

IFRS convergence in 2012: What does it mean for Malaysia?

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Malaysia's convergence with IFRS in 2012

Dato' Johan Raslan, PwC Malaysia's Executive Chairman and Chairman of the Financial Reporting Foundation ("FRF"), explains that "Malaysia has been adopting IFRS standard-by-standard, so this step is but a progression." He added, "It is interesting that the US announced their proposed roadmap for usage of IFRS by US companies a few months after Malaysia's convergence announcement. If this comes to pass, IFRS will indeed become the global language for financial reporting in the world."

The FRF and Malaysian Accounting Standards Board ("MASB") announced on 1 August 2008 their plan to bring Malaysia's Financial Reporting Standards ("FRS") to full convergence with International Financial Reporting Standards ("IFRS") by 1 January 2012.

Welcoming the decision, Securities Commission Chairman Dato' Seri Zarinah Anwar said, "Businesses operate in an increasingly global environment. Therefore, this move will help to give Malaysian companies and our capital market the recognition they deserve."

MASB chairman, Dato' Zainal Abidin Putih, said, "Since 1978, we have been incorporating the provisions of the international standards into our local accounting standards and today we are convinced that by becoming fully IFRS compliant, Malaysia's capital and financial market will be further enhanced. Compliance with IFRS, which are used by more than a hundred countries around the world, will facilitate comparability and increase transparency".

Currently, approximately 113 countries around the world require or permit IFRS reporting for companies.

With Malaysia's convergence to IFRS, Malaysian corporate reporting stakeholders should contribute to the standard setting process of the International Accounting Standards Board ("IASB") and influence the IASB's direction by commenting on IASB's discussion papers and exposure drafts before the issuance of a standard. This is to ensure that IFRSs issued take into account the perspective of developing countries such as ours.

The question that many private entities are asking is whether Malaysia, in due course, will adopt the upcoming IASB Standard for private entities to replace the Malaysian Private Entity Reporting Standards.

Projected timetable for changes to Malaysian FRS

A calendar has been prepared by the staff of MASB to provide a tentative adoption timeline of IFRSs issued by the IASB – this is tabulated in pages 8 and 9 of this newsletter.

Pages 9 and 10, on the other hand, set out IASB's workplan, based on the projected timetable available on the IASB website at the time of writing.

Whilst the timelines may be subject to change, they are nevertheless useful for stakeholders in the financial reporting chain as a reference point to spur us on in taking the necessary action to be ready for the respective standards. And there are many of them!

Even as Malaysia plans for convergence with IFRS, the entire host of IFRSs is being revamped. You may ask why.

Why is the IFRS framework being revamped?

*Because IASB and FASB are working on a long term strategic priority to develop a common set of high quality global standards for both domestic and cross-border financial reporting
Entire IFRS financial reporting framework being revamped*

From Part C on page 10, we can see that the IASB is re-examining basic concepts underlying the financial statements. Why is the IASB re-inventing the wheel, so to say? Is the IASB creating new standards for the sake of keeping accountants in employment?

The simple answer to this question is that the IASB, together with the US Financial Accounting Standards Board ("FASB"), is working on a long term strategic priority to develop a common set of high quality global standards for both domestic and cross-border financial reporting.

This priority has the backing of the International Organisation of Securities Commissions ("IOSCO") which, as far back as 1993, agreed to consider endorsing international accounting standards issued by IASB's predecessor body for cross-border offerings, provided that the standards were of a certain quality and covered specified core areas.

Panel 1 gives us a brief overview of the events that have taken place since 1993, indicating the influence of IOSCO and FASB over the strategic direction of the IASB.

When	Events
1993	The International Organisation of Securities Commissions ("IOSCO") agrees to consider endorsing International Accounting Standards ("IASs") for cross-border offerings upon completion of core standards by International Accounting Standards Committee ("IASC"), the predecessor body of the International Accounting Standards Board ("IASB")
1998	The core standards are completed
2000	IOSCO recommends that IOSCO members permit incoming multinational issuers to use IAS to prepare their financial statements for cross-border offerings, with supplement, where necessary, to address outstanding substantive issues
2001	IOSCO conducts a survey of the acceptance of IAS by IOSCO members
2001-2002	Several major territories announce convergence of their national accounting standard with IAS in 2005 (e.g. European Union, Australia, Hong Kong, Singapore)
2003	IOSCO and IASB develop ongoing arrangements for IOSCO to: <ul style="list-style-type: none"> • provide input on IASB projects as they are developed and initiated, and • to monitor IASB work on an ongoing basis
2005	IOSCO encourages its members to allow issuers to make use of IFRS for preparation of financial statements
2006	FASB and IASB sign a Memorandum of Understanding, setting out their relative priorities in order to meet agreed milestones: <ul style="list-style-type: none"> • Short-term convergence projects - elimination of major differences in a few focused areas • Major joint projects - the goal is to produce a set of common, principles-based standards
2007	The US Securities and Exchange Commission ("SEC") removes the reconciliation requirement for non-US companies that are registered in the US. These companies can therefore apply IFRS
2008	The SEC proposes a roadmap for the potential use of IFRS financial statements by US issuers for purposes of their filings with the SEC. The roadmap includes: <ul style="list-style-type: none"> • milestones that, if achieved, could lead to the required use of IFRS by US issuers in 2014 • proposal to allow companies meeting certain eligibility criteria to adopt IFRS as early as 2009

Implication of IFRS convergence on Malaysia

What do people mean when they say 'IFRS convergence'?

- in Malaysia – we are referring to 'convergence of FRS with IFRS'
- outside Malaysia – they are referring to 'convergence of US GAAP and IFRS'

Even as IFRS itself is being revised as part of the convergence between IFRS and US GAAP, the 'credit crunch' has added pressure to the IASB to make changes to some standards with unprecedented speed. This will lead to further need for Malaysian FRS to change in tandem with IFRS.

IFRS is indeed a moving target.

Companies need to have a mechanism of change in place for the waves of new accounting standards that are coming through. A permanent and agile implementation committee needs to be established and maintained for the next few years so that companies are flexible and able to influence and adapt to change as they come. This challenge should not be underestimated.

Key to successful IFRS implementation by companies

Remaining standards are more complex to implement and have greater impact on financial statements of Malaysian companies

Whilst Malaysia has made effective and applied the majority of IFRSs, it can be said that the remaining standards are more complex to implement and ones with greater impact on financial statements of Malaysian companies (refer to page 15). As such, companies and investors alike should not be caught off-guard.

Implementing IFRS goes well beyond a simple technical exercise for the finance or accounting function. Other business areas such as the human resources, investor relations, business development and IT departments will need to be involved in the IFRS conversion plan.

Actions that directors and management should put in place to ensure successful IFRS convergence include the following:

- Putting in place a strong IFRS convergence project management team consisting of people from different departments with varying skill sets who possess the requisite knowledge and understanding of IFRS conversion
- Having an implementation action plan with timetable and deliverables
- Assessing and quantifying accounting policy differences on comparatives, current and future financial statements
- Updating of the group reporting package & liaison with management and auditors of entities in the group to ensure timely completion
- Consideration of potential impact on:
 - New strategic investments
 - Tax planning
 - Distributable reserves
 - Performance measures, bonus structures and key performance indicators
 - Customer and supplier contracts
 - Bank covenants
- Investor relations, internal audit, legal and marketing to focus on how new IFRS will affect their decision-making and value creation strategies, as well as what information their individual business units need to provide to comply with new IFRS requirements
- Assessing whether information is available from existing systems and processes. If not, actions to re-configure systems and processes are required now
- Integrating management reporting (i.e. budgets, management accounts and key performance metrics) with the new IFRS basis as certain new IFRS will require management information to be disclosed in financial statements
- Embedding IFRS reporting into daily operations by embedding changes and implementing appropriate internal controls to ensure IFRS reporting is sustainable moving forward
- Being confident in making judgments in preparing financial statements under new IFRS
- Communication to key stakeholders (e.g. lenders, shareholders, analysts) to be formulated:
 - Communicating the impact of new IFRSs including new disclosures
 - Considering if more questions will arise with additional disclosures
- Keeping track of competitors

Communicating the impact of new IFRS to key stakeholders

New standards will place a sizeable responsibility on management to be able to communicate effectively to the market in the new language. Financial statements may look very different under new FRS and management needs to be at ease discussing the reasons for this. Early communication, including the sharing of pro forma financial statements with preliminary figures and/or opening balance sheets under new FRS, allows everyone to get comfortable with the 'new brand' financial results.

Proposed calendar of adoption of IFRS

(Source: Extracted from MASB website at <http://www.masb.org.my>)

The calendar of adoption has been prepared by the staff of MASB to provide a tentative adoption timeline of IFRSs issued by the IASB as at 12 March 2009. The tentative timeline is based on the due process and it may be subject to change.

	Standards / Interpretations	IASB effective date	Proposed effective date in Malaysia	Status
1 JULY 2009				
1	IFRS 8 Operating Segments	1 January 2009	1 July 2009	Issued as FRS 8 in November 2008
1 JANUARY 2010				
2	IAS 39 Financial Instruments: Recognition and Measurement	1 January 2005	1 January 2010	Issued as FRS 139 in February 2006
3	IFRS 7 Financial Instruments: Disclosures	1 January 2007	1 January 2010	Issued as FRS 7 in November 2008
4	IFRS 4 Insurance Contracts	1 January 2005	1 January 2010	Issued as FRS 4 in November 2008
5	IFRIC Interpretation 9 Reassessment of Embedded Derivatives	1 June 2006	1 January 2010	Issued as IC Interpretation 9 in November 2008
6	IFRIC Interpretation 10 Interim Financial Reporting and Impairment	1 November 2006	1 January 2010	Issued as IC Interpretation 10 in November 2008
7	IAS 23 Borrowing Costs (revised)	1 January 2009	1 January 2010	Issued as MASB ED 58 in November 2008
8	Amendment to IFRS 2 Share-based Payment – Vesting Conditions and Cancellations	1 January 2009	1 January 2010	Issued as MASB ED 59 in November 2008
9	IFRIC Interpretation 11 IFRS 2 – Group and Treasury Share Transactions	1 March 2007	1 January 2010	Issued as MASB [draft] IC Interpretation 11 in November 2008
10	IFRIC Interpretation 12 Service Concession Agreements	1 January 2008	1 January 2010	Issued as MASB [draft] IC Interpretation 12 in November 2008
11	IFRIC Interpretation 13 Customer Loyalty Programmes	1 July 2008	1 January 2010	Issued as MASB [draft] IC Interpretation 13 in November 2008
12	IFRIC Interpretation 14 FRS 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2008	1 January 2010	Issued as MASB [draft] IC Interpretation 14 in November 2008
13	IAS 1 Presentation of Financial Statements (revised)	1 January 2009	1 January 2010	Issued as MASB ED 61 in February 2009
14	Amendments to IFRS 1 and IAS 27 Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 January 2009	1 January 2010	Issued as MASB ED 60 in January 2009
15	Annual Improvements to IFRSs	1 January 2009	1 January 2010	Issued as MASB ED 62 in February 2009
16	Amendments to IAS 32 and IAS 1: Puttable Financial Instruments and Obligations arising on Liquidation	1 January 2009	1 January 2010	Issued as MASB ED 63 in February 2009
17	Amendments to IAS 39: Eligible Hedged Items	1 July 2009	1 January 2010	Issued as MASB ED 63 in February 2009
18	Amendments to IAS 39 and IFRS 7: Reclassification of Financial Assets	1 July 2008	1 January 2010	Issued as MASB ED 63 in February 2009
19	Amendments to IFRS 7 Improving Disclosures about Financial Instruments	1 January 2009	1 January 2010	Work in progress. The staff plans to expose Amendments to IFRS 7 in Quarter 2 of 2009
20	Amendments to IFRIC 9 and IAS 39 Embedded Derivatives	30 June 2009	1 January 2010	Work in progress. The staff plans to expose Amendments to IFRIC 9 and IAS 39 in Quarter 2 of 2009
1 JULY 2010				
21	IFRS 3 Business Combinations (revised)	1 July 2009	1 July 2010	Work in progress. The staff plans to expose IFRS 3 (revised) in Quarter 2 of 2009
22	IAS 27 Consolidated and Separate Financial Statements	1 July 2009	1 July 2010	Work in progress. The staff plans to expose IAS 27 (revised) in Quarter 2 of 2009
23	IFRS 1 First-time Adoption of IFRS (revised)	1 January 2009	1 July 2010	Work in progress. The staff plans to expose IFRS 1 (revised) in Quarter 2 of 2009
24	IFRIC Interpretation 15 Agreements for the Construction of Real Estate	1 January 2009	1 July 2010	Work in progress. The staff plans to expose IFRIC 15 in Quarter 2 of 2009
25	IFRIC Interpretation 16 Hedges of a Net Investment in a Foreign Operation	1 October 2008	1 July 2010	Work in progress. The staff plans to expose IFRIC 16 in Quarter 2 of 2009
26	IFRIC Interpretation 17 Distributions of Non-cash Assets to Owners	1 July 2009	1 July 2010	Work in progress. The staff plans to expose IFRIC 17 in Quarter 2 of 2009
27	IFRIC Interpretation 18 Transfers of Assets from Customers	1 July 2009	1 July 2010	Work in progress. The staff plans to expose IFRIC 18 in Quarter 2 of 2009
TO BE ANNOUNCED				
28	IAS 41 Agriculture	1 January 2003		
29	IFRIC Interpretation 4 Determining whether an Arrangement Contains a Lease	1 January 2006		

IASB Workplan - Projected timetable as at 25 January 2009

(Source: Extracted from IASB website at <http://www.iasb.org>)

The timetable shows the current best estimate document publication dates of IASB projects that are currently not yet issued as a standard.

No	IASB project	Latest document issued	Comments to be given by	Targeted issuance date		
				DP	ED	IFRS
A. New standards and major projects						
1.	Common Control Transactions	ED		To be determined		
2.	ED 10 on Consolidated Financial Statements		20 March 2009			2H 2009
3.	Derecognition				2Q 2009	2H 2010
4.	Emission Trading Schemes	DP			2H 2009	2H 2010
5.	DP on Fair Value Measurement	ED	2 April 2007 extended to 4 May 2007		1Q 2009	1H 2010
6.	DP on Reducing Complexity in Reporting Financial Instruments (replacement of IAS 39)	DP	19 September 2008		To be determined	
7.	DP on Financial Instruments with Characteristics of Equity	DP	5 September 2008		2H 2009	2011
8.	DP on Preliminary Views on Financial Statement Presentation	DP	14 April 2009		1H 2010	2011
9.	Government Grants			To be determined		
10.	ED on a Proposed IFRS for Small and Medium-sized Entities	ED	1 October 2007			2Q 2009
11.	Income Taxes				1Q 2009	1H 2010
12.	DP on Preliminary Views on Insurance Contracts	DP	16 November 2007		2H 2009	2011
13.	DP on Leases - Preliminary View	DP	17 July 2009		1H 2010	2011
14.	ED on Proposed Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IAS 19 Employee Benefits	ED	28 October 2005			2H 2009
15.	DP on Management Commentary	DP	28 April 2006		2Q 2009	1H 2010 (complete guidance)
16.	DP on Preliminary View on Amendments to IAS 19 Employee Benefits	DP	26 September 2008		2H 2009	2011
17.	Rate-regulated Activities	DP			2Q 2009	To be determined
18.	DP on Revenue Recognition in Contracts with Customers	DP	19 June 2009		1H 2010	2011
B. Amendments to standards						
19.	ED on Proposed Improvements to IFRSs (2007 – 2009)	ED	7 November 2009			2Q 2009
20.	Annual Improvements (2008 - 2010)				2H 2009	1H 2010
21.	ED on Discontinued Operation (Proposed Amendments to IFRS 5)	ED	23 January 2009			2Q 2009
22.	ED on Simplifying Earnings per share (Proposed Amendments to IAS 33)	ED	5 December 2008			2H 2009
23.	ED on Embedded Derivatives (Proposed Amendments to IFRIC 9 & IAS 39)	ED	21 January 2009			1Q 2009
24.	ED on Improving Disclosures about Financial Instruments (Proposed Amendments to IFRS 7)	ED	7 November 2008			1Q 2009
25.	ED on Additional Exemptions for First-time Adopters (Proposed Amendments IFRS 1)	ED	23 January 2009			2H 2009
26.	ED 9 on Joint Arrangements	ED	11 January 2008			2Q 2009
27.	ED on Relationships with the State (Proposed Amendments to IAS 24)	ED	13 March 2009			2H 2009
28.	ED on Group Cash-settled Share-based Payment transactions (Proposed Amendments to IFRS 2 and IFRIC 11)	ED	17 March 2008			2Q 2009
C. Conceptual Framework						
29.	Phase A: Objective and Qualitative Characteristics ED on Conceptual Framework for Financial Reporting - The Objective of Financial Reporting and Qualitative Characteristics and Constraints of Decision-Useful Financial Reporting Information	ED	29 September 2008			2Q 2009
30.	Phase B: Elements and Recognition			1H 2010	To be determined	
31.	Phase C: Measurement			2H 2009	2H 2010	To be determined
32.	Phase D: Reporting Entity DP on Preliminary Views on an Improved	DP	29 September 2008		2H 2009	To be determined

No	IASB project	Latest document issued	Comments to be given by	Targeted issuance date		
				DP	ED	IFRS
	Conceptual Framework for Financial Reporting : The Reporting Entity					
33.	Phase E: Presentation and Disclosure				To be determined	
34.	Phase F: Purpose and Status				To be determined	
35.	Phase G: Application to Not-for-profit Entities				To be determined	
36.	Phase H: Remaining Issues				To be determined	
D. Research						
37.	Extractive Activities	DP		1Q 2009	To be determined	
38.	Intangible Assets				To be determined	

DP – Discussion Paper ED – Exposure Draft IFRS – International Financial Reporting Standard

PricewaterhouseCoopers' publications and tools 2009

PwC's IFRS website

PwC's global IFRS website www.pwc.com/ifrs is a one-stop shop for companies to learn about the firm's experience in reporting under IFRS. Entities can access to the latest news and updates on IFRS developments, high-level guidance via 'topic summaries', as well as publications and information on other IFRS tools. Users can also navigate to local PwC IFRS pages, e.g. www.pwc.com/my. You may subscribe to receive updates.

The publications listed below can be viewed on www.pwc.com/ifrs unless another website is indicated. All publications can be downloaded for free except for those indicated with "*" which may be ordered via email to support@cch.com.my.

Financial reporting publications

IFRS manual of accounting 2009*

PwC's global IFRS manual provides comprehensive practical guidance on how to prepare financial statements in accordance with IFRS. Includes hundreds of worked examples, extracts from company reports and model financial statements.

A practical guide to new IFRSs for 2009

40-page guide providing high-level outline of the key requirements of new IFRSs effective in 2009, in question and answer format.

A practical guide to capitalisation of borrowing costs

Guidance in question and answer format addressing the challenges of applying IAS 23R, including how to treat specific versus general borrowings, when to start capitalisation and whether the scope exemptions are mandatory or optional.

A practical guide to segment reporting

Provides an overview of the key requirements of IFRS 8, 'Operating Segments' and some points to consider as entities prepare for the application of this standard for the first time. Includes a question and answer section. Also available: Eight-page flyer on high level management issues.

A practical guide to share-based payments

Answers the questions we have been asked by entities and includes practical examples to help management draw similarities between the requirements in the standard and their own share-based payment arrangements. November 2008.

Adopting IFRS – A step-by-step illustration of the transition to IFRS

Illustrates the steps involved in preparing the first IFRS financial statements. It takes into account the effect on IFRS 1 of the standards issued up to and including March 2004.

Financial reporting in hyperinflationary economies - understanding IAS 29

2006 update (reflecting impact of IFRIC 7) of a guide for entities applying IAS 29. Provides an overview of the standard's concepts, descriptions of the procedures and an illustrative example of its application.

IAS 39 – Achieving hedge accounting in practice

Covers in detail the practical issues in achieving hedge accounting under IAS 39. It provides answers to frequently asked questions and step-by-step illustrations of how to apply common hedging strategies.

IAS 39 – Derecognition of financial assets in practice

Explains the requirements of IAS 39, providing answers to frequently asked questions and detailed illustrations of how to apply the requirements to traditional and innovative structures.

IFRS 3R: Impact on earnings the crucial Q&A for decision-makers

Guide aimed at finance directors, financial controllers and deal-makers, providing background to the standard, impact on the financial statements and controls, and summary differences with US GAAP.

IFRS disclosure checklist 2008

Outlines the disclosures required by all IFRSs published up to October 2008.

IFRS for SMEs (proposals) – pocket guide 2007

Provides a summary of the recognition and measurement requirements in the proposed 'IFRS for Small and Medium-Sized Entities' published by the International Accounting Standards Board in February 2007.

IFRS pocket guide 2008

Provides a summary of the IFRS recognition and measurement requirements. Including currencies, assets, liabilities, equity, income, expenses, business combinations and interim financial statements.

IFRS news

Monthly newsletter focusing on the business implications of the IASB's proposals and new standards. Subscribe by emailing corporatereporting@uk.pwc.com.

Illustrative interim financial information for existing preparers

Illustrative information, prepared in accordance with IAS 34, for a fictional existing IFRS preparer. Includes a disclosure checklist and IAS 34 application guidance. Reflects standards issued up to 31 March 2008.

Illustrative consolidated financial statements

- Banking, 2006
- Corporate, 2008
- Insurance, 2006

Realistic sets of financial statements – for existing IFRS preparers in the above sectors – illustrating the required disclosure and presentation.

SIC-12 and FIN 46R – The substance of control

Helps those working with special purpose entities to identify the differences between US GAAP and IFRS in this area, including examples of transactions and structures that may be impacted by the guidance.

Understanding financial instruments A guide to IAS 32, IAS 39 and IFRS 7*

Comprehensive guidance on all aspects of the requirements for financial instruments accounting Detailed explanations illustrated through worked examples and extracts from company reports.

Understanding new IFRSs for 2009 – A guide to IAS 1 (revised), IAS 27 (revised), IFRS 3 (revised) and IFRS 8*

Supplement to IFRS Manual of Accounting. Provides guidance on these new and revised standards that will come into force in 2009 and will help you decide whether to early adopt them. Chapters on the previous versions of these standards appear in the IFRS Manual (see above).

Financial reporting publications (cont'd)

The following financial reporting publications are available in www.pwc.com/my

Segmenting management's perspective

Published when MASB issued ED 57 on IFRS 8 Operating Segments. It highlights the key changes and implications.

Ready or not?

Provides an overview of FRS 7 with some frequently asked questions. Also explains some of the more significant disclosure changes that companies will need to prepare for.

Sensitivity analysis of market risks

The potential impact of market risks is one of the more significant challenges of FRS 7. An illustration of how sensitivity of market risk might be calculated and disclosed in practice.

Financial Reporting Standards in Malaysia: How do they compare with IFRS?

Comparison of accounting standards as at 31 December 2008.

Private Entity Reporting Standards in Malaysia: How do they compare with IFRS?

Comparison of accounting standards as at 31 December 2008.

FRS disclosure checklist - December 2008

Outlines FRS disclosures required for a complete set of financial statements with periods beginning on/after 1 January 2008 but before 1 July 2009.

PERS disclosure checklist – December 2006

Outlines disclosures applicable to private entities for complete set of financial statements with periods beginning on/after 1 January 2006. Continues to be applicable at the date of this newsletter.

Interim reporting disclosure checklist

Outlines FRS disclosures required for condensed interim financial information in accordance with FRS 134 "Interim Financial Reporting".

Corporate governance publications

Audit Committee - Good Practices for Meeting Market Expectations

Provides PwC views on good practice and summarises audit committee requirements in over 40 countries.

World Watch magazine

Global magazine with news and opinion articles on the latest developments and trends in governance, financial reporting, broader reporting and assurance.

Building the European Capital Market - A review of developments - January 2007

This fourth edition includes the key EU developments on IFRS, the Prospectus and Transparency Directives, and corporate governance. It also summarises the Commission's single market priorities for the next five years.

Financial information: Are you asking the right questions?

The Audit Committee (AC) might find this publication useful by asking the CEO and/or CFO to work through the questions before a committee meeting, and to brief the AC members of their views. The AC can then concentrate on challenging and testing management's views at the meeting. This publication can be downloaded at www.pwc.com/my.

Corporate responsibility publication

Are you reporting responsibly?

A brief introduction to corporate responsibility (CR) and an example CR Report, comprising key elements for such reports, can be downloaded at www.pwc.com/my.

IFRS tools

PwC inform

IFRS online

Online resource for financial professionals globally, covering financial reporting under IFRS (and UK GAAP). Use PwC inform to access the latest news, guidance, comprehensive research materials and full text of the standards. The search function and intuitive layout enable users to access all they need for reporting under IFRS. Register for a free trial at www.pwcinform.com.

Comperio

Your path to knowledge

Online library of financial reporting and assurance literature. Provides the full text of IASB literature as well as ISAs, International Auditing Practice Statements and IPSAS. Also contains PwC's IFRS and corporate governance publications, and Applying IFRS. For more information, visit www.pwc.com/comperio.

Impending key changes impacting Malaysian companies

Reported earnings will be more volatile and harder to predict, particularly with increased use of fair value. This is reflective of the risks that businesses have to face today

- Simple equity investments, both quoted and unquoted, have to be marked-to-market, with fair value changes recorded in reserves. However, if impaired, fair value losses are recognised in income statement without the partial smoothing effect potentially allowed by the IAS 25 concept of other-than-temporary diminution (FRS 139)
- Derivatives are no longer off balance sheet; instead, they are valued at fair value at each balance sheet date, with fair value changes recognised in the income statement (FRS 139)
- For banking institutions in particular, there could be significant impact from using the effective interest method for computing interest and from using the FRS 139 methodology for loan impairment assessment
- Biological assets are to be recognised at fair value, with changes in the income statement (ED FRS 141)
- Property developers are to recognise profits on sale only upon completion of construction; in the interim period, costs incurred and progress billings received are accumulated as assets and liabilities respectively on the balance sheet (IFRIC 15 - yet to be issued as ED)
- Service concession companies are to recognise profits during the construction phase based on fair value of work done; the operator's restoration obligation to be accrued as the concession asset is being used, instead of being provided for as incurred or as part of the initial recognition of the concession asset (ED IC 12)
- Revenue must be attributed to customer loyalty programmes and deferred (ED IC 13)
- Outsourcing arrangements may be considered leasing arrangements (IFRIC 4 - yet to be issued as ED)
- Information previously available only in management accounts is disclosed in financial statement e.g. segment information (FRS 8) and financial risk disclosures (FRS 7)
- There could be impact to reported earnings due to the effect of the change in definition of segments on goodwill impairment (FRS 8)
- In a business combination, earnings will become harder to predict (new IFRS 3 - yet to be issued as ED in Malaysia). E.g.
 - Transaction costs are expensed
 - In a step-up acquisition, a previously held interest in the acquired entity is deemed to be disposed of at its fair value, with gains/losses recognised in income statement
 - Contingent consideration payable in cash are remeasured to fair value at each balance sheet date, with changes recognised in income statement

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