

*industry
education
graduates*



*knowledge
leadership
ethics
identity*

One of the key priorities for the Malaysian Institute of Accountants (MIA) is to work with all stakeholders to develop capacity and talent which is relevant and highly skilled in order to advance the accountancy profession.

As such, it is vital to engage universities to ensure that accountancy educators and industry are on the same page. At the recent MIA National Accounting Educators Symposium (NAES) held on 13 and 14 May 2013 MIA President Datuk Mohd Nasir Ahmad said, "Universities are an important source of the professionals we will require in the future, but there is an urgent need to upkeep the skills of the profession."

As MIA's signature event for those involved in accounting education, the aim of NAES is to "help institutions of higher learning attain world-class standards in educating and developing accountants who are resilient, skilled, knowledgeable, creative, innovative, competitive and intellectually rigorous. It is also to explore solutions to challenges that face the profession, and to understand the steps taken by regulators to enhance it," noted Datuk Nasir.

MIND THE GAP

WHERE IS ACCOUNTANCY EDUCATION IN MALAYSIA HEADING? HOW CAN ACCOUNTANCY EDUCATION IN MALAYSIA BECOME MORE RELEVANT AND EFFECTIVE TO BRIDGE THE WIDENING GAP BETWEEN GRADUATES AND INDUSTRY?

Majella Gomes



THE QUALITY ISSUE

Ensuring the high quality of graduates and accountancy talent is imperative, said Datuk Nasir. As part of its efforts, MIA is conducting an ongoing review to address all questions about possible shortfalls in the quality of its training programmes. Collaboration and stakeholder engagement are essential because educational improvement is a work in progress involving numerous interested quarters. MIA has established several collaborative efforts with the Ministry of Higher Education (MOHE) to ensure the quality of professional accounting education is maintained in institutions of higher learning.

Dr. Aishah Abu Bakar, Director, Academic Development Management Division from the Department of Higher Education said the Ministry of Higher Education recognised the need for continuous and higher education to develop the pool of intellectual capital. "We are looking at improving the quality of teaching, Research & Development, and developing a culture of lifelong learning," to deliver improved standards in accountancy education.

Frankly, she admitted that the current methods of delivering knowledge require a paradigm shift if educators are to continue being effective. "The new generation of students demand new methods," she continued. "We are looking at students who are digital natives who have different needs and different ideas. While surveys have shown that they are generally satisfied with what they have, many feel that their careers offer limited chances for learning."

To improve student satisfaction, educators have to understand and balance what students want with the need to produce market-ready finance professionals who could effectively meet future market needs, stressed Dr. Aishah.



THE MALAYSIAN EDUCATION BLUEPRINT 2013

A highlight of NAES was the discussion of the Malaysian Education Blueprint 2013 as well as Hala Tuju 3, the dedicated initiative to improving the quality of accountancy talent produced by institutes of higher education. In her overview of the blueprint, Dr. Takiah Mohd Iskandar, Chair of the Hala Tuju 3 Committee said that its aim was essentially to produce technically competent, ethical and well-rounded graduates, including accountancy graduates. "Ultimately, the Blueprint sees every student having knowledge, technical and leadership skills, bilingual proficiency, ethics, spirituality and a national identity."

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HALA TUJU 3

Dr. Takiah assessed the timeline and results of the Hala Tuju programme in enhancing accountancy education. Hala Tuju 1 saw public university accounting programmes coming under review in 2001. In 2006, Hala Tuju 2 reviewed the results of Hala Tuju 1 and made recommendations. The programme was enhanced to take into account international accounting standards and the needs of various stakeholders. Hala Tuju 2 also saw the inclusion of mandatory industrial training. Today, under Hala Tuju 3, MIA and MOHE are collaborating on ongoing monitoring and enforcement of the quality of accounting education in Malaysia. Describing it as the only benchmark in Malaysia for standards in accounting education, she said that Hala Tuju 3 essentially had six objectives: improving unsatisfactory soft skills, communication, critical thinking, and application of knowledge, ethics and competitiveness.



Members of the forum (L-R): Dr. Takiah, Dr. Suseela, Dr. Aishah, Ng and Datuk Nasir.

It is urgent to nurture a participative and open environment in the Malaysian classroom, which is notorious for student passivity. If lecturers want students to communicate better, they would have to “let go” and allow students to speak more. “A lot can be achieved if lecturers know how to facilitate this,” said Dr. Aishah. “We should be helping students to articulate their queries better.”

However, these are root issues that need to be addressed early in life, even before students reach university. Dr. Aishah pointed out despite MOHE launching other blueprints that support Hala Tuju 2, the core issues were far from being addressed. “The feedback we have received so far on the Hala Tuju programmes says that the curriculum is adequate but frankly, we find our students still lacking the ‘soft’ skills necessary for the profession,” she remarked. “There have been calls to move away from assessing students to more concerted efforts at achieving effectiveness.”

Commenting on this shortfall in soft skills especially among Generation Y students, Patrick Ng, Partner, PwC Malaysia remarked that it may stem from “Gen Y students having too many options without clear career objectives. As a result, they are unable to focus on the key skills that would give them the edge in certain professions and are easily distracted. They want to do everything whereas skills such as report writing require time and focus to master.”

The cornucopia of options available to Gen Y seems to be a hindrance more than a help, since they realise that many doors are open to them and they can change

paths mid-stream. “Students these days are just less committed,” admitted Dr. Takiah. “Their attitudes have changed considerably.”

A QUESTION OF MATURITY

The need for speed is also affecting quality. Aspiring accountants used to work and get experience before sitting for exams but these days, it is common to see students taking exams before getting any experience. “So their thinking and critical skills are less developed,” opined Datuk Nasir. “Students need to understand what work ethics, for instance, is all about.”

These days, there are also graduates who become lecturers without accumulating any industry experience.

“When you want to impart knowledge, the teachers have to have the necessary skills and knowledge to impart. Accounting is a professional vocation. How do you teach a professional course without professional exposure? Lecturers should spend their sabbaticals on attachment with accounting firms, so that they can keep up with market trends. They need to train continuously to meet expectations as well,” asserted Datuk Nasir.

STIMULATING FREE SPEECH, CRITICAL THINKING

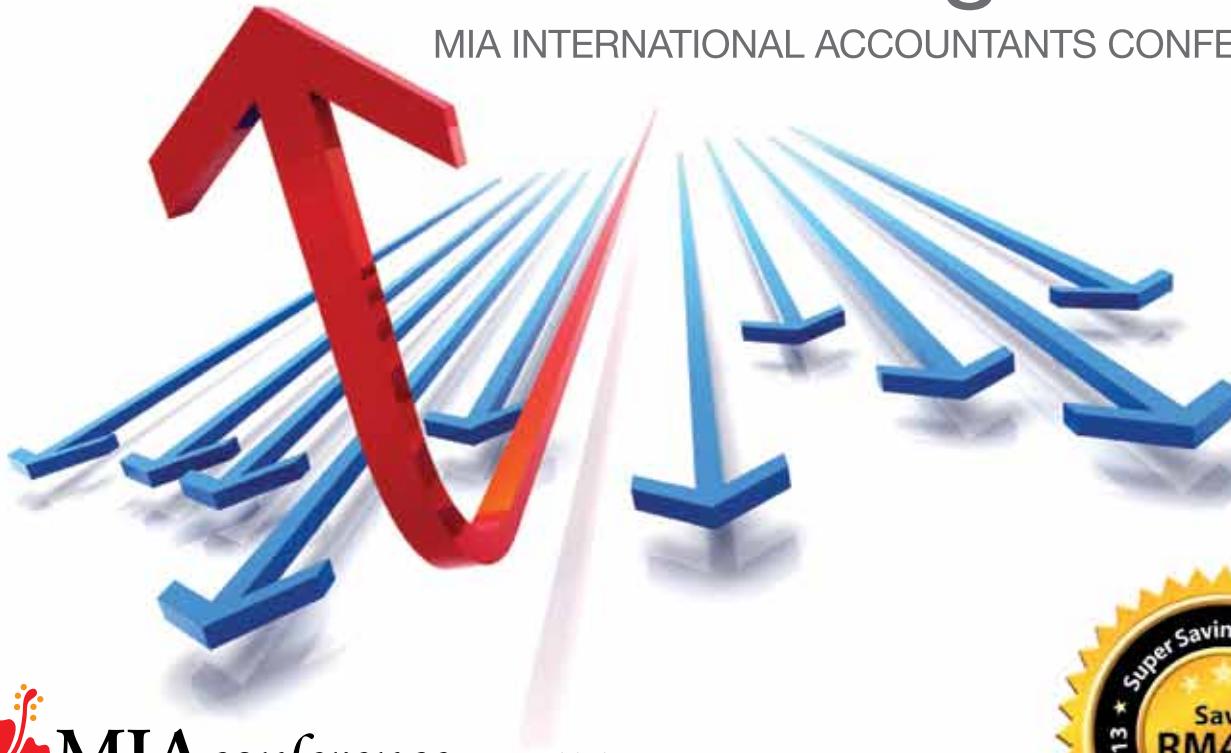
It is urgent to nurture a participative and open environment in the Malaysian classroom, which is notorious for student passivity. If lecturers want students to communicate better, they would have to “let go” and allow students to speak more. “A lot can be achieved if lecturers know how to facilitate this,” said Dr. Aishah. “We should be helping students to articulate their queries better.”

“Everyone should learn to develop a point of view and how to articulate it,” agreed Patrick Ng. “Students have to learn to speak up, to formulate an opinion and to get your message across. If you don’t speak up at work, nobody will know what you know.”

Firms should also step forward to offer innovative experiences simulating the workplace which can expose students to the real world and help them become more relevant. Dr. Aishah noted the example of a university in Indonesia which featured corporate-sponsored rooms which actually recreated the work environment for students to practice their skills in. “Instead of expecting students to come to them, they went to the students,” she said. “These

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industry players sponsored work spaces in the university so that students could get an idea of what to expect when they entered the real world. In addition, at least one lecture of the course was delivered by a practitioner. Because there was this kind of direct industrial input, the course content remained relevant and up to date."

This industry-academic link has existed for some time. "In public universities, they have at least one deputy vice-chancellor looking after industrial relations, so this kind of thing is not exactly new," said Datuk Nasir. "We need to create an environment that encourages interaction; people – and students in particular – need to see before they understand. Professionals, especially retired professionals, should teach." Dr. S. Suseela Devi, Associate Professor of Universiti Malaya's Faculty of Business & Accountancy echoed this sentiment, emphasising that recruiting professionals to teach was an excellent idea appreciated by students.

"It offers a different experience for students," she said, referencing her own experience in university lecture halls. "They find it more interesting, and easier to relate to. But the mindset of lecturers needs a major shift as well. They may find it difficult to change from a position of lecturing to one of facilitating learning. It's actually a case of having to shift perspectives. University students have gone through a lifetime of rote learning and memorisation; they find it hard to give an opinion. It does take some getting used to." Expressing concern over students' general inability to think, Dr. Takiah felt that this shortfall needed to be concientedly addressed before any improvement could be noted in the quality of graduates.

Technology could also be stifling soft skill development. "Young people are losing the ability to speak, because of technology," remarked Datuk Nasir. "They may be technologically advanced but technology may be eroding their ability to communicate effectively!"

BRANDING MALAYSIAN ACCOUNTING EDUCATION

The idea of initiating a "Malaysian Brand" of accounting education was also floated, but it was generally felt that a great deal more has to be achieved before establishing a "brand". Ng felt that although it was good to have a sovereign brand, work needs to continue now based on the resources that are available.

To strengthen graduate quality, he encouraged students to pursue personal branding through professional qualifications. "If students want to pursue professional qualifications like ACCA, MICPA, CPA or others, I'd see this as very positive," he said. "It encourages diversity, and gives different perspectives. This is very helpful in an increasingly globalised world. It also promotes flexibility and agility." It generally makes graduates very marketable in and beyond their own environments, provided they exhibit the necessary skills.

EXPECTATIONS

While it was generally felt that there should be more collaborative effort between regulatory bodies and universities to improve competency assessment, this should not be taken as a shortcut to fulfilling professional competency requirements. Ultimately, universities provide only limited exposure and experiences, which could mean a disadvantage for those accountancy graduates who do not pursue professional courses. "Students have to go out into the real world to experience the environment," said Dr. Suseela. "They have to put their learning to work; exposure is imperative. They need to perform at higher levels before

Students have to go out into the real world to experience the environment.

being recognised as professionals so there is a need for robust assessment. We didn't have the capacity or mechanisms when all this was first instituted, but now we do."

In tandem with developing a quality "Brand," all parties should work towards developing assessment that is recognised internationally, so that those lacking professional qualifications need not feel inferior to those who do. Datuk Nasir divulged that MIA was already in the process of coming up with a format for this as part of its CARE (Chartered Accountant's Relevant Experience) programme. "This will take the form of a six-month assessment to be made by employers of graduates," he said, emphasising that this assessment was a concerted effort to involve other stakeholders, and that similar initiatives in the future should be consistent and cohesive. ■



MALAYSIAN INSTITUTE OF ACCOUNTANTS

The Malaysian Institute of Accountants (MIA) is the national accountancy body that regulate and develop the accountancy profession in Malaysia. Established under the Accountants Act 1967, it represents more than 29,000 members who are currently making their strides in business across all industries in Malaysia as well as abroad. MIA is committed to building and maintaining the credibility of the accountancy profession via continuous education and professional development; professional standards and practices; as well as surveillance and enforcement activities.

MIA is a firm believer in having a strong and talented team to drive and support the Institute in heightening its competitiveness globally. To meet these aspirations, we are looking for the best talents to join our team in the following positions:

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- Assume the role of strategic thinker and anchor in bringing together the Membership Services, Education and Professional Development departments to generate and enhance cross department collaboration as well as teamwork for improved results.
- Create, develop and drive strategic plans to achieve financial and non-financial targets of the division.
- Manage team members effectively by providing leadership, direction, guidance, counseling, mentoring and coaching.
- Assess, review and enhance effectiveness and efficiency of the division's relevant systems, processes and policies.

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- Degree and/or professional qualifications in Accountancy/Finance/Business Administration or equivalent.
- At least 12 years relevant working experience, with 5 years in senior management position.
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Responsibilities:

- Lead and drive the Institute's surveillance and enforcement functions (consists of Practice Review, Financial Statements Review & CPE Compliance and Enforcement Departments) in safeguarding public interest.
- Create, develop and drive strategic plans to achieve targets of the division.
- Manage team members effectively by providing leadership, direction, guidance, counseling, mentoring and coaching.
- Assess, review and enhance effectiveness and efficiency of the division's relevant systems, processes and policies.

Requirements:

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- At least 12 years relevant working experience, with 5 years in senior management position.
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Framework-Based Teaching for Financial Reporting Standards

Going forward, accountancy education must embed a keen understanding of the accounting conceptual framework which aids understanding and application of the International Financial Reporting Standards (IFRS), or Malaysian Financial Reporting Standards (MFRS), the local equivalent. Meanwhile, students must be guided to apply the principles of professional scepticism and good judgement in scenarios where there are exceptions to the conceptual rules. Only then can effective accountants be produced.

Majella Gomes



Have accountancy educators found a solution to the current weaknesses of accountancy education in framework-based teaching, an approach that aims to assist accounting educators in their efforts to enhance students' understanding of accounting standards?

Framework-based teaching is intended to not only enhance students' understanding of the subject matter, but to develop their ability to make the necessary judgements when applying financial reporting standards, expounded Dr. Nurmazilah Dato' Mahzan, Deputy Dean (Undergraduate), Faculty of Business and Accountancy, University Malaya, speaking on Framework-Based Teaching for Financial Reporting Standards at the recent National Accounting Educators Symposium (NAES) 2013.

Revising education is particularly important to ensure that accountancy learning is relevant in an age when the

profession is becoming more and more complex to navigate. "The International Accounting Standards Board (IASB) has acknowledged that standards are getting more complicated," said Dr. Nurmazilah. "Frankly, it is not easy to teach everything that needs to be taught in just three or four years. But we do recognise that all standards have some basic concepts."

"Of course, there are some exceptions to the basic concept rule," she continued. "Framework-based IFRS teaching explains why some of those concepts are not maximised, and relates IFRS requirements to the conceptual framework. Furthermore, it opens up discussion among students and encourages a more critical approach." The conceptual framework includes the objectives of financial reporting and enables auditors to make informed decisions. Students need to first understand why and how financial statements are constructed and presented, she added.

WHAT IT IS AND HOW IT WORKS

The IASB's conceptual framework sets out agreed concepts for IFRS financial reporting such as the objective of general purpose financial reporting; qualitative characteristics; elements of financial statements; recognition; measurement; and presentation and disclosure. What framework-based teaching provides is a cohesive understanding of IFRSs, together with a basis for judgement in applying IFRSs. It also helps users to keep abreast of IFRS knowledge and competencies. "When discussion is brought back to the Framework, students can see how it relates to the standard," Dr. Nurmazilah explained further. "It helps them make their own judgements, and apply principles to economic conditions. They can better understand the flow of standards and concepts, and discussion sequences."

A principle-based standard begins with recognition, she said, then progresses to measurement and closes with presentation and disclosure. "There are usually no exceptions in principle-based standards but in certain business models, exceptions may have to be applied," she confirmed. "It is recognised that in some emerging economies, for instance, some standards like fair value measurement cannot be applied. Professional judgement is required, plus a thorough understanding of the principles."

"Therefore, what we are looking to do is encourage the development of skepticism among students," said Dr. Nurmazilah. Touching on what is expected in discussions with students, she emphasised that lecturers may not want to go in-depth but it was important to go as far as possible because this will help students apply their knowledge when they are in a work environment.

REAL WORLD SIMULATIONS

The crux of the issue is that educators have to prepare students for the real world. She suggested creating scenarios in the classroom where students would be required to "make the call" – i.e., decide based on the facts they have, and



"Lecturers must be aware of the need for students to be able to make judgement calls, it has to start in basic areas first, then progress to more complex situations."

DR. NURMAZILAH DATO' MAHZAN, Deputy Dean (Undergraduate), Faculty of Business and Accountancy, University Malaya.

through applying the principles and concepts that they have learned in theory. "Lecturers must be aware of the need for students to be able to make judgement calls," she said. "It has to start in basic areas first, then progress to more complex situations." In response to whether framework-based teaching actually helps students understand IFRS and exercise professional judgement, she cited the example of the University of Cape Town in South Africa which has applied this method since 2005. "The University's students who learned under this system are more employable today," she said.

FRAMEWORK-BASED TEACHING – THE PROCESS

Since IASB uses the Framework to set IFRSs, it is logical to use Framework-based teaching to prepare students to make judgements. Auditors and regulators assess these judgements, and inves-

tors, lenders and other stakeholders also consider these decisions and information when making their own conclusions. Dividing the focus of the teaching into three stages, she said that Stage 1 would entail explaining economics and relating information to requirements. This will create awareness of estimates and other judgements, and will have to be reinforced with classroom discussion. A more comprehensive understanding of estimates and judgements involved in applying IFRSs will develop in Stage 2, to be reinforced in Stage 3 by developing the necessary competence to make these calls.

Dr. Nurmazilah also covered the assessment focus areas for Stages 1, 2 and 3. In Stage 1, the focus should be on assessing basic knowledge and understanding of the main concepts, selected main principles and awareness of basic estimates and judgements. Assessment

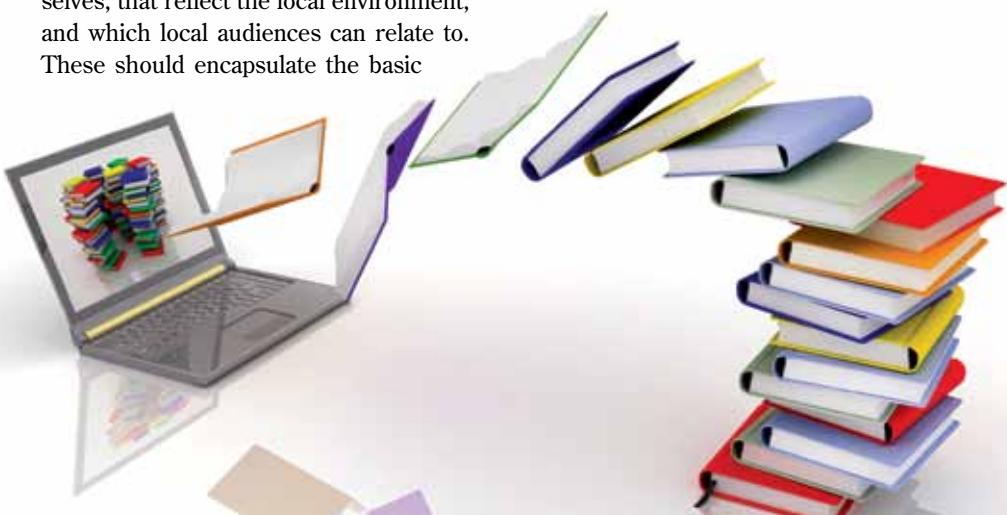
in Stage 2 should be of the understanding of estimates and other judgements in applying IFRS, and Stage 3 should encompass assessment of competence in making estimates and judgements that are necessary in the application of IFRSs. Integrated case studies may be used at this stage, especially for unfamiliar items. Urging educators to thoroughly understand the concepts, she said, "Are we ready to adopt this in our teaching? Educators will have to come up with viable solutions to enable this to be put into practice."

MALAYSIA-CENTRIC TEACHING MATERIALS NEEDED

However, are these case studies easily available? Dr. Nurmazilah noted that it is urgent to address the matter of sufficient teaching materials. She mentioned

a number of publications and websites that could assist in this but emphasised that educators need to collaborate and share resources if the new methods were to work. "There are abundant reference materials available," she said. "But not all of it is relevant. Perhaps what will work best is examples that we formulate ourselves, that reflect the local environment, and which local audiences can relate to. These should encapsulate the basic

concepts." However, she conceded that this was time-consuming and challenging – although the rewards would certainly be worth the effort. "It is our responsibility as educators to work together and develop relevant material," she concluded. "That is the only way we will be able to achieve what we have set out to do." ■



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MFRS in motion

KPMG PARTNER THONG FOO VUNG DISCUSSED SOME KEY CURRENT DEVELOPMENTS AND UPDATES TO THE CHALLENGING FINANCIAL REPORTING STANDARDS RELATING TO ACCOUNTING OF SUBSIDIARIES, JOINT ARRANGEMENTS AND FAIR VALUE.

Majella Gomes

As the International Financial Reporting Standards (IFRS) continue to be fine-tuned, it is vital to constantly stay abreast of changes, updates and new developments to these IFRSs as well as their Malaysian equivalent – the Malaysian Financial Reporting Standards (MFRS). At the recent National Accounting Educators Symposium (NAES) 2013, KPMG Partner Thong Foo Vung highlighted the changes introduced by MFRS 10 (Consolidated Financial Statements), MFRS 11 (Joint Arrangements), MFRS 12 (Disclosure of Interests in Other Entities), and MFRS 13 (Fair Value Measurement).

KEY DEVELOPMENTS

"Most listed companies will have started using MFRS 10 from the first quarter of 2013," Thong said. "MFRS 10 replaces FRS 127 and IC 12, using one single control model. MFRS 11 replaces FRS 131, while MFRS 12 consolidates the disclosure requirements of subsidiaries, associates and joint arrangements as well as for structured entities or special purpose vehicles. Practitioners should be aware that there are now more disclosures under MFRS 12. Meanwhile, MFRS 13 forces accountants to go beyond the conventional debits and credits, and to be on the lookout for inputs governing measurement and disclosures of fair value."

DETERMINING CONTROL AND SUBSTANTIVE RIGHTS UNDER MFRS 10

Speaking on consolidation, Thong noted that MFRS 10 focuses on the determination of control, primarily on power over relevant activities and also exposure or rights to variability of returns.

Besides power, Thong's presentation covered substantive and protective rights in MFRS 10, together with examples of practical application of the standard and how it relates to real-world situations. "MFRS 10 introduces the new concept of relevant activities and substantive rights," he said.

He clarified that when an assessment is made, only substantive rights would be considered. Using an SPV (special purpose vehicle) as an example, he said that voting rights were irrelevant because the SPVs are usually run in accordance to a trust deed.

One of the implementation issues highlighted was on de facto power. MFRS 10 now provides more guidance on de facto power. For example, an entity may hold less than 50% of the shares in a listed company, yet may be able to control it because the other shareholders are widely dispersed and passive.

"MFRS 10 introduces the new concept of relevant activities and substantive rights," he said. "The standard makes it clear whether it is a matter of substantive or protective rights."

He clarified that when an assessment is made, only substantive rights are counted. Using an SPV as an example, he said that voting rights were irrelevant because SPVs are usually held by a trustee.

ACCOUNTING FOR JOINT ARRANGEMENTS - MFRS 11

Moving on to MFRS 11, he said that under Joint Arrangements, there was no more proportionate consolidation. Under FRS 131, Jointly-Controlled Operations (JCOs) used line-by-line accounting whereas under MFRS 11, there would be line-by-line accounting of the underlying assets and liabilities of Joint Operations (JOs). Jointly-Controlled Entities (JCEs) used equity accounting or proportionate consolidation under FRS 131; under MFRS 11, Joint Ventures only use equity accounting.

Accounting for Joint Arrangements also takes into consideration what constitutes a Joint Venture (JV) or a Joint Operation (JO). A Joint Venture's consolidated financial statements will use the equity method of MFRS 128 to account for its interest in a Joint Venture. Whereas in the company level financial statements, it may use cost model or MFRS 9 Financial Instruments or MFRS 139 Financial Instruments: Recognition and Measurement to measure the investment in the joint venture. A Joint Operation, on the other hand, recognises its own assets, liabilities and transactions, including its share of revenue and expenses, in both its consolidated and separate financial statements. Questions that need to be asked when determining whether an entity is a JV or JO involve queries about its structure, legal form, contractual arrangement and other relevant facts and circumstances. For instance, if the arrangement is structured through a vehicle that is not separated from the parties, it will be considered as a JO.

In a nutshell if the Joint Arrangement gives the parties rights to the assets and obligations of the arrangement, it is a JO, not a JV.

MORE ON FAIR VALUE

Under MFRS 13 Fair Value Measurement, fair value considers principles of the exit price, unit of account, condition and location, most advantageous market, market participants, orderly transaction and highest/best use. "MFRS 13 covers both financial and non-financial assets," Thong said. "The use of 'highest and best use' is different from how fair value used to be viewed. It is imperative that highest and best use is applied when doing fair valuation of non-financial assets. Sometimes the current use of the asset may not provide the highest and best use."

'Highest and best use' isn't always obvious from the outset, he cautioned. "There are still contentious areas



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**THONG FOO VUNG,
Partner KPMG**

here," he admitted. "For instance, in the case of biological assets, is the land more valuable as a plantation, or would it be more valuable if it was used for residential or commercial purposes? Sometimes the concept may create an anomaly. The highest and best use of the land may result in the entire fair value being ascribed to the land and there will be no fair value to the trees or building on the land. The matter was being debated at the International Financial Reporting Interpretations Committee (IFRIC). However, the issue could not be resolved and was referred to the IASB for clarification."

ONGOING IASB PROJECTS

Meanwhile, the International Accounting Standards Board (IASB) is continuing to work on key projects. These include the controversial lease accounting, revenue and financial instruments standards.

Touching on accounting education, Thong conceded that accounting standards weren't getting any easier for accounting educators and students. ■



Stephen Oong,
addressing
the audience
at the NACRA
2013 launching
ceremony.

Enhancing Corporate Reporting

NACRA 2013 AIMS TO BOOST THE QUALITY AND COMPARABILITY OF MALAYSIAN CORPORATE AND FINANCIAL REPORTING IN LINE WITH GLOBAL DISCLOSURE STANDARDS.

Nazatul Izma

Organisations are invited to submit their entries for the upcoming National Annual Corporate Report Awards 2013 (NACRA 13), the prestigious annual competition aimed at enhancing the quality of corporate reporting and Malaysia's international reputation in the investing community.

The submission deadline for NACRA 2013 is Friday, 28 June 2013.

NACRA 2013 is jointly organised by Bursa Malaysia Berhad, the Malaysian Institute of Accountants (MIA) and the Malaysian Institute of Certified Public Accountants (MICPA).

RAISING THE BAR

"The role of NACRA has been and will always be dedicated to recognising and highlighting the importance of excellent corporate reporting in order to sustain a strong and competitive capital market," said Stephen Oong, Chairman of the NACRA 2013 Organising Committee. Excellent corporate reporting is essential to ensure that Malaysian companies and capital markets are globally comparable and competitive.

While the purpose of NACRA remains essentially unchanged since inception in 1990, the judging criteria have been reviewed and enhanced each year

to reflect changes in line with global best practices and standards in annual corporate reporting, noted Loh Lay Choon, Chairman of the NACRA 2013 Adjudication Committee. NACRA criteria are also intended to encourage the disclosure of material and relevant information beyond statutory requirements which enable improved decision-making, she added.

NACRA 2013 is also significant because it "will mark the adjudication of many annual reports of companies and organisations which are first-time adopters of the new Malaysian Financial Reporting Standards (MFRS) Framework

which is fully compliant with the International Financial Reporting Standards (IFRS)," said Loh.

Meanwhile, Oong urged participants to emphasise independent assurance to provide added comfort and confidence for investors. "Although high quality annual reports may be equated with high quality management, there must be a form of assurance as to the reliability and sufficiency of the information presented. Where accurate information is present, stakeholders and market players will be at ease to make decisions that drive momentum in the capital markets," he explained.

WINNING CRITERIA

Members of the adjudication panel for NACRA 2013 – drawn from various sectors including commerce and industry, public accounting and securities, academic, environmentalists, and advertising and communication firms - offered some insights into what elements differentiated a winning annual report from others.

Speaking on CSR or corporate social responsibility reports, Ng Kean Kok, noted that there are some key concerns. Chief is credibility. "One question that always comes out is how thorough and credible and reliable is the CSR report?"

Don't gloss over flaws and weaknesses. Transparency and openness enhance credibility. "Does the report include bad news as well as good news? Does the report address the company's greatest challenges?" Ng disclosed that the UK's recent Annual Corporate Reporting Awards polled users on what would make reporting more credible, and the highest number of respondents said it was bad news. 'Providing a balance between positive and negative news enables balanced assessment. But it is also important to disclose the steps you intend to take to remedy the bad news. It assures investors when you talk about how you are going to address the challenges you have faced and currently face."

Enlarge the scope of reporting. "The good news is that the trend in evidence in the past few years is that many companies have gone beyond simple community affairs reporting, addressing past criticism that companies tend to confine reports to charitable giving."



Ng Kean Kok



Aisha Rashid



Megat Iskandar Shah

Improve disclosure and details on CSR practices and policies, especially quantitative data and analysis as opposed to narrative. "Companies tend to provide volumes and volumes of words but users are looking for more data. Show data in comparable format e.g. trend analysis, improvements over past years." Talk about future prospects. "Does the report present future goals? This can be improved further."

Integration is also important to improve the usefulness and relevance of CSR reporting to investors and decision-makers. "Help users and readers to be able to tie in vision and mission policy and CSR reporting with traditional business statements and financial reporting. It would be good if reports could demonstrate a link between the firm's business strategies, risk management, corporate social responsibility and financial performance," urged Ng.

While it is not mandatory, independent third-party assurance and use of a global reporting standard such as the Global Reporting Initiative (GRI) also add to credibility of CSR reports.

Meanwhile, Aisha Rashid, expounded on the design aspect of winning annual reports. One key element is the cover design and how it relates to the theme of the annual report. "Does the cover design and the theme encapsulate the corporate vision, mission and values?" She noted that the winning design for 2012 presented by Maybank Berhad carried the theme of 'Humanising'. This was relevant because this is the direction that the world is going. "Business in the 21st century is about people, meeting people's needs and enhancing their well-being."

"Rein in your designers and creative consultancy", she advised. "Creative license must be tempered with the significance of the statutory document."

In terms of design and layout, the text, photos and graphics must be arranged with neatness. Fonts should be appropriate for a business document and of a readable size. Humorously, Aisha recommended a 11 or 12 point font since "many users of annual reports are like me, 60 going on 30 and we are too vain to use glasses."

Photos should be recent, not stock photos from the corporate library. "Make an effort to take recent hi-res photos, not photos taken with handphone cameras. Take photos with people in them, since adjudicators relate to these and business is about people. Corporate Communication departments should plan their photo sessions early to avoid having to use old stock photos as the deadlines loom closer."

Other tips include using professionally done graphics, matte art paper and high-quality printers. "Art paper is passe, though cheap. We have seen annual reports with jagged edges and bindings that fall apart. Remember that the annual report is the face of your business, so make the effort to invest in it."

The overall impact you want, said Aisha, is an annual report that makes the adjudicators go: "Wow! Too often, we look at an annual report and we moan 'oh no, not again!"

Speaking on the presentation of accounting information, Megat Iskandar Shah said that from the adjudicator's perspective, the key criteria are readability, ease of understanding and assessment, and the interconnectivity of the information.

Companies should be aware of defensive and offensive strategies in terms of presenting accounting information. "Defensive strategy means that companies must be in compliance with approved accounting standards and statutory disclosure requirements such as those found in the Companies Act. Offensive strategy refers to voluntary disclosures beyond compliance."

Megat noted that it is important for companies to try and differentiate themselves. He elaborated that most of the companies that participate already produce a high quality directors' report and set of financial statements. "So it is about going into the level of detail to differentiate which one is better than the other," he said.

"Tailored statutory disclosures" could also be a means of differentiation. For example, material provisions and reserves transfer note typically use



David Foo Kar Ching



Loh Lay Choon

important attributes in order to achieve top marks," said Megat.

In terms of offensive strategy, more and more companies are disclosing "statement of value added." Some provide further analysis and breakdowns, narrative, analytical review comments; all these are differentiating. "NACRA winners are providing bespoke and applicable information rather than repeating standard disclosure statements," said Megat.

Presentation should also emphasise ease of readability, said Megat. "There should be appropriate presentation of all line items. Most companies use standard classifications, but just make sure it is easy to read. In addition, rewording the progressively legal language used in accounting standards to a more easy to read version will definitely help to make these more useful."

Megat also suggested for preparers to be meticulous in cross-referencing information to ensure that all accounting disclosure is consistent. "As a reviewer, I would check the cross-references first."

Echoing Aishah, Megat said that: "We also look for the wow factor – a good first impression usually means it is easier to read." Advising preparers on disclosure of corporate information, David Foo Kar Ching said that it is important to tell a story beyond providing data only. Preparers should also be meticulous in checking that they don't omit mandatory information. Perhaps, they could also be creative in how they present mandatory corporate information instead of presenting the same format year after year.

Importantly, all corporate information should be useful to the reader in providing greater insights and facilitating comprehension and decision-making. For example, when presenting industry trends, "don't just pluck figures and be brief. Explain what is happening in the industry."

When talking about mandatory and voluntary board committees, go beyond the bare bones of composition, dates and attendance. "Explain the rationale behind the composition of these board committees, their objectives, their achievements

and their value. If you are talking about board remuneration, tell investors why these directors are being paid this much and what they achieved. When it comes to the audit committee, talk about methodology and standards and analyse how the audit expenses are being spent."

Be honest and transparent. "Don't just relate bad news but tell us the factors contributing to this situation. Why did this happen? What is the next step? How will you mitigate this?"

Always assess the usefulness and value of information to readers. For example, some annual reports devote hundreds of pages to product coverage but fail to explain the value of the product to the company.

In presenting corporate and organisational charts, explain the roles of each position and how they fit into the organisation, said Foo.

In ending, Foo said that companies should reexamine their motives behind CSR and ensure that there are linkages and value to their business. "It is important to describe the objectives and value

of what we are doing in CSR in relation to its impact on your business. You must measure and disclose the efforts that you put into your CSR projects. Put in a timeframe for CSR projects and disclose how much you have achieved and what you want to achieve – perhaps through KPIs (key performance indicators). Is the value created by CSR activity and projects sustainable? If you are doing philanthropic work, explain the values and returns to the company."

Finally, companies were advised to refer to official publications to improve their reporting. For example, MASB Chairman Mohammad Faiz Azmi recommended that companies publishing a Bahasa version of their annual report refer to the MASB disclosure draft on Bahasa Malaysia terminology for financial reporting. Meanwhile, preparers were also referred to the Bursa Corporate Guidance Guide to enhance compliance and reporting.

THE WAY FORWARD

Audience members at the launch of

NACRA 2013 on 16 May 2013 at Bursa Malaysia asked why the contest focused on CSR reporting rather than integrated reporting (IR) or sustainability reporting, which are key new trends in global financial disclosure. "IR will be the next evolution in financial reporting. While Malaysia is not prepared yet for IR, we welcome companies that are ready to move on in terms of evolving to this next stage."

Bursa officials were also asked about the prospects of establishing a Bursa Malaysia Sustainability Index. Bursa Malaysia Chief Regulatory Officer Selvarany Rasiah said that the Sustainability Index was in the pipeline and Bursa was currently in meetings with index constructors and regulators. To ensure the success of a sustainability index, it is imperative that companies be prepared and qualify according to stringent sustainability criteria. "We will focus on capacity building to ensure company participation, but participation will be voluntary and not mandatory," said Selvarany. ■

NACRA 2013 KEY FACTS

NACRA 2013 is open to all organisations incorporated or registered in Malaysia, both listed and non-listed, as well as public sector and other organisations established in Malaysia.

NACRA comprises five categories of awards, namely:

- Overall Excellence Awards for Best Annual Reports of the year;
- Industry Excellence Awards for Companies Listed on the Main Market and the ACE Market
- Corporate Social Responsibility Reporting Awards
- Presentation Awards for Best Annual Report in Bahasa Malaysia and Best Designed Annual Report; and
- Special Award for Non-listed Organisations.

Oong reminded organisations that entrance was not automatic; they must submit their entries and pay the participation fee in order to have their annual reports adjudicated.

Participation fees (inclusive of a standard table at the NACRA Awards Presentation Dinner) are as follows:

- Companies listed on the Main Market RM6,800
- Companies listed on the ACE Market RM3,800
- Non-listed companies, Public Sector and other Malaysian organisations RM3,800

Certificates of Merit will be presented to each of the finalist companies in recognition of the high quality of their annual reports, and as a token of encouragement to achieve higher levels of excellence in corporate reporting. The closing date for registration and submission of entries is Friday, 28 June 2013. The NACRA Awards Presentation Dinner will be held on 21 November 2013.

For more information on NACRA 2013, email nacra@micpa.com.my or contact 03-2698 9622

Preparation and Fair Presentation of Financial Statements – Who is responsible?

THE RESPONSIBILITY FOR THE PREPARATION AND FAIR PRESENTATION OF THE FINANCIAL STATEMENTS SOLELY RESTS WITH THE DIRECTORS OF THE COMPANY, WHILE THE DUTY OF THE AUDITORS IS TO FORM OPINIONS ON THE FINANCIAL STATEMENTS.

MIA Professional Standards and Practices



Recent observations have highlighted that there are still varied perspectives among the stakeholders of financial statements on who is responsible for the preparation and fair presentation of financial statements. The purpose of this article is to reiterate the roles and responsibilities of the directors of a company (directors) and the auditors in relation to the financial statements as provided under the Companies Act 1965 (Act), the approved auditing standards in Malaysia and Bursa Malaysia listing requirements.

DIRECTORS' RESPONSIBILITIES

Under the Act, the responsibility for the preparation and presentation of financial statements rests with the directors. The duties and responsibilities of directors are clearly stated in the Act. The directors are responsible for the management of their companies and have a fiduciary duty to act in the best interest of their companies. In addition, the Act also requires a public company and its subsidiary to have in place a system of internal control to safeguard the assets of the company and to ensure all transactions are properly authorised and recorded to enable the preparation of true and fair financial statements.

Besides the Act, the Bursa Malaysia listing requirements also set out the requirements that must be complied with by a listed issuer and its directors with regard to corporate governance. It requires the establishment of the audit committee among the directors, whose main functions are reviewing the annual financial statements and quarterly financial results, evaluating the audit process (both internal and external audits) and reviewing related party transactions.

AUDITORS' RESPONSIBILITIES

Under the Act, auditors are required to report whether the financial statements

REPARATION AND FAIR PRESENTATION OF FINANCIAL STATEMENTS – WHO IS RESPONSIBLE?

give a true and fair view of the company's affairs in accordance with the approved accounting standards (in case of a listed issuer, the Malaysian Financial Reporting Standards) and the requirements of the Act.



An auditor conducts an audit of financial statements of a company in accordance with approved auditing standards in Malaysia known as International Standards on Auditing (ISAs). An audit is conducted on the premise that directors have acknowledged and understand they have the responsibility:

- (a) For the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation;
- (a) For such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- (a) To provide the auditor with:
 - i. Access to all information of which directors are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - ii. Additional information that the auditor may request from directors for the purpose of the audit; and
 - iii. Unrestricted access to persons within the company from whom the auditor determines it necessary to obtain audit evidence.

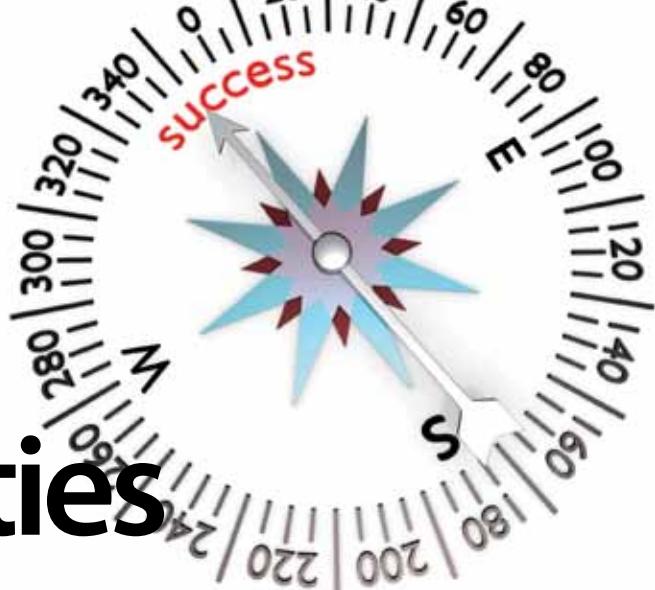
The ISAs further state that the responsibility of the auditor is to express an opinion on the financial statements based on the audit.

Further, the MIA By-Laws prohibit an auditor of a public interest entity to be involved in any accounting-related function of the company, including, but not limited to the preparation of the company's financial statements which would otherwise affect the auditor's independence.

CONCLUSION

In conclusion, the responsibility for the preparation and fair presentation of the financial statements solely rests with the directors of the company while the duty of the auditors is to form opinions on the financial statements. ■

Roadmap for Private Entities



WHAT CAN SMEs AND SMPs EXPECT FROM THE NEW ROADMAP FOR PRIVATE ENTITIES REPORTING STANDARDS 2016 ISSUED BY THE MALAYSIAN ACCOUNTING STANDARDS BOARD?

MIA Professional Standards and Practices

According to the Roadmap for Private Entities Financial Reporting Framework issued recently by the Malaysian Accounting Standards Board (MASB), private entities that meet specified criteria will have to use the Financial Reporting Standards for Small and Medium-sized Entities (FRS for SMEs) beginning on or after 1 January 2016.

The FRS for SMEs, which was issued as MASB ED 72 for public comments in 2010, is virtually identical with the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) issued by the International Accounting Standards Board (IASB) in July 2009.

Datuk Ali Abdul Kadir, Chairman of the Financial Reporting Foundation, the oversight body of the MASB said, "An international language of disclosure and transparency is a goal worth pursuing on behalf of users, such as capital providers, of larger SMEs financial statements who seek comparable financial information to make well-informed decisions. The increasing worldwide acceptance of financial reporting using IFRS for SMEs have led the MASB to give a lot of thought in making this milestone decision."

However, he added that, "The MASB

did not jump on the bandwagon for the sake of joining the crowd. IFRS for SMEs, which is a set of simplified IFRSs built on an IFRS foundation, is designed specifically for SMEs and is internationally recognised."

Based on a recent report by the IASB, over 80 jurisdictions have either adopted the IFRS for SMEs or stated a plan to adopt it within the next three years. Therefore, Malaysia would be in the mainstream of financial development with this move.

BENEFITS OF THE NEW ROADMAP

The changeover is timely in order to bring Malaysian SMEs abreast of global developments and to ensure that local accounting standards are aligned with global standards. The MASB has long acknowledged the need to consider replacing or updating the PERS Framework which in many aspects have not kept pace with the changing business environment as it was developed in 2006 based on the 2003 version of certain International Accounting Standards (IASs) issued by the International Standards Committee, the predecessor of the IASB.

MIA as the regulator and professional membership body for the accountancy profession welcomes the new framework

because the changeover offers multiple benefits, said MIA President Datuk Mohd Nasir Ahmad.

The roadmap is designed to elevate SMEs which are of vital importance to the economy. MASB's Chairman, Mohammad Faiz Azmi in the board's press release noted that national statistics indicated that SMEs represent over 97% of the total business establishments in Malaysia, contributing about 32% to the nation's gross domestic product. It is clear that promoting a viable SME sector is essential in the nation's focus towards broadening and sustaining the growth momentum.

The framework will also improve the comparability of financial statements with other jurisdictions and enhance the competitiveness of Malaysian capital markets. Datuk Nasir added that the new standards will enhance the transparency of the SMEs' financial position, facilitating investment and lending. Improved comparability will enable SMEs to leverage on the experiences of other jurisdictions. "The move to the new framework will also better prepare SMEs to transition to MFRS Framework when the need arises. Malaysia will also be able to minimise the current knowledge gap of accountants that apply PERS and those that apply the MFRS Framework," he said.

STRATIFICATION FOR SMEs

A key salient feature of the framework is the stratification criteria. According to a recent press release from the MASB on the roadmap, the financial reporting framework for private entities uses size threshold based on annual revenue of RM500,000 as the differentiator.

Given that the threshold for compliance will be RM500,000 in annual revenues, MASB estimated that fewer than 100,000 entities would need to apply the FRS for SMEs. Meanwhile, private entities with annual revenue of less than RM500,000 shall apply PERS.

However, Datuk Nasir queried if the estimated number of qualifying SMEs at fewer than 100,000 is realistic. "RM500,000 annual revenue is only about RM42,000 per month. Based on my experience in entrepreneur development, I think the number could be more than 100,000 SMEs."

Affected companies should also note that there are other provisions in relation to the application of FRS for SMEs. For example, a private entity is mandatorily required to apply the FRS for SMEs only if it meets the prescribed threshold criteria for previous two consecutive years.

Datuk Nasir also warned that although the mandatory effective date of the FRS for SMEs is 1 January 2016, the new requirements are also applicable to the comparative financial period. "Therefore, management would have to commence the impact assessment of the FRS for SMEs at the date of transition so that they would have the knowledge to perform a gap analysis to identify the necessary system or process changes needed to capture the required information as at the date of transition."



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Companies should also anticipate added investment. "Management should be prepared to invest in their human resources and systems infrastructure and establish an appropriate implementation plan to ensure a smooth transition to the new Framework," said Datuk Nasir.

SMPs

Where SMPs are concerned, they should work on creating awareness among their clients and encourage them to prepare early for the transition to the new Framework.

SMPs should also begin to build the capacity and capabilities of their audit professionals on the FRS for SMEs requirements. Review and revision to their audit work programmes to cater to the new Framework should also be commenced soonest possible, advised Datuk Nasir.

MIA is committed to helping its members make a smooth transition to the new standards. Specifically, MIA will collaborate with MASB to carry out awareness workshops nationwide and provide CPE training on a continuous basis for the benefit of members, said Datuk Nasir.

Training and awareness building will be critical for preparers using the new standards because of the knowledge gap between the current PERS and the new IFRS-based standards.



It goes without saying that the new standards will be more complex for adopters. "Generally, PERS is a simpler set of standards as FRS for SMEs is an IFRS-

based framework. In this regard, accounting principles used in FRS for SMEs are more complex than PERS. Furthermore, revisions to the IFRS for SMEs will be

made once every three years. We foresee FRS for SMEs will follow the revisions pattern of IFRS for SMEs," explained Datuk Nasir. ■

EXAMPLES OF DIFFERENCES BETWEEN PERS AND FRS FOR SMEs

Categories	FRS for SMEs	PERS
Consolidated & separate financial statements	Consolidated financial statements shall include all subsidiaries and parents	A subsidiary is excluded from consolidation when: - Control is temporary - Operates under severe long-term restriction
Foreign currency translation	- Requires identification of functional currency - Presentation currency may be in any currency	- No requirements to identify the functional currency - Silent on the requirement to present financial statements in RM
Intangible assets	- Development recognised as expense when incurred - All intangible assets have finite useful life and presumed to be 10 years if useful life is undeterminable	Development costs are recognised as an asset if satisfied requirements and amortised over its useful life
Property, plant and equipment	Revaluation model is not permitted	Revaluation is allowed
Investment property	- Fair value through PL if, without undue cost or effort - If not fair value: Cost-depreciation-impairment model	- Treat as a property under MASB 15; or - Account as long-term investment measured at cost or revalued amount
Borrowing costs	All to be expensed	Expense in period incurred or capitalised on qualifying asset
Financial instruments		
Classification	- Basic financial instruments - Other financial instruments	- Current asset - Long-term asset
Initial recognition	- Basic: Transaction price - Other: Fair value	Cost
Subsequent measurement	- Basic: Amortised cost - Fair value Other: - Fair value	Current asset: - Market value - Lower of cost and market value Long-term asset: - Cost - Revalued amounts - Lower of cost and market value
Hedging	Only the following risks can apply hedge accounting: - Interest rate - Foreign exchange - Price	No hedging requirements

*Note: The list above provides some examples and is not meant to be exhaustive.



The International Integrated Reporting Council (IIRC) is a global coalition of business, investors, regulators, standard setters, the accounting profession, and NGOs. This coalition is driving forward developments in corporate reporting – responding to further shifts in thinking and behaviour in order to shape a new reporting model for the 21st Century. This initiative will have a profound and beneficial impact for businesses, investors, capital markets and economies.

Ihe accounting profession will have a large role to play in this evolution of reporting, ensuring it becomes more relevant and meaningful to providers of financial capital and other stakeholders. Integrated reporting (IR) is an opportunity for accountants to enhance the profession's relevance by helping organisations reveal more about how they create and sustain value over time.

IR is a market-led evolution in corporate reporting. It enhances the communication between organisations and their stakeholders, ensuring that investors have greater insights into the business model and future outlook and prospects, thereby encouraging long-term thinking and transparency. As highlighted in the recent IFAC report, Investor Demand for Environmental, Social, and Governance (ESG) Disclosures, short-termism in the markets can create volatility and contribute to financial instability that erodes long-term value. To make decisions, providers of financial capital need to have an understanding of, and confidence in, the business model, as well as greater visibility over how the business creates

Integrated Reporting

value over time. A better relationship between business and its stakeholders, once Integrated Reporting becomes more widespread, will help to promote a more resilient global economy, and greater market-stability through longer term investments.

The composition of the market value of a business has changed substantially over the last 40 years, demonstrating that we live in a more complex business environment today. Research conducted by Ocean Tomo demonstrates that in 1975, 83% of a company's market value could be traced to tangible assets in financial statements. Today, only around 20% of a company's market value can be accounted for by its tangible assets.

All businesses rely on a variety of capitals for their success, including relationships with customers and the supply chain, the ability to innovate, as well as access to public infrastructure. Increasingly, as the businesses in our Pilot Programme are telling us, when businesses manage all relevant capitals such as intellectual, human, natural, and social and relationships capitals, there is a concurrent shift in focus towards future outlook and the creation of value.

An organisation should be held fully accountable for its use of investor funds and this information clearly has a crucial bearing on any decisions providers of financial capital make. Integrated reporting builds on, and complements, rather than replaces the need for financial and corporate social responsibility reporting.

The IIRC Pilot Programme, which is made up of a Business Network with over 90 world-renowned businesses such as Microsoft, Unilever, and the Big Four accounting firms, and over 50 investor organisations, has been driving forward this market-led evolution. The participants' feedback to the IIRC their experiences whilst on the road to IR and thereby help shape the International IR Framework. The Framework establishes the fundamental concepts, guiding principles, and content elements that will underpin the preparation of an integrated report (see graphic).



Until the 15 July 2013 deadline, the IIRC will be calling on all stakeholders to submit feedback on the Consultation Draft of the Framework. Please visit www.theiirc.org/consultationdraft2013

and respond to the Draft to ensure the Framework is robust, allowing businesses to speak the language of resilient business. ■

IIRC invites you to help shape the future

The drive from businesses and investors is coming together to help develop a new corporate reporting model for the future. The International Integrated Reporting Council (IIRC) is asking you to help shape this future by contributing to the Consultation Draft of the International Integrated Reporting (IR) Framework. This market-led initiative will have a profound and beneficial impact for businesses, investors, capital markets, and the economy.

On 16 April 2013, the IIRC commenced on a 90-day consultation period of the International IR Framework – the comment deadline is 15 July 2013. During this time the IIRC is calling on all stakeholders to read, critique, and challenge the Framework – feeding back their thoughts through the website www.theiirc.org/consultationdraft2013. Although the official version of this Consultation Draft is in English, there are approved translations in Arabic, Chinese, French, Italian, Japanese, Portuguese, Russian, and Spanish on the IIRC website.

A series of consultation questions have been included in the Consultation Draft – answers to these questions, and any other comments, will be important to the IIRC when reviewing the Draft Framework. Submissions are requested in English.

The IIRC plans to issue the initial version of the framework in December 2013 and to update it periodically as Integrated Reporting evolves.

Don't miss your chance to comment on the Consultation Draft and impact the future of corporate reporting! Make your views count.



Accounting for impairment of financial assets

THE IASB HAS RELEASED ITS LONG-AWAITED REVISED PROPOSALS ON ACCOUNTING FOR IMPAIRMENT OF LOANS AND OTHER FINANCIAL ASSETS, MOVING TO AN EXPECTED LOSS MODEL.

In early March 2013, the International Accounting Standards Board (IASB) issued its long-awaited revised proposals on accounting for impairment of financial assets. The proposals aim to address concerns about 'too little, too late' provisioning for loan losses and would accelerate recognition of losses by requiring provisions to cover both already-incurred losses and some losses expected in the future.

Andrew Vials, KPMG's global IFRS financial instruments leader, said: "The proposals are a step change in accounting for impairment and are likely to have a significant impact on banks and similar financial institutions."

The new model would apply to financial assets that are recognised on the balance sheet, such as loans or bonds, and measured either at amortised cost or at fair value with gains and losses recognised in other comprehensive income. It would also apply to certain loan commitments and financial guarantees. Chris Spall observed: "This is a welcome change because most banks' credit systems treat these exposures in a similar way."

Accounting for impairment has been hotly debated by standard setters on both sides of the Atlantic. Regrettably, the initial commitment of the IASB and the Financial Accounting Standards Board (FASB) to work together on joint proposals ended last year. In December 2012, the FASB issued its own proposals, which are quite different from the IASB's.

Vials said: "This is a big disappointment. The Boards have indicated that they plan to discuss jointly the comments received on their respective proposals, and we encourage them to do so with the aim of arriving at a single solution. However, the deadlines for providing responses to the exposure drafts are different, making it difficult for constituents to give informed feedback based on full consideration of both models."

The IASB proposals introduce a new 'expected loss' impairment methodology that would reflect deterioration in the credit quality of financial assets such as loan portfolios. The proposed model would require recognition of lifetime expected credit losses for financial assets whose credit risk has deteriorated significantly since initial recognition and a 12-month expected loss allowance for other financial assets.

Chris Spall, partner in KPMG's International Standards Group, continued: "Estimating impairment is an art, rather than a science, involving difficult judgements about whether loans will be paid as due and, if not, how much will be recovered and when. The proposed model widens the scope of these judgements. It introduces a new threshold for determining whether there has been a significant deterioration in credit quality – which in turn is used to assess whether a loan should have an allowance to cover losses in the next 12 months, or to cover all expected



losses over its life. These new rules would give rise to challenges, as new judgements would have to be made by preparers, reviewed by auditors and understood by users of financial statements, including prudential and securities regulators."

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Spall observed: "This is a welcome change because most banks' credit systems treat these exposures in a similar way."

The proposals would introduce extensive new disclosures. Andrew Vials said: "Although focused relevant disclosures are essential for users to understand the entity's exposure to credit risk and the critical judgements that it has made in preparing the accounts, some will see the proposals as adding to the perceived 'disclosure overload' that troubles many preparers and users."

Most banks are likely to see a significant impact, and would be likely to need additional systems and processes to collect the necessary information.

Spall encouraged companies, in particular banks, not to delay assessing the impact of the proposals on their business: "Credit risk is at the heart of a bank's business and the proposed model is expected to have far-reaching implications for their credit systems and processes. Banks may face significant implementation issues."

Corporates would also be affected, but the impact on short-term trade receivables is likely to be small. ■