



LEMBAGA PIAWAIAN PERAKAUNAN MALAYSIA  
MALAYSIAN ACCOUNTING STANDARDS BOARD

3<sup>rd</sup> November 2006

Li Li Lian  
Assistant Project Manager  
International Accounting Standards Board  
30 Cannon Street  
LONDON EC4M 6XH  
UNITED KINGDOM

Dear Ms Li Li Lian,

**Re: DISCUSSION PAPER – PRELIMINARY VIEWS ON AN IMPROVED  
CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING:  
The Objective of Financial Reporting and Qualitative Characteristics of  
Decision-useful Financial Reporting Information**

The Malaysian Accounting Standards Board ("MASB") appreciates the opportunity to offer its views on the Discussion Paper - Preliminary Views of an Improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics of Decision-useful Financial Reporting Information (the DP).

We commend the efforts of IASB and FASB to reconsider their conceptual frameworks which had been overdue for revision. In view of the many convergence projects that IASB and FASB are now considering, it is important that both boards have a common conceptual framework. Without a consistent conceptual framework, it will be difficult for both boards to align their standards to achieve convergence.

While it is desirable to have a common conceptual framework, it is not clear in the DP on how the current difference in status accorded to the framework between IASB and FASB is intended to be eliminated. As explained in the DP, for entities preparing financial statements under IFRSs, management is expressly required to consider the IASB's Framework if no standard or interpretation specifically applies or deals with a similar and related issue. However, under the FASB's concepts statements which are at a lower standing in the hierarchy of GAAP in the United States, entities are not required to consider those concepts in preparing financial statements. Therefore, it is important for IASB to clarify the status of the conceptual framework as it would be undesirable to accord the common conceptual framework different status in the hierarchy of GAAP by both boards.

We believe that for the standards to be based on consistent principles, the principles must be rooted in fundamental concepts which constitute the framework. However, the explanation in paragraph IN5 appears to suggest incorporating the standards to



form the framework. This deviates from the process of having a conceptual framework developed and then having the standards developed around the concepts enshrined therein. We believe it is important for standards to emanate from the conceptual framework, such that the conceptual framework would form the foundations for the standards as well as constitute the final determinant in interpreting and applying the standards.

While the IASB acknowledges that the objective of financial reporting stems largely from the needs and interests of a wide range of users, this stand conflicts with the proposal in the DP which appears to 'designate' present and potential investors and creditors as the users of financial statements. We are not convinced by the explanation that by focusing primarily on the needs of present and potential investors and creditors, the objective of financial reporting encompasses the needs of a wide range of users. Such prominent focus on investors and creditors could hinder the consideration of information needs of other wide range of users.

The DP also explains that one of the objectives of financial reporting is to provide information to help investors and creditors and others to assess an entity's future cash flows. The use of historical financial information to portray notions of future cash flows is fraught with limitations, and an emphasis to this extent is, we feel, misplaced and misconceived. When an assessment of future cash flow prospects merits such importance, the IASB should be looking at a framework for prospective financial information rather than rely on historical financial information to meet these needs.

We support the alternative view of an IASB member in respect of the qualitative characteristics of decision-useful financial reporting information. The description of verifiability should additionally specify that the consensus between knowledgeable and independent observers should be based on reliable evidence. Consensus that is not based on reliable evidence does not constitute verification. In addition, the term 'reliable' should be set out clearly to avoid assumptions being made by readers which could lead to diverse interpretation.

Should you require further information, please contact Dr. Nordin Mohd Zain, the Executive Director of MASB, via e-mail at [nordin@masb.org.my](mailto:nordin@masb.org.my).

Yours sincerely,

**Dato' Zainal Abidin Putih**

Chairman