MALAYSIAN INSTITUTE OF ACCOUNTANTS

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

FRSIC Issue No. 4 [2007]

Guidance Illustrating Estimation Techniques for Fair Value

The issue:

From the reviews of the financial statements conducted by the Financial Statements Review Committee ("FSRC") of MIA, it is found that certain areas of reporting need to be improved. One of the areas where disclosures were found lacking is the financial instruments' fair value disclosure required by FRS 132_{2004} (MASB 24), Financial Instruments – Presentation and Disclosure. The reason for non-disclosures or inadequate disclosures of fair value could be due to the lack of understanding on fair value accounting and the difficulties to make good estimates of fair value in the absence of market prices.

In preparing the companies to implement the forthcoming implementation of FRS 139, Financial Instruments: Recognition and Measurement and make adequate fair value disclosures in the financial statements, it would be useful for preparers to be guided on the implementation of the fair value accounting in the following areas:

1. financial guarantee (e.g. on banking and credit facilities of subsidiaries);
2. non-current financial assets/liabilities; and
3. the amount due by/to subsidiary companies and associated companies.

Current accounting practice as observed by the Submitter:

FRS 132_{2004} (MASB 24) Financial Instruments: Disclosure and Presentation, Paragraph 86 requires that, for each class of financial asset and liability, both recognised and unrecognised, an enterprise should disclose information about fair value. However, it is noted from the review that many companies have not adequately disclose the fair value of the financial guarantee (e.g. on banking and credit facilities of subsidiaries), non-current financial assets/liabilities and the amount due by/to subsidiary companies and associated companies, as indicated above.

The common reason given by the companies for non-disclosure of fair value of the above financial instruments were the constraint of timeliness, lack of fixed repayment terms and inability to estimate fair value without incurring costs. In this case, the exception to fair value has been narrowly interpreted. Many companies make use of the shortcuts to comply with the requirement of FRS 132_{2004} by disclosing such limitations even though the fair values of the financial instruments can be estimated.

Reasons for the FRSIC to address the issue:

When FRS 139 come into effect, the reason for non-compliance due to constraints of timeliness or

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cost to determine the fair value of financial asset/liabilities could no longer be used as an excuse for not measuring the fair value of the financial assets/liabilities. If the entity failed to determine fair value of financial instruments in accordance with FRS 139, the truth and fairness of the financial statements is undermine. Preparer of financial statements faces challenge of fair value accounting especially when making estimates of fair value when quoted market prices do not exist. Therefore, the need for more education and better guidance on estimating fair value should be looked into. In addition to the Application Guidance accompanying the FRS 139, an implementation guidance, which illustrates the techniques to fair value the financial guarantee (e.g. on banking and credit facilities of subsidiaries), non-current financial assets/liabilities and the amount due by/to subsidiary companies and associated companies would assist preparers in making good estimates of fair value.
Submitter's proposal or recommendation to address the issue: It is proposed that a guidance, which illustrates estimation techniques to determine fair value should be prepared.
Submitted on: 26 January 2007
Corresponding FRSIC Consensus: PROJECT WAS DISCONTINUED. The FRSIC's deliberation: Issuance of guidance is not required as divergence of estimation techniques for fair value is not prevalent especially with the issuance of MFRS 139 by MASB which would also address the valuation of the abovementioned financial instruments.

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