



MALAYSIAN INSTITUTE OF ACCOUNTANTS
FINANCIAL REPORTING STANDARDS IMPLEMENTATION COMMITTEE
("FRSIC")

FRSIC Issue No. 33 [2009]

***Impairment of Investment in Equity Instrument Categorised as Available-for-Sale
Financial Asset due to "Significant or Prolonged" Decline in Fair Value***

The issue:

FRS 139 requires those entities that have Available for Sale ("AFS") securities to mark it to market and recognize those unrealized gains and losses in an Equity Reserve. The standard however also requires that should there be any evidence of impairment, the impaired amount must be reversed from the Equity Reserve and be transferred to the Income Statement.

The standard provides guidance on when securities in the AFS category can be deemed to be impaired.

The securities for consideration in this Paper are equity securities rather than debt securities.

Para 61 of FRS 139 states the following:

"In addition to the types of events in paragraph 59, objective evidence of impairment for an investment in an equity instrument includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment"

The issue arising from this Paragraph 61 is that there is no clear definition nor guidance on what is "significant" or "prolonged".

Current accounting practice as observed by the Submitter:

Currently, there are differing interpretations and practices in relation to what is significant or prolonged i.e. arbitrary.

Some have taken the view that significant is when the current market value of the equity is 20% to 30% below its original cost.

On what is prolonged, some have taken the view that any decline in value of an equity security to below its original cost for more than 6 months to 12 months as prolonged.

Some have taken the view that only the share price should be considered when applying the test.

Reasons for the FRSIC to address the issue:

The current practice of recognising impairment of equity securities in the AFS category based on the above arbitrary criteria will result in financial statements which are not comparable in Malaysia.

This has serious ramifications for investors.

Submitter's proposal or recommendation to address the issue:

To deliberate on identifying the parameters for significant or prolonged that will provide a standard basis for measuring impairment of equity securities in the AFS category.

Submitted on:

12 October 2009

Corresponding FRSIC Consensus:

FRSIC Consensus 14 – Impairment of Investment in Equity Instrument Categorised as Available-for-Sale Financial Asset due to "Significant or Prolonged" Decline in Fair Value [To view, click on the Consensus title]