



MALAYSIAN INSTITUTE  
OF ACCOUNTANTS



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

**FRSIC Issue No. 59 [2016]**

**Reporting entity for the purpose of assessing 'predominant activity' in relation to IASB Exposure Draft IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts**

**The issue:**

In December 2015, the International Accounting Standards Board ("IASB") issued an Exposure Draft *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*, aiming to address the accounting consequences of the different effective dates of IFRS 9 (1 January 2018) and the new insurance contracts standard (expected to be effective on 1 January 2021).

The option that the ED proposes to introduce in IFRS 4 are:

1. Deferral Approach ("DA") – an optional temporary exemption (i.e. until 31 December 2020, before the target effective date of the new insurance contracts standard) from applying IFRS 9 for entities whose predominant activity is issuing insurance contracts within the scope of IFRS 4; and
2. Overlay Approach ("OA") – an option for all entities that issue insurance contracts within the scope of IFRS 4 to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial asset.

Paragraph IFRS4.20A of the ED proposes the following to DA:

"An entity is permitted, but not required, to apply IAS 39 rather than IFRS 9 for annual reporting periods beginning before 1 January 2021 if and only if:

- a) it has not previously applied any version of IFRS 9, except as set out in paragraph 20B; and
- b) its predominant activity is issuing contracts within the scope of this IFRS (see paragraph 20D)."

The ED discusses at which level the predominant assessment should be made at and proposes that an entity would assess its predominant activity at the reporting entity level.

Guidance on Special Matter No. 2 *Presentation of Financial Statements for Takaful Companies; and Classification and Measurement of Qard* issued by MIA in 2013 requires takaful companies to prepare the financial statements on columnar format. For instance, the financial positions of the takaful operator, each of takaful funds and the takaful company are presented on columnar format on the face of the statement of financial position of the takaful company.

It was raised whether a takaful operator should perform assessment of predominant activity at takaful fund or takaful company level.

**Current accounting practice as observed by the Submitter:**

Not applicable

**Reasons for the FRSIC to address the issue:**

There is potential implementation issue as there is no definition of 'reporting entity' in IFRS literature.

**Submitter's proposal or recommendation to address the issue:**

FRSIC Consensus will provide guidance on the matter.

**Submitted on:**

21 March 2016

**Corresponding Guidance:**

PROJECT WAS DISCONTINUED.

FRSIC deliberated and has given due consideration. We wish to inform that FRSIC is of the view that the predominant assessment should be performed at company level rather than at fund level due to the following:

1. The presentation in columnar format on the face of the financial statements of takaful entities is required by the Bank Negara Malaysia in order to comply with the Shariah requirements. The columnar presentation in itself does not override any provisions in the Malaysian Financial Reporting Standards ("MFRS");
2. Each fund is not a reporting entity because they are not required to prepare and furnish their financial statements;
3. Consistent with the IASB's discussion on BC 56 and BC 57 whereby temporary exemption could not be applied by entities that have non-insurance activities. Accordingly, temporary exemption is assessed at company level rather than below it.