

# MASB's Standard-setting activities and due process

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## Disclaimer:

The slides are prepared by MASB staff for the November 2022 Islamic Finance Consultative Group meeting

Any views are of the staff and not necessarily those of the Malaysian Accounting Standards Board (MASB or the Board).

# Agenda

- Malaysian financial reporting landscape
- Financial reporting from an Islamic perspective
- Standard-setting and due process

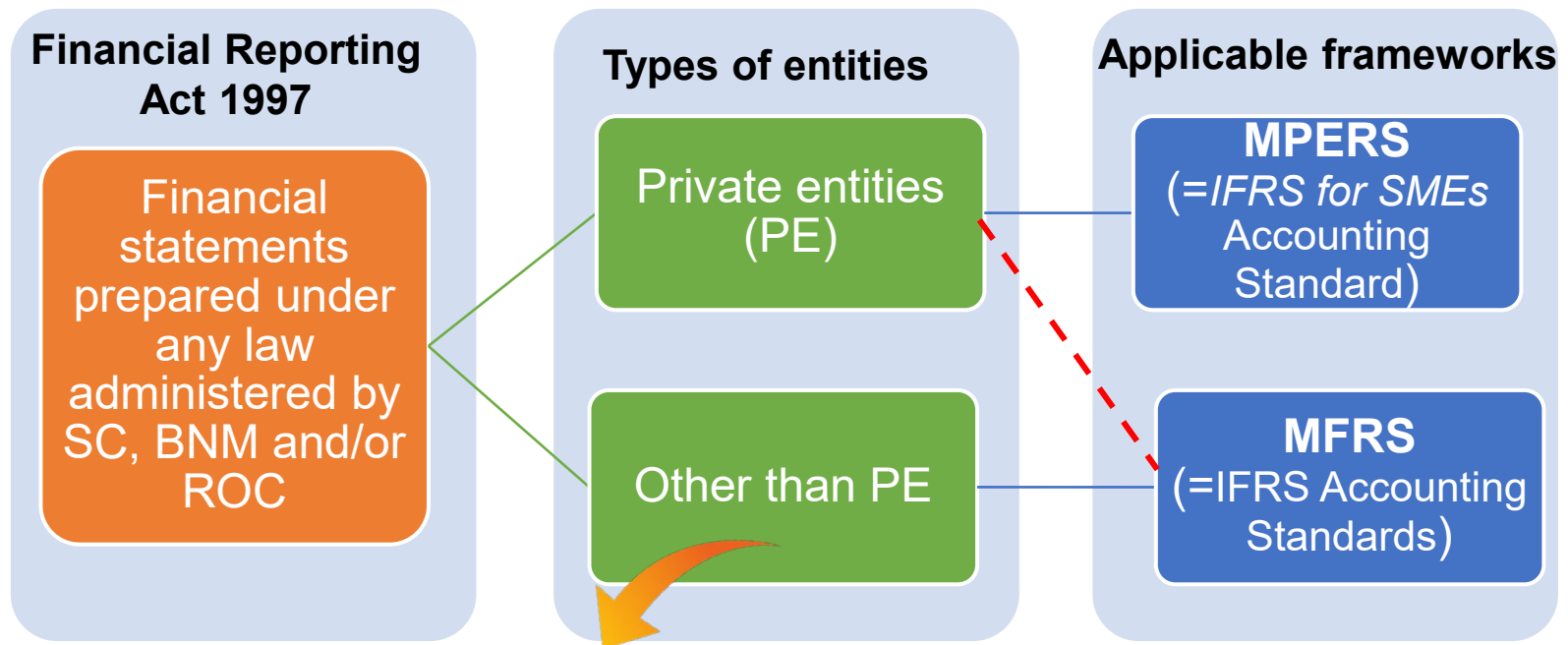
# MASB Approved Accounting Standards

- Malaysian Accounting Standards Board (MASB) is the standard-setting body of the **Financial Reporting Foundation (FRF)**, established under the Financial Reporting Act 1997
- MASB is the sole body responsible to set **approved accounting standards** to be used in financial statements that are prepared/lodged with
  - Securities Commission Malaysia
  - Central Bank of Malaysia (Bank Negara Malaysia)
  - Registrar of Companies
- The accounting standards issued by MASB have the **force of law**
  - MFRSs are word-for-word IFRS Accounting Standards issued by the IASB
  - Financial statements that assert compliance with MFRSs shall also assert compliance with IFRS Accounting Standards

# Financial reporting frameworks

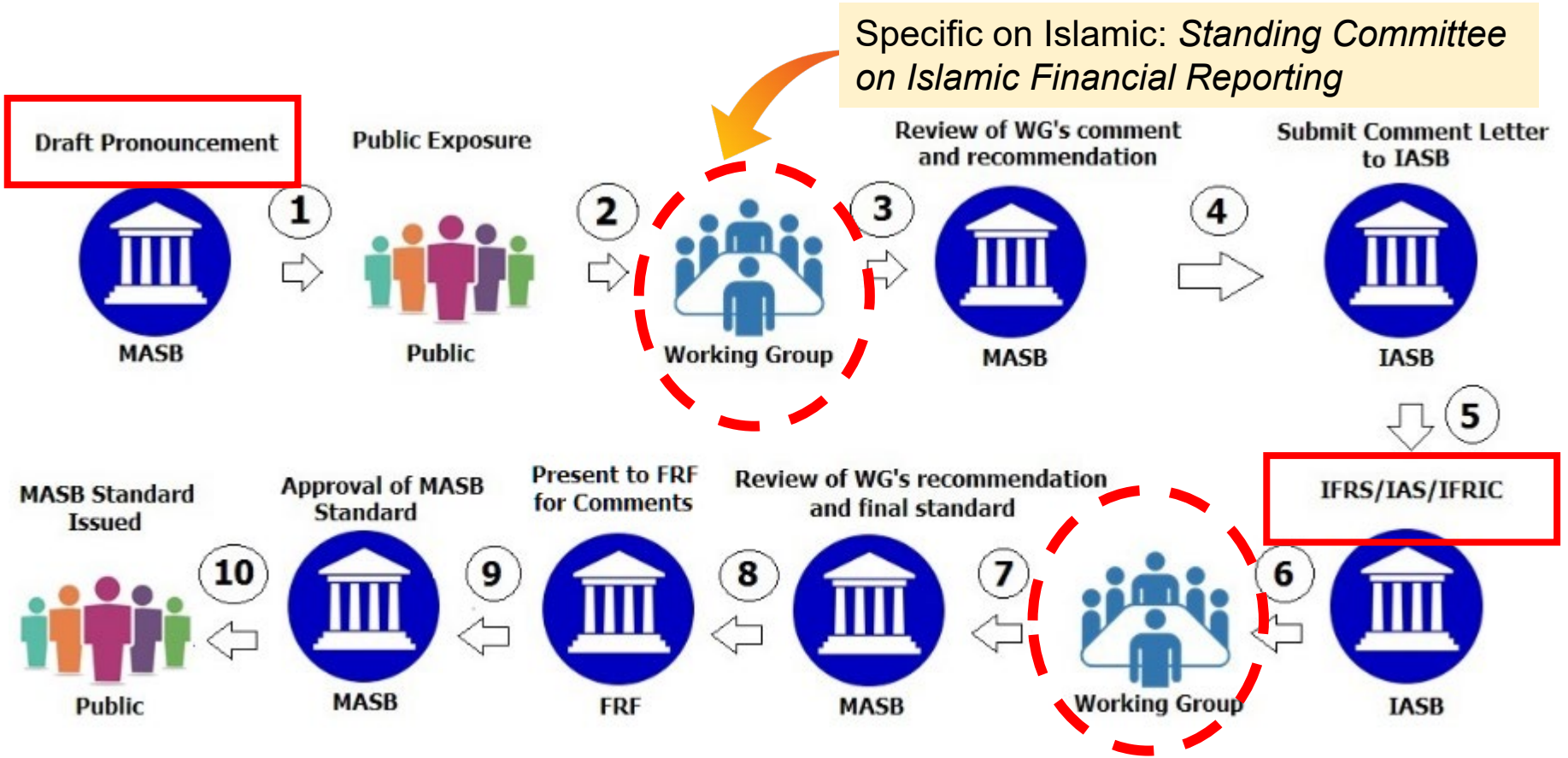
## MASB Approved Accounting Standards and their applicability

- Malaysian Financial Reporting Standards (MFRSs)
- Malaysian Private Entities Reporting Standard (MPERS)



*Including Islamic banks and takaful operators*

# Standard-setting due process



**Note:**

*For projects other than Islamic, 71 Working Groups were set up to look into IASB draft pronouncements*

# MASB Standing Committee on Islamic Financial Reporting

- The Standing Committee is responsible of advising the MASB as to whether an existing or proposed approved accounting standard can be made applicable to Islamic finance transactions as the IFRS Accounting Standards adopted as MASB approved accounting standards may not have considered the specificity or peculiarity of Islamic financial transactions.
- Members comprise representatives of the accountancy profession, regulators, the banking and takaful professions, and a subject-matter expert on Shariah

# Financial reporting from an Islamic perspective

- 2009: MASB issued Statements of Principles i-1 *Financial Reporting from an Islamic Perspective* (SOP i-1) – after consultation with the Shariah Advisory Council (SAC) of Bank Negara Malaysia
  - *SAC ruled that it is permissible to apply generally accepted accounting principles to Islamic transactions, which included the principles of accruals, **substance over form**, **time value of money**...*
- SOP i-1 affirms that **MASB approved accounting standards apply to Islamic transactions** unless there is Shariah prohibition
- Any additional guidance on accounting for Islamic financial transactions and events will take the form of other pronouncements
  - the pronouncements supplement MASB approved accounting standards and are persuasive in intent and expected to be applied.

# Separate Islamic accounting Standards (?)

- **Reasons often cited:**
  - Islamic transactions have no conventional equivalent transactions
  - Doubtful of Shariah-acceptability of IFRS principles
- **MASB findings**
  - Contractually different, but economic effect may be similar
  - Accounting is a recording function: It neither sanctifies nor nullifies Shariah validity



# Projects on Islamic financial reporting

- MASB's projects on Islamic financial reporting are generally divided into two work streams:



## Standard-setting

Providing input to IASB draft pronouncements specifically from the Islamic financial reporting perspective

- Providing comment letters to IASB
- Leading AOSSG WG on Islamic Finance



## Research

Research about the application of IFRS Accounting Standards to existing or new Islamic financial transactions

- Issue technical pronouncements/research reports

# Comment letters submitted

Part of standard-setting due process

# Comments from Islamic perspective



Title	Date
<i>IASB DP Preliminary Views on Financial Statement Presentation</i>	April, 2009
<i>IASB DP/2009/1 Leases – Preliminary Views</i>	July, 2009
<i>IASB ED/2009/7 Financial Instruments: Classification and Measurement</i>	September, 2009
<i>IASB ED/2010/6 Revenue from Contracts with Customers</i>	October, 2010
<i>IASB ED/2010/8 Insurance Contracts</i>	November, 2010
<i>IASB ED/2010/9 Leases</i>	December, 2010
<i>IASB ED/2010/13 Hedge Accounting</i>	March, 2011
<i>IASB Supplement to ED/2009/12 Financial Instruments: Amortised Cost and Impairment</i>	April, 2011
<i>IASB ED/2011/1 Offsetting Financial Assets and Financial Liabilities</i>	April, 2011
<i>IASB's Request for Views Agenda Consultation 2011</i>	November, 2011

# Comments from Islamic perspective



Title	Date
IASB ED/2011/6 <i>Revenue from Contracts with Customers</i>	March, 2012
IASB ED/2012/4 <i>Classification and Measurement: Limited Amendments to IFRS 9</i>	March, 2013
IASB ED/2013/3 <i>Financial Instruments: Expected Credit Losses</i>	July, 2013
IASB ED/2013/6 <i>Leases</i>	October, 2013
IASB DP/2013/1 <i>A Review of the Conceptual Framework for Financial Reporting</i>	January, 2014
IASB ED/2015/3 <i>Conceptual Framework for Financial Reporting</i>	December, 2015
IASB's Request for Views <i>2015 Agenda Consultation</i>	December, 2015
IASB ED/2015/11 <i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</i>	February, 2016
IASB's Request for Information <i>Post-implementation Review: IFRS 13 Fair Value Measurement</i>	September, 2017

# Comments from Islamic perspective



Title	Date
<i>IASB DP/2017/1 Disclosure Initiative – Principles of Disclosure</i>	October, 2017
<i>IASB DP/2018/1 Financial Instruments with Characteristics of Equity</i>	December, 2018
<i>IASB ED/2019/7 General Presentation and Disclosures</i>	September, 2020
<i>IASB’s Request for Information Post-implementation Review: IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities.</i>	May, 2021

# Extracts: Comments and responses

# Financial Instruments: Classification and Measurement [Interest / “profit”] – ED/2009/7

Another comment was that the term "interest" used in the Exposure Draft may not be comprehensive enough to cover income of all types of basic financial instruments. Typically, the income earned on Islamic financial instruments is referred to not as 'interest' but 'profit' or 'income'.

In addition, from the shariah viewpoint, such a term being used to cover such contracts, may "taint" the Islamic financial instruments given the strict prohibition on interest.

## **IFRS 9 *Financial Instruments***

### **Paragraph 4.1.3(b):**

interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. Paragraphs **B4.1.7A** and **B4.1.9A–B4.1.9E** provide additional guidance on the meaning of interest, including the meaning of the time value of money

# FICE [Fundamental impact to perpetual sukuk]

## Comment on IASB 2015 Agenda Consultation

### 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.

## Comment on IASB Discussion Paper, FICE (2018)

Applying the DP's preferred approach, perpetual sukuk is likely to be classified as a financial liability due to the 'amount feature'. The coupon payment is certain (for example the coupon rate is contractually fixed) and there is an obligation for an amount independent of the entity's available economic resources although the issuer has the ability to defer the payment to perpetuity (or until liquidation – see paragraph 2.5 (e) of the DP).

The potential change in classification of perpetual sukuk from equity to liability may be a fundamental<sup>2</sup> change to the issuers. It would affect the amount of borrowings presented in the statement of financial position, adversely affecting the leverage or debt/equity ratio and some issuers may need to seek alternative financing arrangements as a result. This seems inconsistent with the IASB's objective of not 'fundamentally changing the existing classification outcomes of IAS 32'.



# FICE: IASB tentative decision

## Research and outreach

### Market size

#### Regulatory Capital

Restricted Tier 1 (RT1)  
Additional Tier 1 (AT1)

Total: > \$250 billion<sup>1</sup>

#### Corporate Hybrids

Utilities  
Telecommunication  
Oil and Gas  
Automobile

Total: > EUR 150 billion<sup>2</sup>

### Regulatory Environment

A change in accounting classification is not expected to affect the regulatory capital classification

### Feedback from equity investors

Most equity analysts preferred financial liability classification

If equity classification is retained, separate presentation and additional disclosures in the notes would provide useful information

### IASB Tentative Decision

- No change in classification
- Develop presentation and disclosure requirements

Source: <https://www.ifrs.org/content/dam/ifrs/meetings/2022/may/ifcg/ap1-update-on-the-iasb-s-financial-instruments-with-characteristics-of-equity-project.pdf>

# Technical pronouncements

Part of research project

# MASB Islamic technical pronouncements

- As explained in Slide 7, MASB does not issue separate Islamic accounting standards.
- MASB approved accounting standards shall apply to Shariah-compliant financial transactions and events unless there is a Shariah prohibition
- Any additional guidance on accounting for Islamic financial transactions and events will take the form of other pronouncements, which supplement MASB approved accounting standards

This avoids unnecessary duplication when IFRS Accounting Standards can be applied to a Shariah compliant transaction.

# MASB Islamic technical pronouncements - examples

- Issues Bulletin 1: MFRS 17 *Insurance Contracts*: Definition and Scope for Takaful
- Issues Bulletin 2: Columnar Presentation of Takaful Funds in Takaful Entity Financial Statements
- Issues Bulletin 3: Reporting Qard in the Takaful Fund Column within Takaful Entity Financial Statements
- Statement of Principles *i-1*: Financial Reporting from an Islamic Perspective
- Technical Release *i-1*: Accounting for Zakat

# MASB Islamic research / other documents

- Research Paper: *Waqf*
- Review Report: A Review of BNM Shariah Policy Documents from a Financial Reporting Perspective

THANK YOU

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