresponding IFRSs figures, accompanied by a note explaining the effect on each line item presented.

* IG63 of IFRS 1 is equivalent to IG63 of FRS 1 *First-time Adoption of Financial Reporting Standards* (available at MASB's website).

- (b) A reconciliation of shareholders' equity at the end of the reporting period (for example 31 December 2011) from FRSs to IFRSs under the same format and with the same level of information.
- (c) A reconciliation of the total comprehensive income from FRSs to IFRSs under the same format and the same level of information.

Where the entity presents its 2012 interim report in accordance with IFRSs, the quantitative information mentioned above is encouraged to be released before the publication of this interim information. The quantitative information provides a clear and valid starting point for the preparation and presentation of the interim IFRSs figures.

Effective date

- 16 An entity is encouraged to apply this Guidance for financial periods ending on or after 31 December 2010. Earlier application is encouraged.

APPENDIX

Convergence Task Force Action Plan (2010 – 2012 and post-2012)

- 1 Sustaining momentum
 - Immediate (to 2012)
 - Post-2012

- 2 Disclosure initiatives (Immediate)
 - Voluntary disclosures on preparation for full adoption in 2012 in 2010 annual report
 - Voluntary disclosures on impact of full adoption of IFRSs in 2012 in 2011 annual report

- 3 Education and training (immediate and post-2012)
 - Preparers of financial statements (Audit Committees, Board Of Directors, Chief Executive Officers and Chief Financial Officers)
 - Investors
 - Analysts
 - Journalists
 - Auditors
 - Regulators
 - Government agencies
 - Trainers' and educators
 - Students at institutions of higher learning
 - Other professionals, such as tax professionals, actuaries, lawyers, valuers, etc

- 4 Continued active international participation (immediate and post-2012)
 - World Standard Setters
 - Asian-Oceanian Standard-Setters Group
 - National Standard Setters
 - Regional Standard Setters
 - IFRS Regional Policy Forum

- 5 Research (immediate and post-2012)
 - On-going research links
 - Engagement with researchers (including post graduate students) in Institutions of higher learning
 - Promote research on topics on IASB's agenda post-2011