

Accounting for Private Entities

By Tan Bee Leng

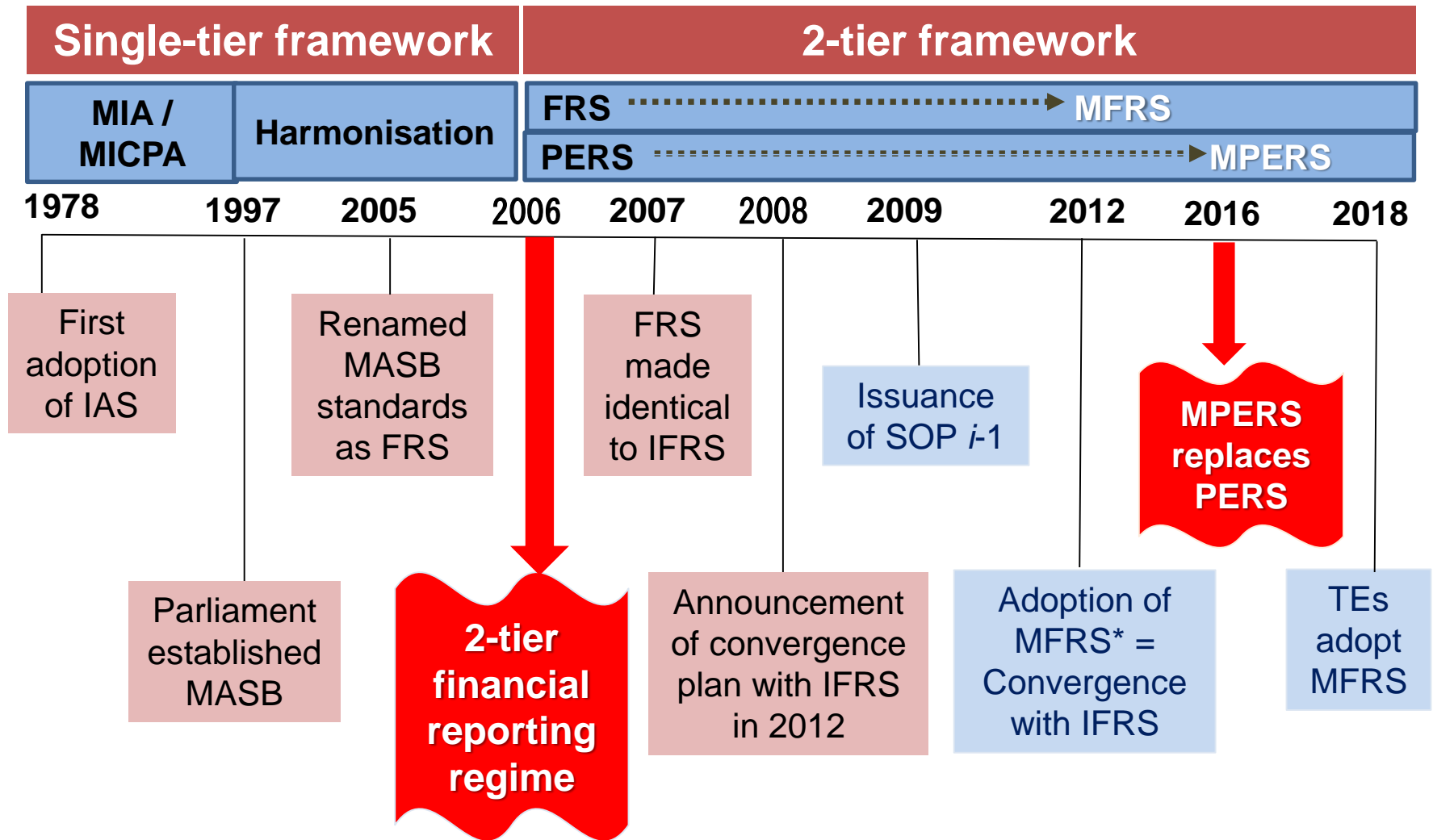
The views expressed in this presentation are the presenter, not necessarily those of the Malaysian Accounting Standards Board or the Financial Reporting Foundation.

Agenda

- Section 1: Malaysian Private Entities Reporting Standard (MPERS)
- Section 2: AOSSG Survey — IFRS for SMEs Standard

**Section 1:
Malaysian Private Entities Reporting
Standard (MPERS)**

Financial Reporting Framework Milestones



*Transitioning Entities (TEs) were mandated by law to apply the MFRS Framework with effect from 2018

Journey on the development of MPERS

2006



2009



2010



Feb'06:
2-tier Reporting introduced

Aug'06:
Circulation of Questionnaire to private entities.

Jul'09:
Working Group meeting held to discuss suitability of the *IFRS for SMEs*

Apr'10-Jul'10:
Roadshows on ED 72 held across Malaysia

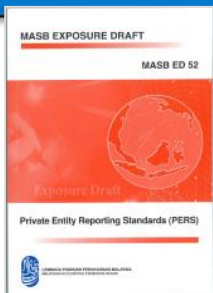
- 7 locations throughout Malaysia
- 1,250 participants

Jun'06:
ED 52 PERS issued.

Sept'06:
Public hearing held.

Mar'10:
ED 72 FRS for SMEs issued.

Jul'10:
Meeting with PLCs – Impact of *ED 72 FRS for SMEs* on subs; options for PLCs subs



Mixed views

Continue next slide

Journey on the development of MPERS

2010



2012



2013



Sept'10:
ED 74 RDR
drafted; Mtg
with PLCs

Feb'12 – June'12:
Request for Views – 5
options: ED 52, ED 72,
ED 74, IFRS for SMEs
(revised), update PERS

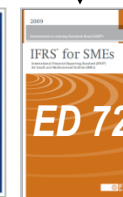


Aug'12 – Nov'12:
MASB-MIA Field
test on ED 72 and
ED 74

Dec'10 – Mar'11:
MASB issued
ED 74 RDR with
questionnaire.
Requests MASB
to replace PERS
with RDR.

Apr'12 – Aug'12:
Outreach activities:
accountants,
bankers, SMEs,
auditors

Mar'13:
Roadmap
proposes 3-tier



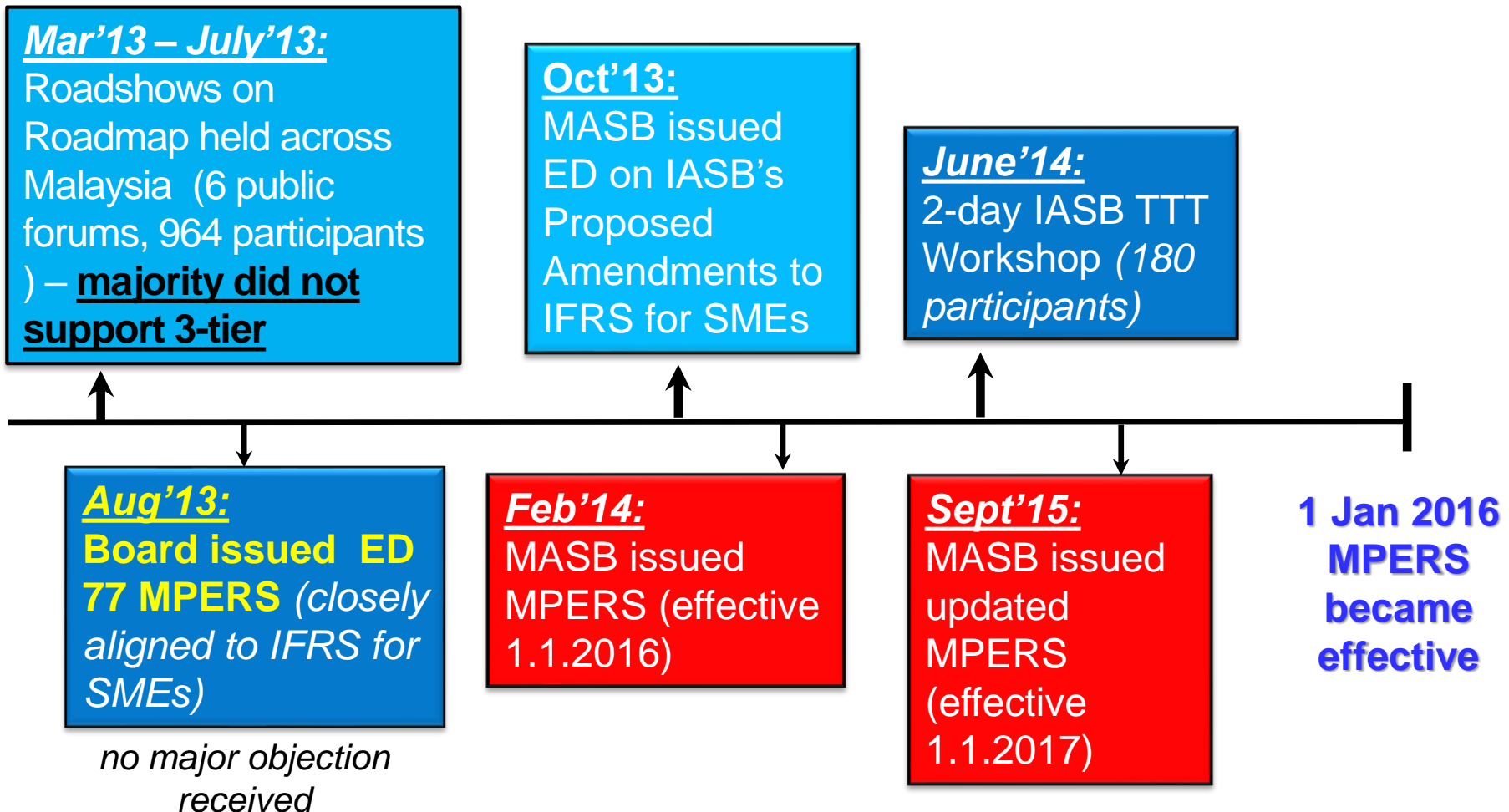
received mixed views

Journey on the development of MPERS

2013



14 February 2014



Outreach activities and past consultation documents (2006-2013)



- MASB ED 52 *PERS* (June 2006)
 - Public hearing



- MASB ED 72 *FRS for SMEs* (March 2010)
 - 7 public forums



- MASB Request for Views – *Private Entities, the Way Forward* (February 2012)
 - Meetings with users, preparers and auditors
 - Field test jointly conducted with MIA



- MASB *Roadmap for Private Entities Financial Reporting Framework* (March 2013)
 - 6 public forums



- MASB ED 77 *MPERS* (August 2013)
 - Near final proposals based on feedback received on the *Roadmap*

Reasons for rejecting 3 tiers

users want
comparable
information for
all SMEs

costly to keep
up

risk of error

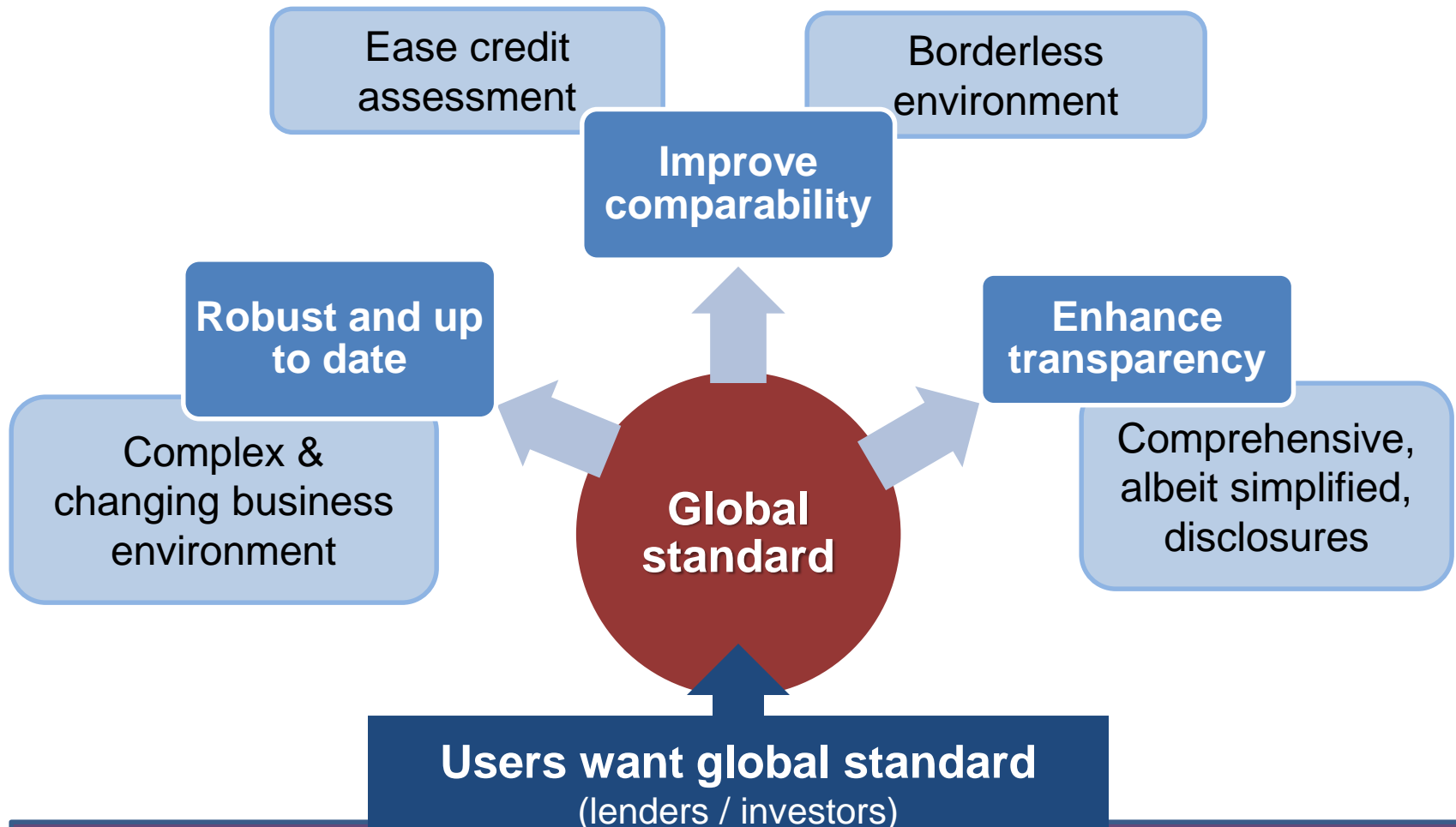
micro-sized
entities
financials are
non-complex

universities
teach MFRSs

scoping criteria
– very complex

Why use *IFRS* for *SMEs* for *MPERS*?

Feedback from World Bank, users, auditors, regulators



2012 World Bank Report on the Observance of Standards and Codes

Why called MPERS?

Stakeholders are familiar with private entity definition

Not all “SMEs” are governed by the Financial Reporting Act 1997

To be clear it is a local standard

MPERS vs IFRS for SMEs

Scope

- Preface
- Section 1

To prescribe the scope of the Standard using the private entities definition

Consolidation

Section 9

To require Malaysian wholly-owned intermediate parent to present consolidated financial statements

Real estate

- Section 23
- Section 34

To provide guidance on revenue recognition for property development activities

**Section 2:
AOSSG Survey - IFRS for SMEs
Standard**

by AOSSG Specific Topic Working Group

AOSSG Specific Topic Working Group

- The IFRS for SMEs WG members:
 - Malaysia (Leader)
 - Cambodia
 - [Indonesia](#)
 - Nepal
 - Pakistan
 - [Syria](#)



Work done



- Analysis of Application of *IFRS for SMEs* Standard in AOSSG
- Survey on Application of *IFRS for SMEs* Standard in AOSSG

Analysis of Application of *IFRS for SMEs* Standard
in AOSSG

Analysis of Application of IFRS for SMEs Standard in AOSSG

Objective

To consider the extent of *IFRS for SMEs* Standard application in AOSSG

Key Findings

	Number of AOSSG jurisdictions	
IFRS for SMEs permitted	9	} 12
IFRS for SMEs with modifications permitted	1	
SMEs not required to use full IFRS are required to use IFRS for SMEs	2	
IFRS for SMEs not used (under consideration)	14 (3)	Brunei, Mongolia & Thailand
Total	26	

Analysis of Application of IFRS for SMEs Standard in AOSSG

IFRS for SMEs permitted	IFRS for SMEs with modifications permitted	SMEs not required to use full IFRS are required to use IFRS for SMEs	IFRS for SMEs under consideration	IFRS for SMEs not used
Cambodia	Malaysia	Pakistan	Brunei	Australia
Dubai		Saudi Arabia	Mangolia	China
Hong Kong			Thailand	India
Iraq				Indonesia
Kazakhstan				Japan
Nepal				Korea
Philippines				Macao
Singapore				New Zealand
Sri Lanka				Syria
				Uzbekistan
				Vietnam

Survey on Application of *IFRS for SMEs* Standard
in AOSSG

Objective of the Survey

- To facilitate the AOSSG in providing input and feedback to the IASB on *IFRS for SMEs* Standard:
 - on what is working and what isn't working in relation to *IFRS for SMEs* Standard in the AOSSG region; and
 - whether the IASB should incorporate changes in each of the major new IFRS (IFRS 9, IFRS 15 & IFRS 16) and any modifications if these Standards were to be incorporated into *IFRS for SMEs* Standard.

Recommendations by WG

- Priority should be a simplified IFRS for SMEs Standard
- Incorporate new IFRSs (to minimise gap with IFRS) after a post implementation review of the new IFRSs but simplified to the extent to suit the needs of users
 - the new IFRSs would have been in application for 4-5 years and this provide a sufficient period of stability for SMEs



Key Findings

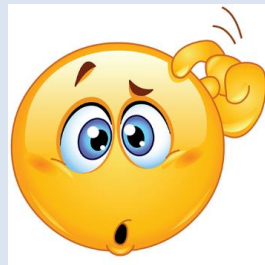
17 out of 26 jurisdictions (**65%**) responded. **11** respondents had comments.



10 respondents use local GAAP / IFRS



Investment property accounting and **undue cost or effort exemption** received most comments



3 respondents believed borrowing costs and intangible assets should be capitalised

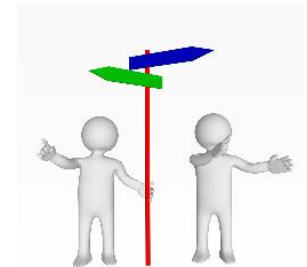


of respondents agree that IFRS for SMEs should not incorporate:

- (i) IFRS 3 (2008) - **9**;
- (ii) IFRS 10, IFRS 11, IFRS 13, IAS 19 (2011) – **10**.

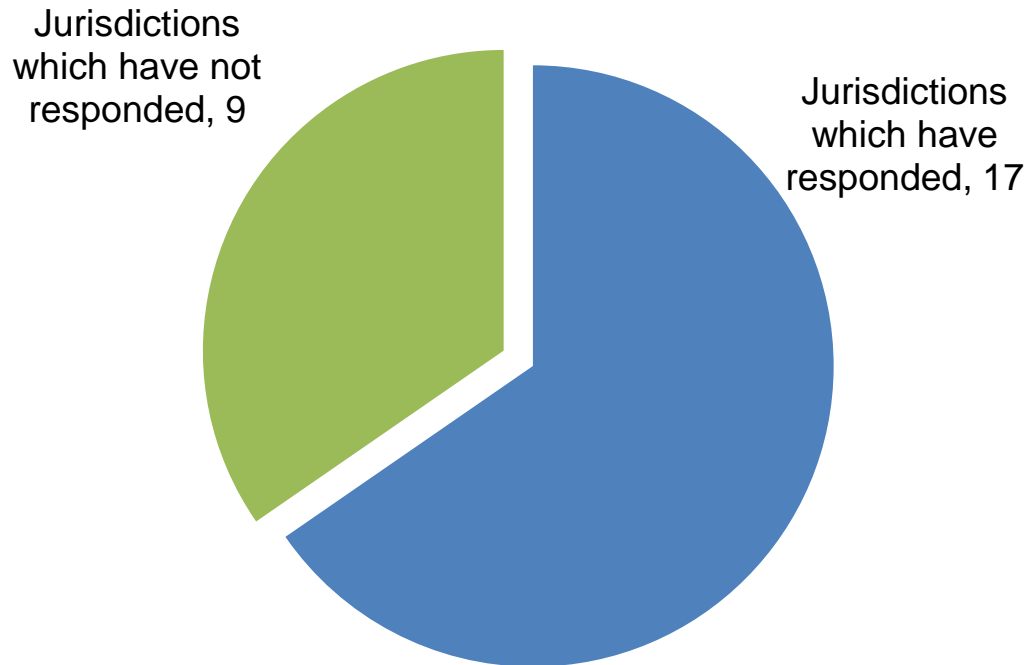


11 respondents have divergent views to incorporate IFRS 9, IFRS 15 and IFRS 16.



The Survey respondents

- Survey circulated to all AOSSG members (26)



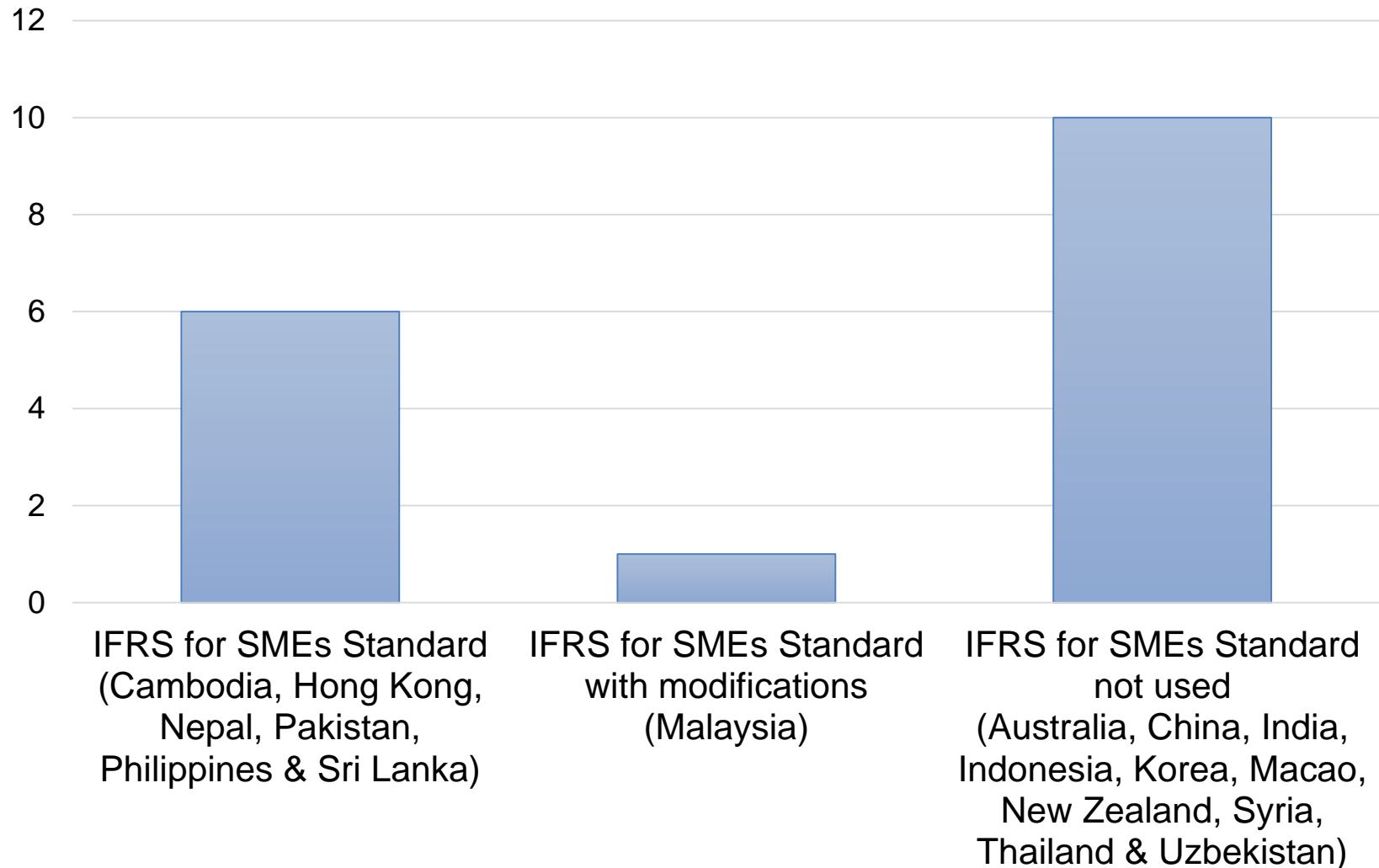
IFRS for SMEs (or equivalent) permitted:

1. Cambodia
2. Hong Kong
3. Malaysia
4. Nepal
5. Philippines
6. Pakistan
7. Sri Lanka

IFRS for SMEs not used (applying Local GAAP or IFRS):

1. Australia
2. China
3. India
4. Indonesia
5. Korea
6. Macao
7. New Zealand
8. Syria (no local GAAP)
9. Thailand
10. Uzbekistan

Accounting frameworks applied by respondents



Why Local GAAP

Australia

- Tier 2 reporting have the same recognition (R), measurement (M) and presentation requirements as Tier 1 (full IFRS), but significantly reduced disclosure requirements.
- *IFRS for SMEs* Standard is not suitable for Tier 2 due to concerns below:
 - some accounting policy options removed are the favoured Australian option;
 - *IFRS for SMEs* Standard forces subsidiaries to adjust their accounting policies for consolidation purposes when parents apply IFRS (Tier 1 in Australia);
 - *IFRS for SMEs* Standard is only updated every three years;
 - different streams of R&M requirements would require different streams of knowledge;
 - loss of comparability across Australian entities; and
 - comparability with overseas entities applying *IFRS for SMEs* Standard have limited benefits as entities seeking to access international capital markets would generally apply IFRS.

India

- *IFRS for SMEs* Standard is too simplified. Other reasons:
- Existing standards are updated with converged IFRS principles, namely Ind AS subject to minimal use of FV and Time Value of Money, minimal disclosures and simplification
- Some sections in *IFRS for SMEs* Standard are too simple and some are too difficult to adopt without adequate guidance.
- Some sections, eg. Financial Instruments, Presentation of Financial Statements in *IFRS for SMEs* require restructuring.
- Few sections, eg. Section 29 *Income Tax*, Section 27 *Impairment of Assets* require detailed explanation along with illustrations for better clarity and understanding.
- Relevance of few sections, eg. Share Based Payments, Hyperinflation may need to be evaluated.
- In the above context, some of India ASs as applicable to the SME sector are at higher platform and better structure.

Why Local GAAP

Indonesia

- Tier 2 – for entities with no significant public accountability (effective 1.1.2010)
 - Developed using *IFRS for SMEs ED* as one point of reference but further simplified taking into consideration stakeholders' responses.
- Tier 3 – for micro, small and medium entities that meet the definition and criteria of micro, small and medium as stipulated by the laws and regulations applicable in Indonesia, at least for 2 consecutive years.

Korea

- The jurisdiction developed Korean GAAP for SMEs to reflect local companies' characteristics and circumstances well.

Macao

- There is already a set of accounting standards for micro and mini businesses in Macao. The Committee for the registry of Auditors and Accountants (CRAC) feels that it is not appropriate to have too many tiers of accounting standards in Macao.

New Zealand

- XRB decided on the reduced disclosure regime (RDR) over other approaches, including *IFRS for SMEs* as it retains the same R&M requirements as NZ IFRS. Advantages are:
 - preparers and users need to be familiar with only one set of R&M requirements which are applied in both NZ IFRS and NZ IFRS RDR;
 - comparability of financial information between NZ IFRS and NZ IFRS RDR is enhanced;
 - preparation of consolidated financial statements where a group comprises entities that apply both NZ IFRS and NZ IFRS RDR is simplified; and
 - easier and less costly for entities to move between NZ IFRS and NZ IFRS RDR.
- RDR approach is common with the approach taken in Australia. Hence, adopting RDR approach in New Zealand enhances harmonisation with Australia and reduces compliance costs for entities with trans-Tasman reporting obligations.

Why Local GAAP

China

- IFRS for SMEs is too complex

Syria

- Lack of awareness of IFRS for SMEs Standard. The IASB should make continuous efforts to promote IFRSs and IFRS SMEs to educate the public on the IFRS for SMEs Standard.
- SMEs are not generally required to prepare general purpose financial statements. Those that do may use full IFRS.

Thailand

- Thai Financial Reporting Standards (TFRS) for non-publicly accountable entities (NPAES); effective on 1 January 2011
- Other reasons:
 - Some sections in *IFRS for SMEs* Standard are too complex e.g. cashflow, consolidated financial statement, Income taxes, financial instruments and share-based payments. The Federation of Accounting Professions (FAP) simplified those sections in Thailand context.
 - The FAP is in the process of permission the NPAES are eligible to use *IFRS for SMEs* Standard for financial period ended 31 December 2019 onward.
 - At present, the FAP is in the process of amendment of TFRS for NPAES to be appropriate for current circumstance and decision usefulness.
 - Permitted solely to be an option for non-publicly accountable entities.

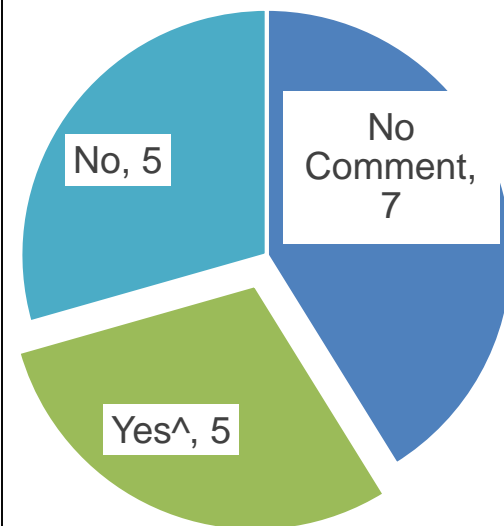
Uzbekistan

- There is a national standard on accounting for small entities.

Part 1: What is working and what is not working in relation to IFRS for SMEs Standard in the AOSSG region

In your jurisdiction, is there:
(1) any requirement which is complex or unduly burdensome to apply?

- ^ **S.1 Small and Medium-sized Entities** – divergent application and interpretation of public accountability
- S.12 Other Financial Instrument Issues** - to explicitly incorporate accounting requirement for issuers of FGC, after initial recognition, to be measured at the higher of the amount:
- (i) determined in accordance with S.21 *Provisions and Contingencies*; and
 - (ii) initially recognised less, when appropriate, cumulative amortisation recognised in accordance with S.23 *Revenue*.
- S.22 Liabilities and Equity** - application of concept of substantial contractual arrangement and puttable instrument exception is complex and difficult for practical implementation (liability and equity may be based on legal form for evaluation)
- S.24 Government Grants (GG)** – recognising at FV non-monetary asset may not be cost effective and is burdensome (whilst IAS 20 permits choice of FV or nominal amount)
- S.27 Impairment of Assets** – concept of VIU, CGU are complex and difficult to apply (alternative and simplified method is required)
- S.29 Income Tax** – (i) balance sheet approach is difficult to understand and apply (income statement approach easier to understand); (ii) recognition of deferred tax shall be optional
- S.31 Hyperinflation** - applicability of this section needs to be evaluated

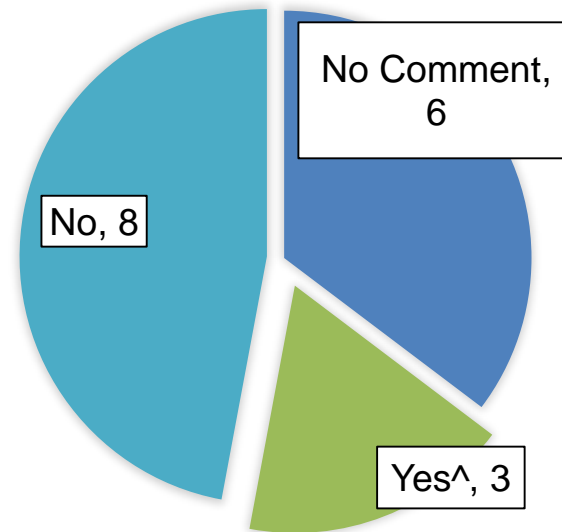


Part 1: What is working and what is not working in relation to *IFRS for SMEs* Standard in the AOSSG region

In your jurisdiction, is there:

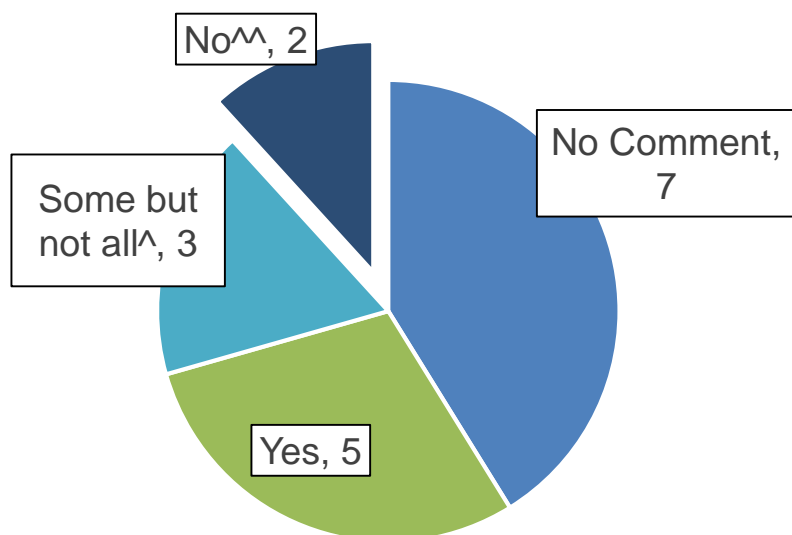
(2) any other issues that you think should be brought to the IASB's attention?

^ S.18 Intangible Assets other than Goodwill & S.25 Borrowing Costs
– to allow capitalisation to be consistent with IFRS



Part 1: What is working and what is not working in relation to *IFRS for SMEs* Standard in the AOSSG region

An undue cost or effort exemption is specified for some requirements in *IFRS for SMEs*. Is this exemption helpful in providing relief to SMEs in your jurisdiction?

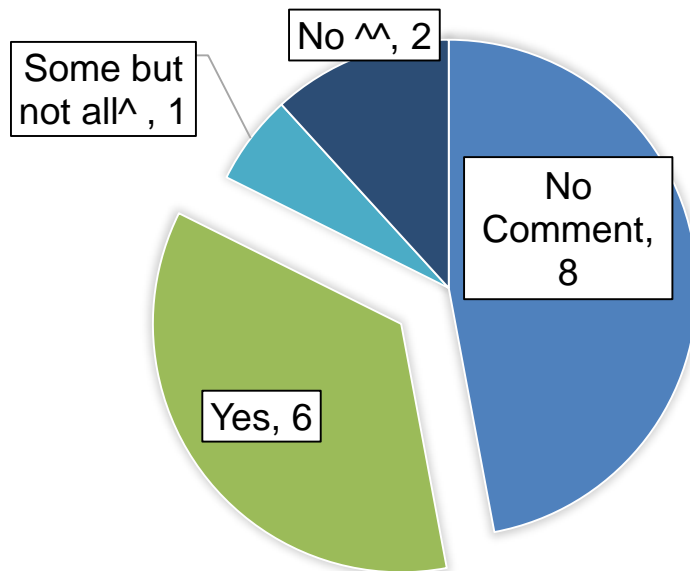


[^] (1) To remove the undue cost or effort exemption for investment property and biological assets; and provide FV model and cost model as an accounting policy choice.
(2) FV measurement is an accounting policy for investment property, insertion of choice of undue cost or effort exemption for initial measurement is confusing and may be avoided.
(3) Criteria for classification and measurement of preference shares as equity or liability is confusing.
(4) Undue cost or effort concept is complex and subjective, hence further explanatory guidance and illustrative examples are needed.

^{^^} (1) An entity must make a new assessment of whether a requirement will involve undue cost or effort at each reporting date.
(2) “Undue cost or efforts” cannot be clearly defined and is subject to different interpretations and affect comparability of FS.

Part 1: What is working and what is not working in relation to *IFRS for SMEs* Standard in the AOSSG region

Are the explanations or examples in the IFRS Foundation: Training Material for *IFRS for SMEs* Standard helpful in demonstrating how an entity could satisfy the criteria to apply the undue cost or effort exemption?

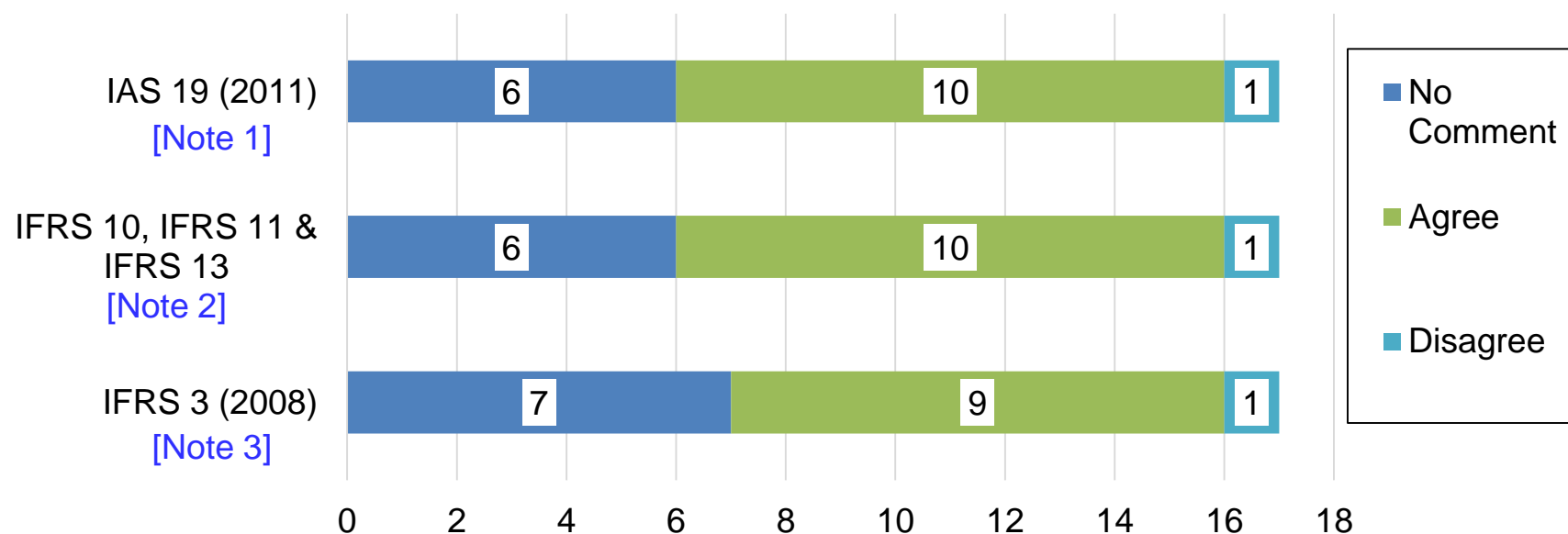


- ^ Module 2 *Concepts and Pervasive Principles*
1. Ex40 can be expanded to consider a case when gold bullion is acquired to gain from change in market value of gold bullion. In such cases, S.13 *Inventories* may be relevant for accounting application.
 2. Q14 accounting for investment in a painting - respondent noted answer (c) may not be appropriate but answer (d) may be [ie in the absence of explicit requirement for investment in a painting, the entity should initially measure the painting at historical cost (¶2.46) and subsequently at cost less impairment (¶2.49)].

- ^^ (1) A new assessment has to be made to determine whether a requirement will involve undue cost or effort at each reporting date. The Training Material are not helpful in demonstrating how an entity could satisfy the criteria.
- (2) The Training Material can never cover all cases. The undue cost or effort exemption is subject to different interpretations hence affect comparability of FS.

Part 2: IFRS 3 (2008), IFRS 10, IFRS 11, IFRS 13, IAS 19 (2011)

IFRS for SMEs Standard need not incorporate the requirements of IFRS 3 (2008), IFRS 10, IFRS 11, IFRS 13 and IAS 19 (2011)

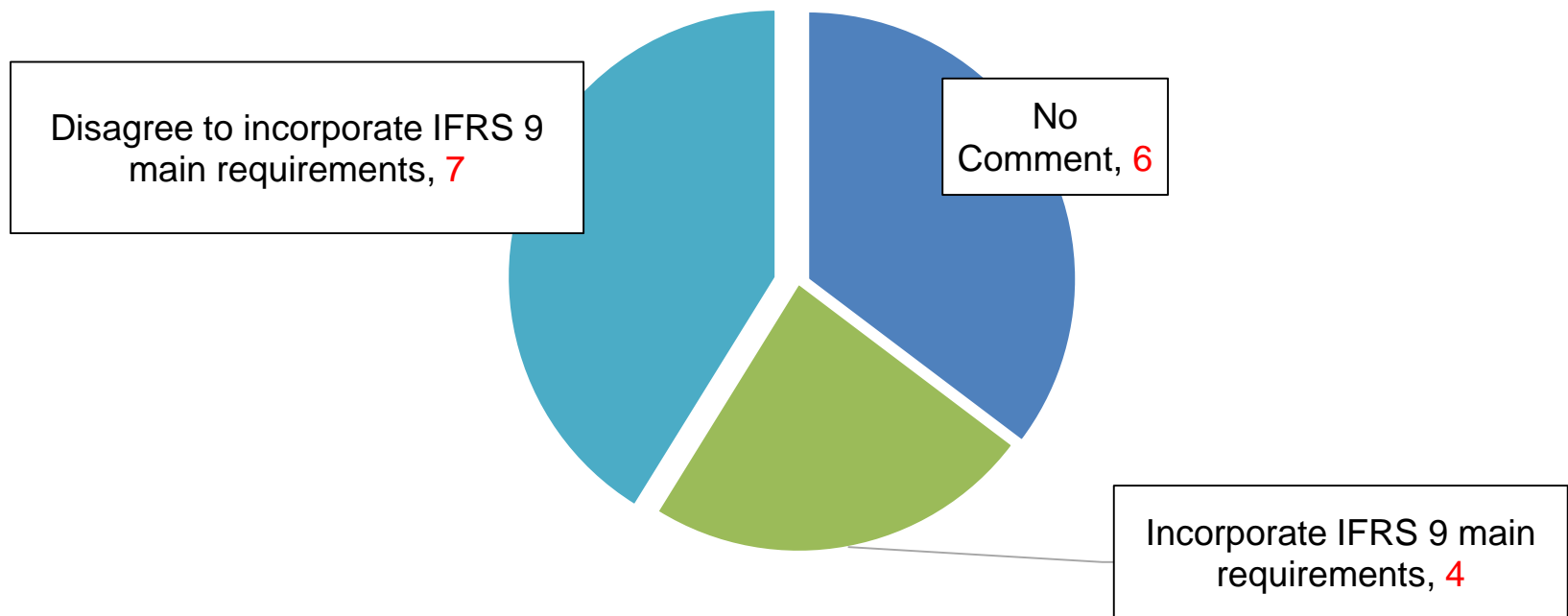


Note:

- Agree** - IFRS 3 (2008) would result in significant complexity for SMEs because of additional fair value measurements. **Disagree** – Burden for SMEs to converge *IFRS for SMEs* to IFRS 3 for the purpose consolidation with the ultimate parent that applies full IFRS.
- Agree** - The PIR outcomes of IFRS 10, IFRS 11 and IFRS 13 are uncertain and these Standards are expected to have a limited practical impact on the majority of SMEs. **Disagree** – Burden for SMEs to converge *IFRS for SMEs* to IFRS 10 & IFRS 11 for consolidation purpose.
- Agree** - Better to continue to permit SMEs the choice of recognising actuarial gains and losses in P&L or OCI than incorporating IAS 19 (2011) to present actuarial gains and losses in OCI pending IASB Conceptual Framework project outcome.

Part 3: IFRS 9

Given that IFRS 9 is widely regarded as an improvement to IAS 39, do you agree that *IFRS for SMEs* Standard should incorporate IFRS 9 main requirements into *IFRS for SMEs* Standard and hence remove the fallback to IAS 39?



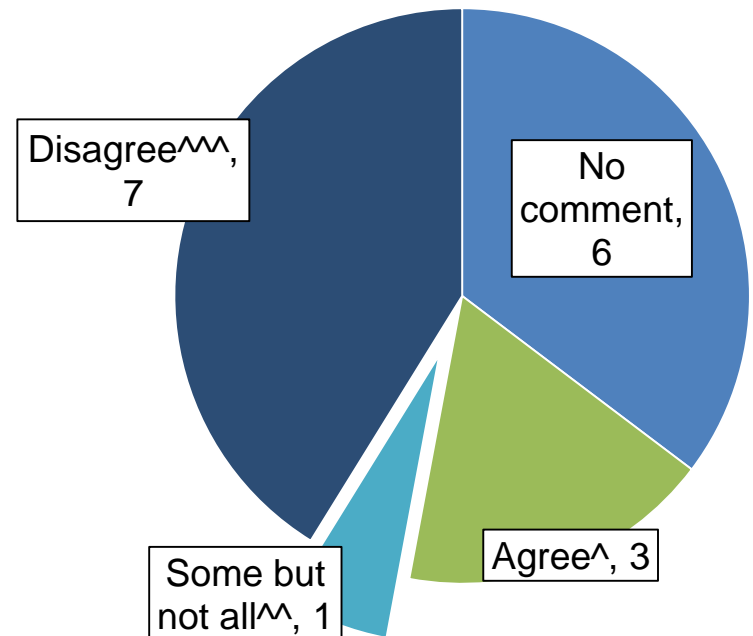
Part 3: IFRS 15

Do you agree that *IFRS for SMEs* Standard should incorporate IFRS 15 requirements?

^^ — (i) It is important to have the implementation experience of IFRS 15 first before introducing the requirements for SMEs as many SMEs have limited resources.
(ii) it will be difficult to attract other countries to adopt the Standard if it frequently changes like full IFRS.

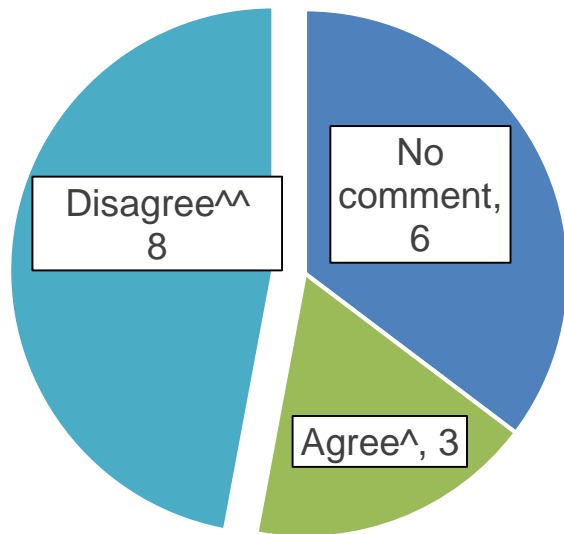
^ — Measurement principles based on transaction price may be incorporated.

^ — Revenue is an important number to users of financial statements in assessing an entity's financial performance and position and IFRS 15 would provide a more objective assessment for determining the timing of revenue recognition.



Part 3: IFRS 16

Do you agree that *IFRS for SMEs* Standard should incorporate IFRS 16 requirements?



^— (i) It is important to have the implementation experience of IFRS 16 first before introducing the requirements for SMEs as many SMEs have limited resources. (ii) It will be difficult to attract other countries to adopt the Standard if it frequently changes like full IFRS.

^— Leasing is an important activity for many entities as a means of gaining access to assets, of obtaining finance and of reducing an entity's exposure to the risks of asset ownership. IFRS 16 is expected to result in a more faithful representation of a lessee's assets and liabilities to provide greater transparency of a lessee's financial leverage and capital employed.

THANK YOU!