

## FINDINGS OF THE MALAYSIAN PRIVATE ENTITIES REPORTING STANDARD (“MPERS”) SURVEY 2017

A year has passed since the Malaysian Private Entities Reporting Standards (“MPERS”) came into effect for financial statements beginning on or after 1 January 2016. Prior to MPERS being effective, the Malaysian Institute of Accountants (“MIA”) carried out a survey in February 2015 to ascertain the readiness of the preparers and auditors in adopting MPERS. The findings of the survey were published in the Institute’s [July/August 2015 Accountants Today](#) magazine.

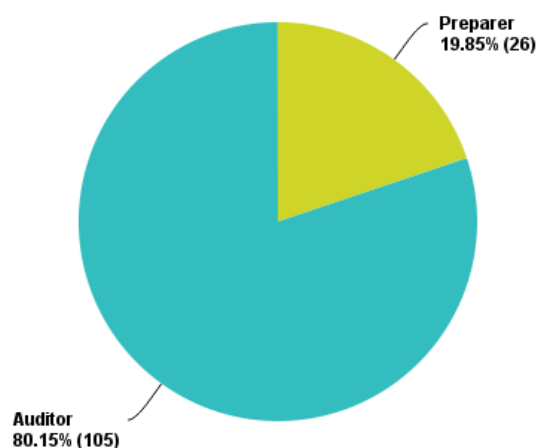
Now, one year after MPERS has been applied, it is timely to find out regarding the implementation of MPERS. Hence, MIA conducted another survey to understand the implementation challenges that preparers and auditors have faced or are currently facing in implementing MPERS. The survey was conducted online from 9 January 2017 till 17 February 2017 among 33,206 MIA members, targeting mainly preparers and auditors with the aim of seeking feedback on:

- implementation challenges of MPERS;
- specific sections of MPERS that are most challenging to implement; and
- initiatives that MIA can further undertake to assist in the implementation of MPERS.

### Profiles of Respondents

The Institute received 511 responses of which 131 were complete responses. Out of the 131 complete responses, 105 responses were submitted by auditors while the balance of the responses came from preparers.

**Breakdown of Respondents**



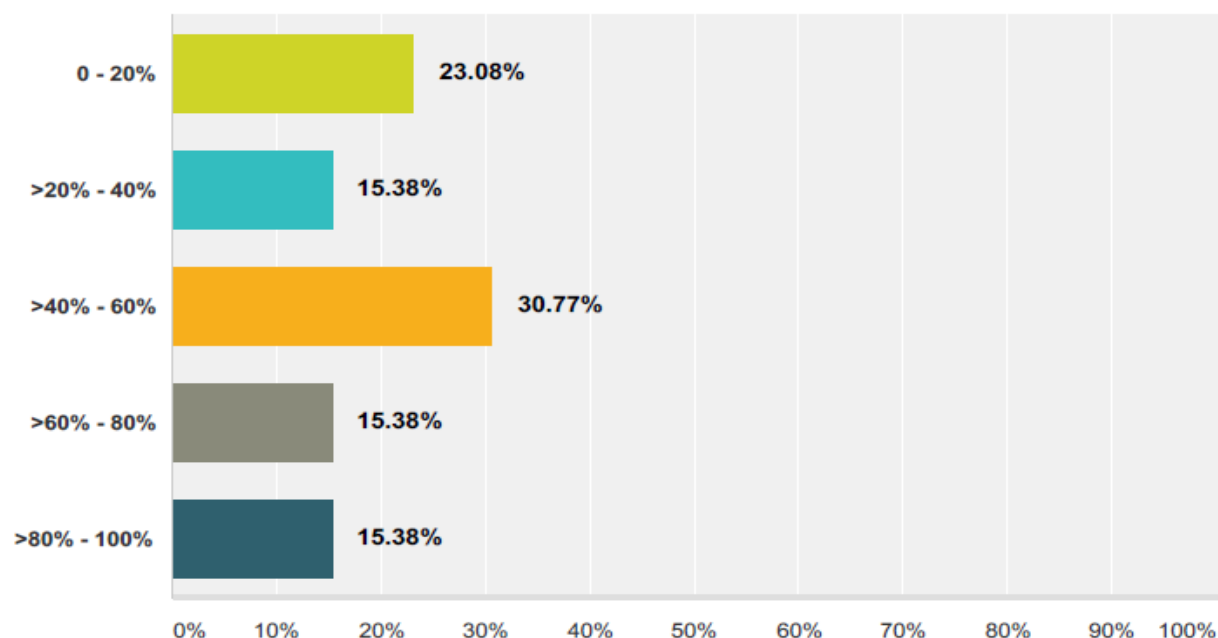
Source: *Malaysian Private Entities Reporting Standards (“MPERS”) Survey 2017*, Malaysian Institute of Accountants

## Responses from Preparers

### Question:

How prepared are you to move to MPERS?

### Summary of responses:

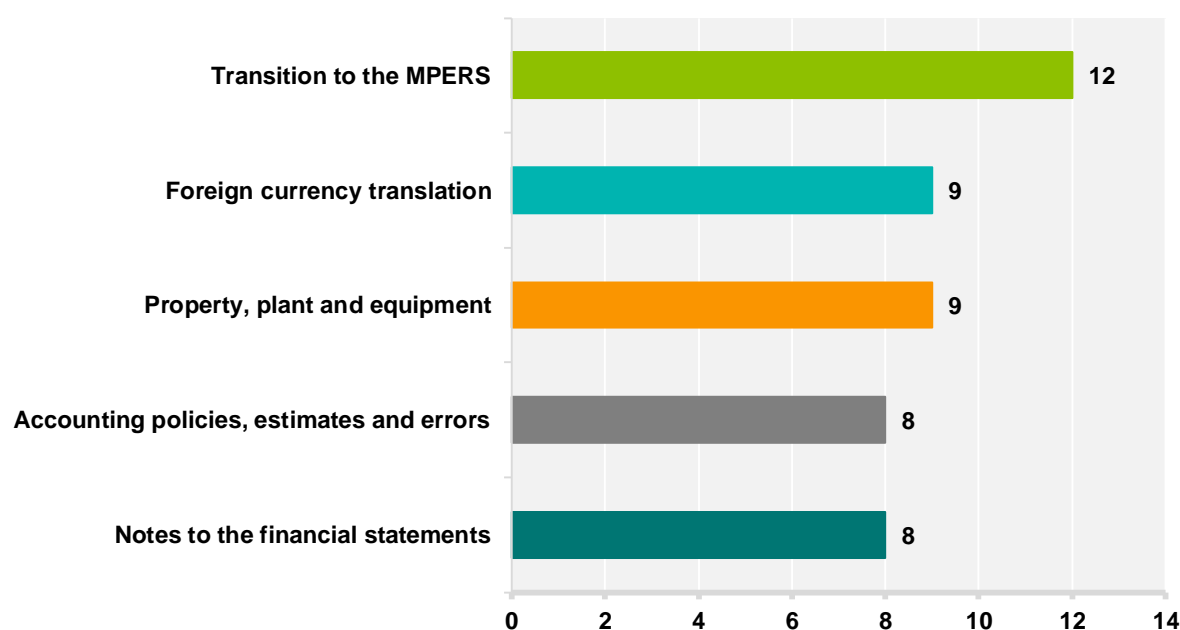


### Question:

Out of 35 sections in MPERS, choose 5 sections that are most challenging to implement.

### Summary of responses:

The top five sections identified by respondents as the most challenging to implement are as follows:



## SUMMARY

### Findings from the Malaysian Private Entities Reporting Standard (“MPERS”) Survey 2017

#### **Question:**

Please describe the implementation challenges on each of the area that has been identified above.

#### **Summary of responses:**

Respondents highlighted the following significant challenges:

- Lack of technical knowledge and expertise.
- Knowledge and understanding on differences between PERS and MPERS as well as those items or transactions that have not been dealt with in PERS such as fair value and government grants.
- Transition to MPERS are merely state theoretically. However, to implement based on current issues or problems arises in the organisation might differ according to industries or principle activities of the organisation.
- It is time consuming and additional cost needs to be incurred to derive fair values.
- Lack of detailed and practical implementation guidance.

#### **Question:**

MPERS requires certain assets to be measured at fair value and paragraphs 11.27 to 11.32 provide guidance on the hierarchy to estimate the fair value of an asset. How do you estimate the fair value of the following assets?

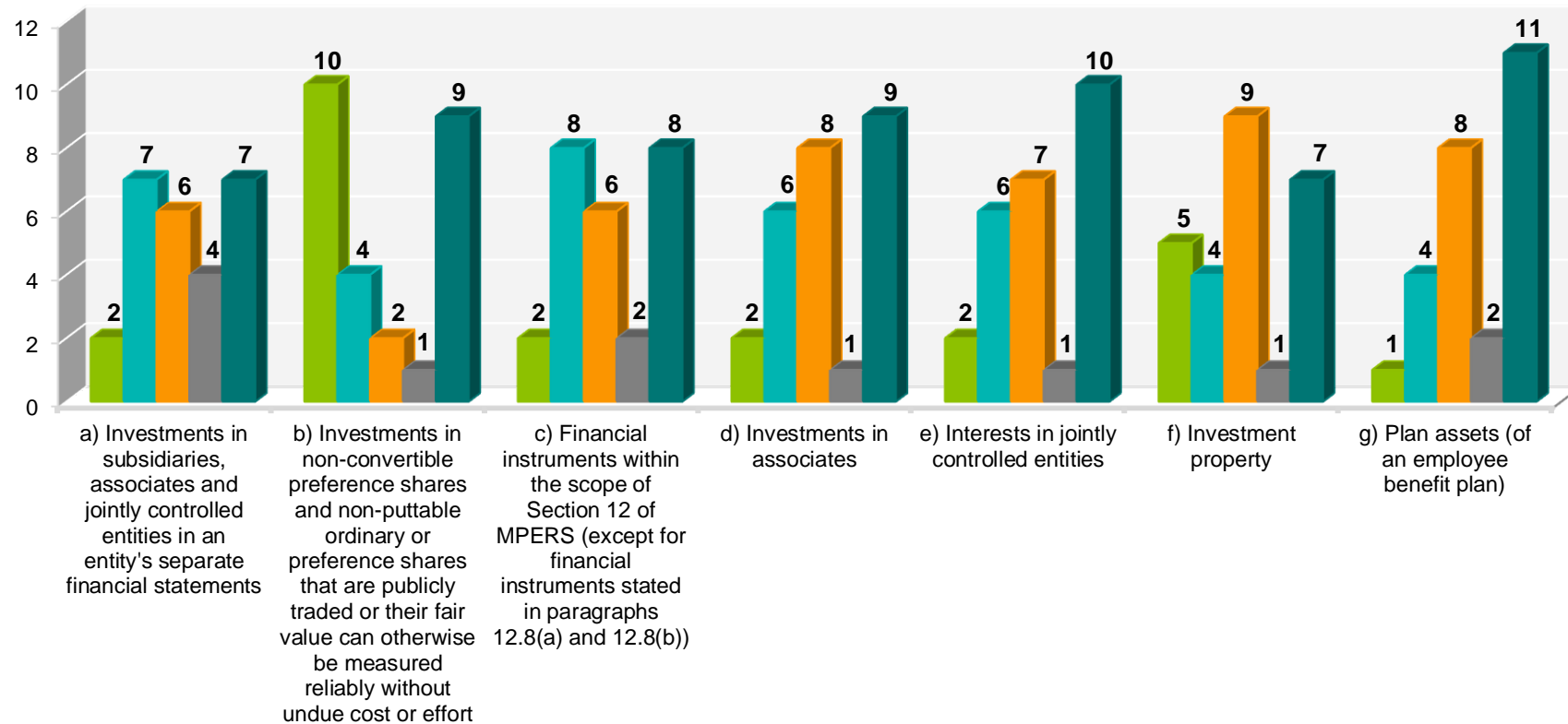
- a) Investments in subsidiaries, associates and jointly controlled entities in an entity's separate financial statements
- b) Investments in non-convertible preference shares and non-puttable ordinary or preference shares that are publicly traded or their fair value can otherwise be measured reliably without undue cost or effort
- c) Financial instruments within the scope of Section 12 of MPERS (except for financial instruments stated in paragraphs 12.8(a) and 12.8(b))
- d) Investments in associates
- e) Interests in jointly controlled entities
- f) Investment property
- g) Plan assets (of an employee benefit plan)

## SUMMARY

### Findings from the Malaysian Private Entities Reporting Standard ("MPERS") Survey 2017

#### Summary of responses:

- A quoted market price in an active market
- The price in a binding sale agreement or a recent transaction for an identical (or similar asset) in an arm's length transaction between knowledgeable, willing parties
- A valuation technique
- Not sure or do not know how to estimate
- Not applicable



## SUMMARY

### Findings from the Malaysian Private Entities Reporting Standard (“MPERS”) Survey 2017

#### **Question:**

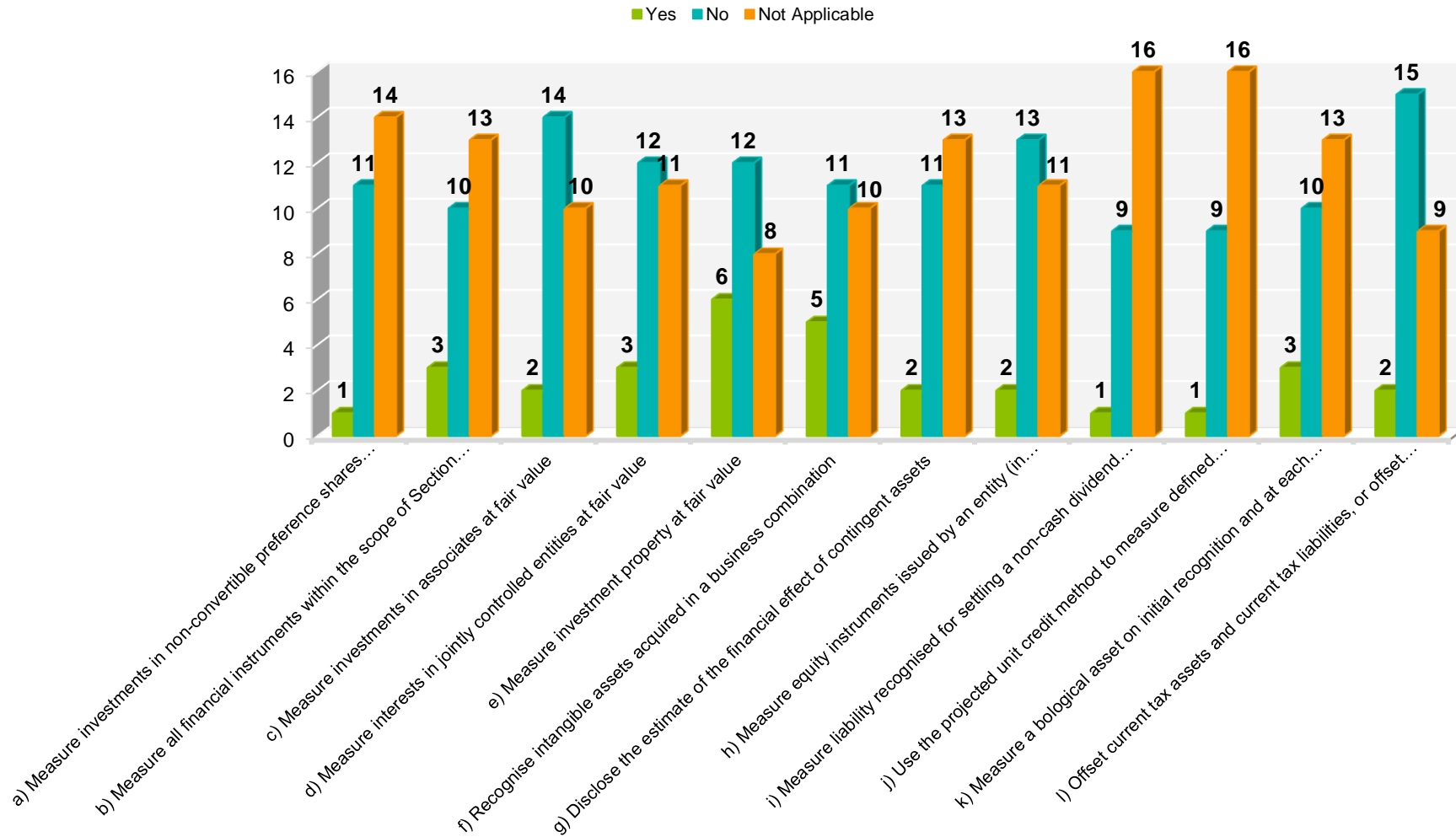
MPERS provides exemption from certain requirements as a result of undue cost or effort. Do you face implementation challenges in the following requirements?

- a) Measure investments in non-convertible preference shares and non-puttable ordinary or preference shares that are publicly traded or their fair value can otherwise be measured reliably without undue cost or effort, at fair value
- b) Measure all financial instruments within the scope of Section 12 of MPERS (except for financial instruments stated in paragraphs 12.8(a) and 12.8(b))
- c) Measure investments in associates at fair value
- d) Measure interests in jointly controlled entities at fair value
- e) Measure investment property at fair value
- f) Recognise intangible assets acquired in a business combination
- g) Disclose the estimate of the financial effect of contingent assets
- h) Measure equity instruments issued by an entity (in extinguishing a recognised liability) at fair value
- i) Measure liability recognised for settling a non-cash dividend at the fair value of the assets to be distributed unless it meets certain conditions in paragraph 22.18A
- j) Use the projected unit credit method to measure defined benefit obligation and the related expense
- k) Measure a biological asset on initial recognition and at each reporting date at its fair value less costs to sell
- l) Offset current tax assets and current tax liabilities, or offset deferred tax assets and deferred tax liabilities

**SUMMARY**

**Findings from the Malaysian Private Entities Reporting Standard (“MPERS”) Survey 2017**

*Summary of responses:*

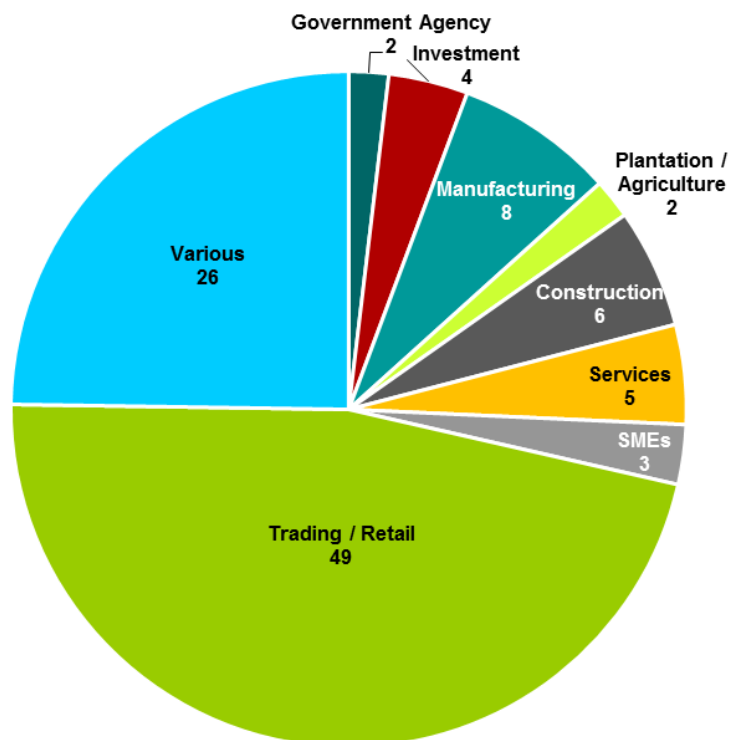


## Responses from Auditors

### *Question:*

What industries are the majority of your clients in?

### *Summary of responses:*



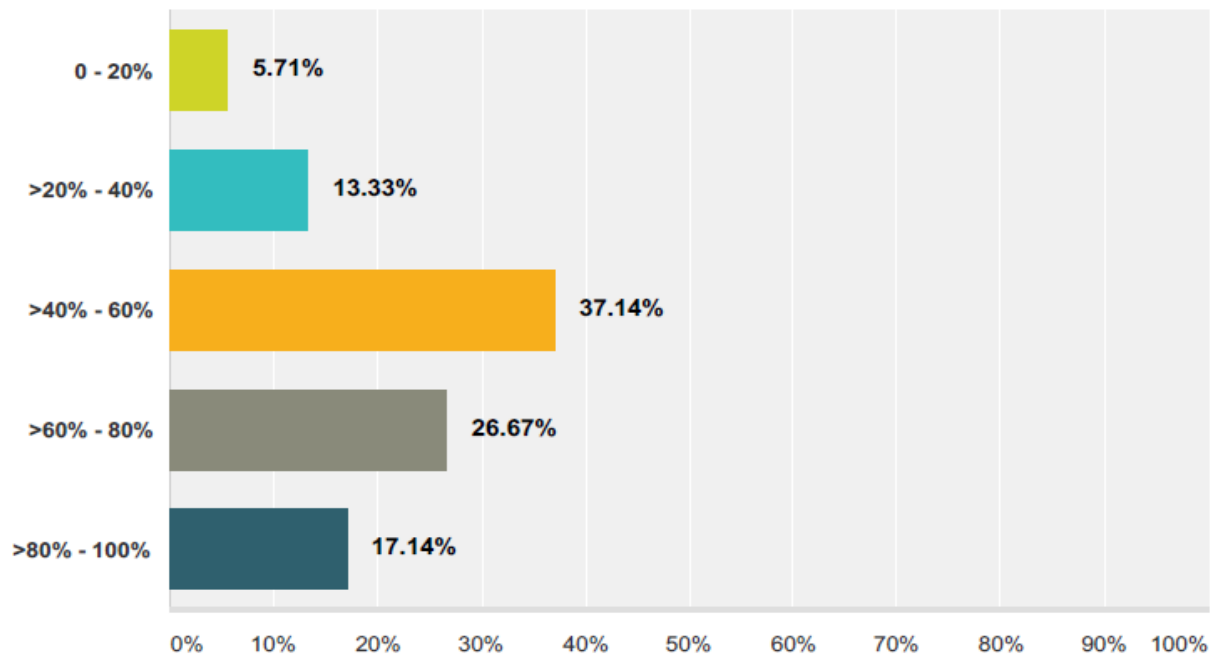
## SUMMARY

### Findings from the Malaysian Private Entities Reporting Standard (“MPERS”) Survey 2017

#### **Question:**

How prepared are you to audit the first MPERS financial statements?

#### **Summary of responses:**





## SUMMARY

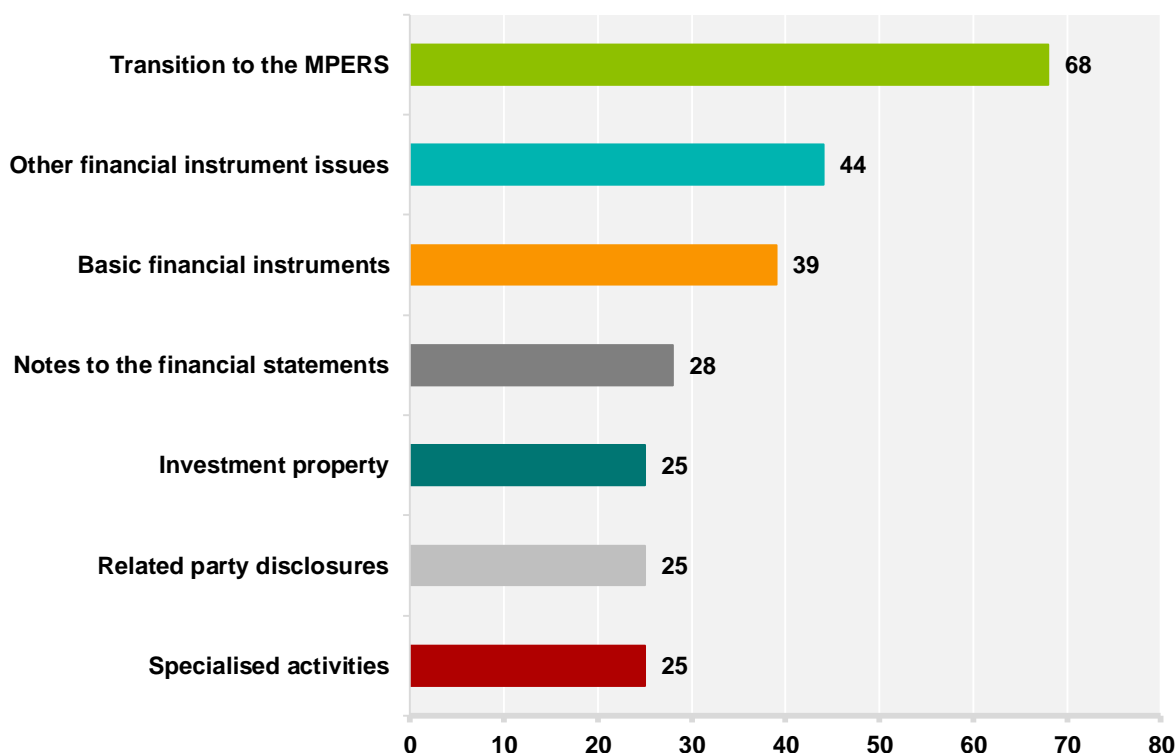
### Findings from the Malaysian Private Entities Reporting Standard (“MPERS”) Survey 2017

#### **Question:**

Out of 35 sections in MPERS, choose 5 sections that are most challenging to implement.

#### **Summary of responses:**

Top five sections identified by respondents as the most challenging to implement are as follows:



#### **Question:**

Please describe the implementation challenges on each of the area that has been identified above.

#### **Summary of responses:**

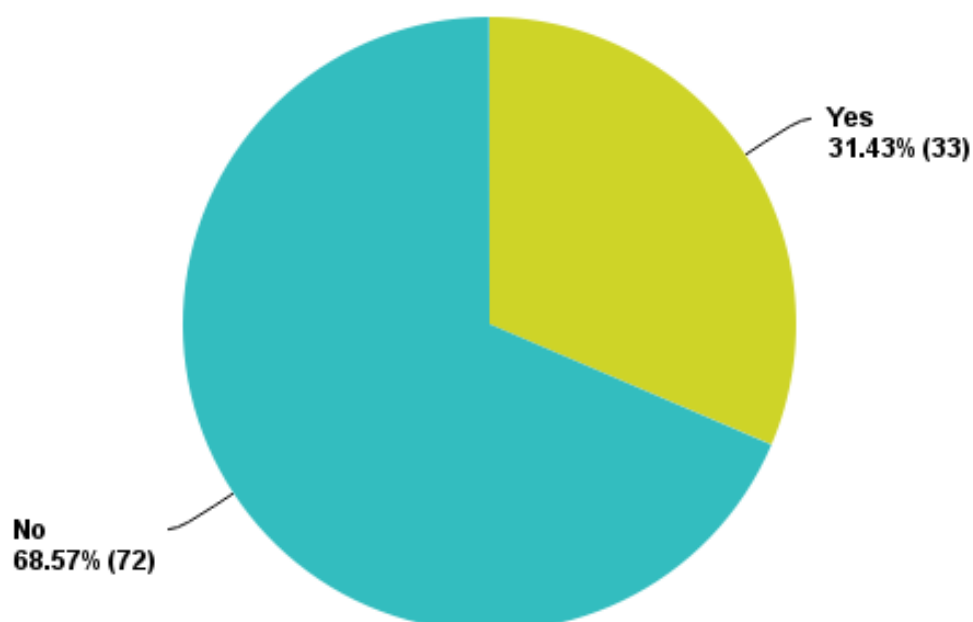
Respondents highlighted the following significant challenges:

- Lack of technical knowledge and expertise.
- Mentality of clients who are not aware and not well prepared to move to MPERS.
- Lack of clear, detailed and practical illustrative examples.
- It is time consuming and additional cost needs to be incurred to derive fair values.
- It is difficult to prepare notes to the financial statements as it is difficult to identify disclosure requirements under MPERS.

**Question:**

Have you already commenced auditing MPERS financial statements?

**Summary of responses:**



**Question:**

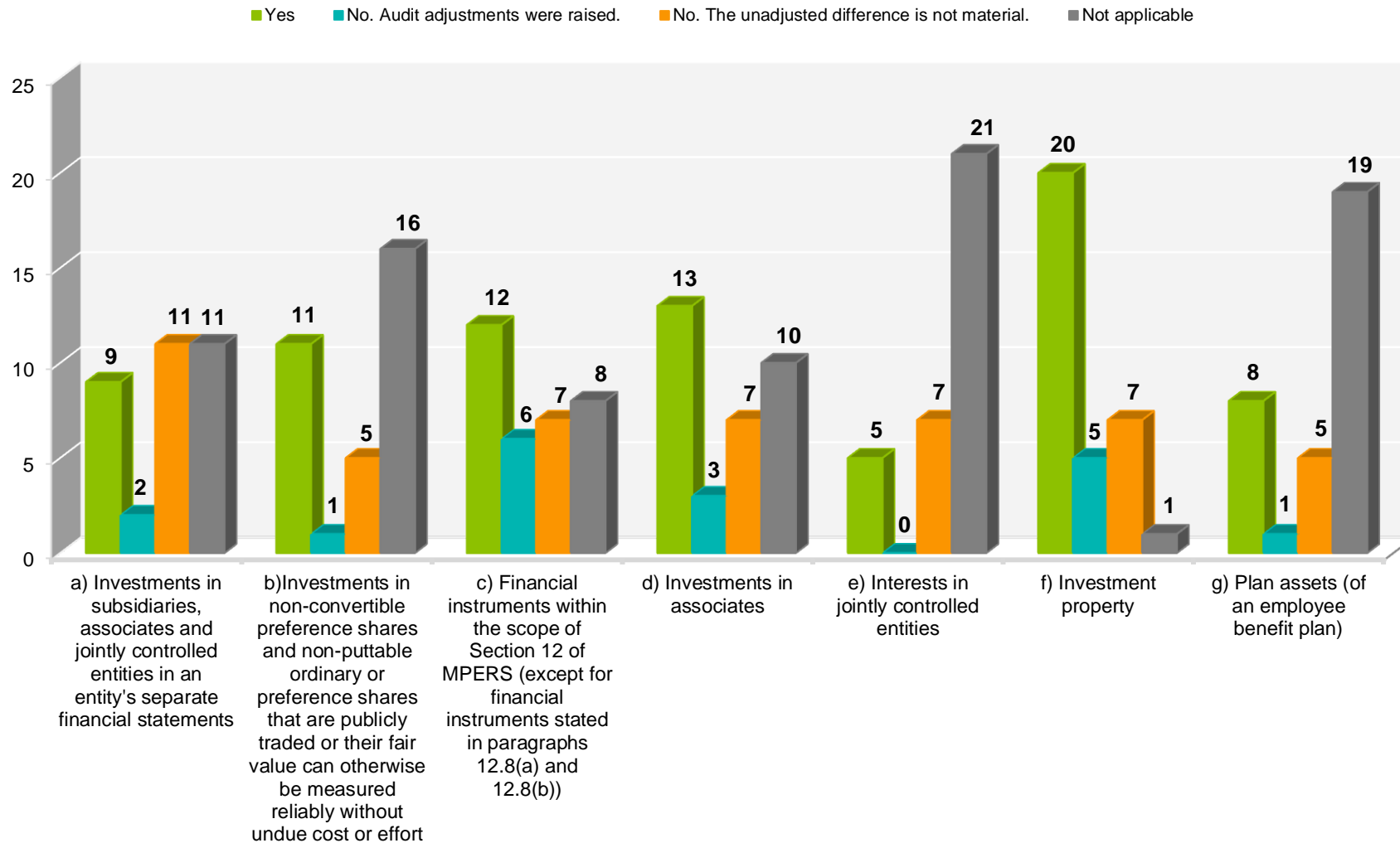
MPERS requires certain assets to be measured at fair value and paragraphs 11.27 to 11.32 provide guidance on the hierarchy to estimate the fair value of an asset. In most cases, do you agree with your clients on how they arrive at the fair value of the following assets?

- a) Investments in subsidiaries, associates and jointly controlled entities in an entity's separate financial statements
- b) Investments in non-convertible preference shares and non-puttable ordinary or preference shares that are publicly traded or their fair value can otherwise be measured reliably without undue cost or effort
- c) Financial instruments within the scope of Section 12 of MPERS (except for financial instruments stated in paragraphs 12.8(a) and 12.8(b))
- d) Investments in associates
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- f) Investment property
- g) Plan assets (of an employee benefit plan)

**SUMMARY**

**Findings from the Malaysian Private Entities Reporting Standard (“MPERS”) Survey 2017**

*Summary of responses:*



## SUMMARY

### Findings from the Malaysian Private Entities Reporting Standard (“MPERS”) Survey 2017

#### **Question:**

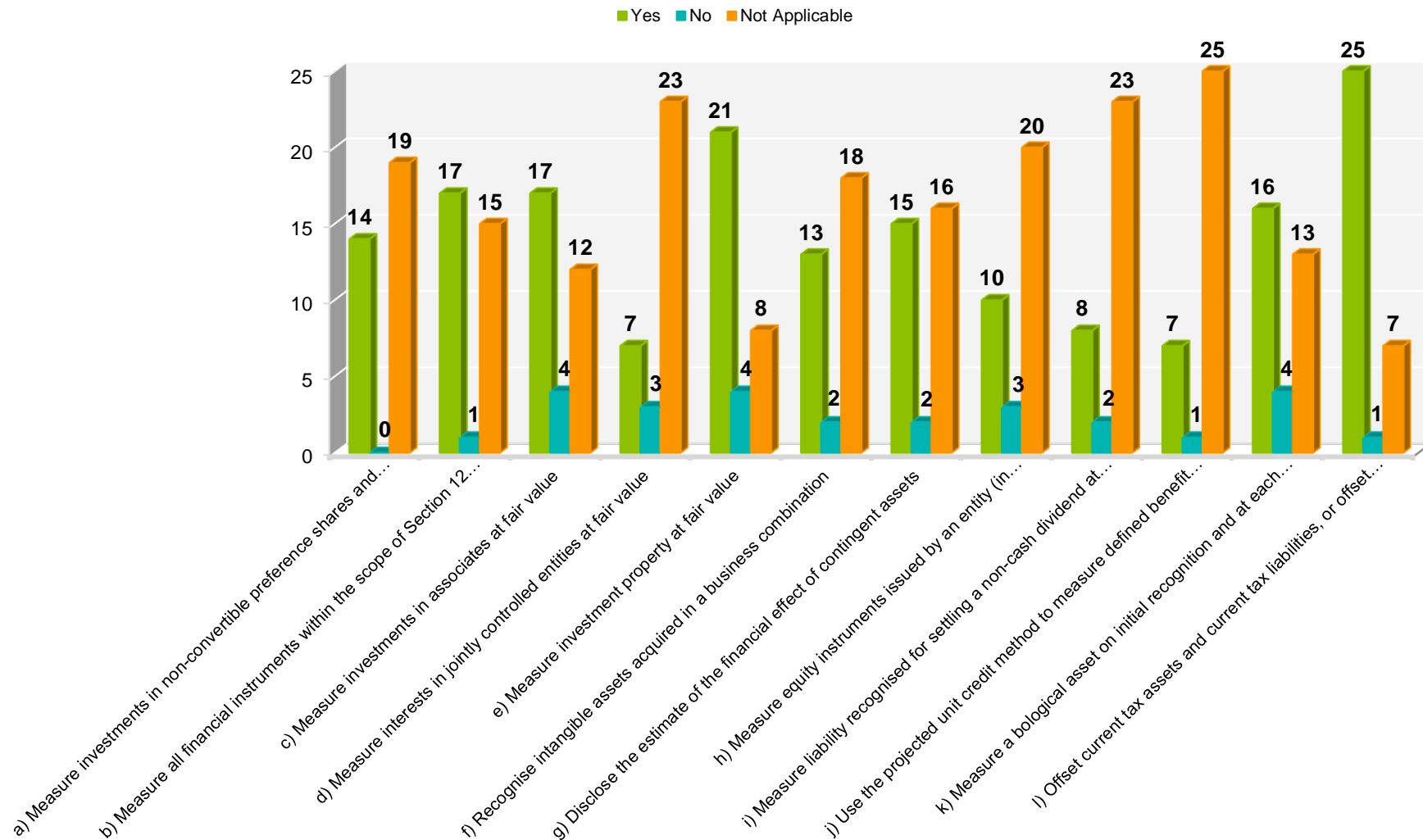
MPERS provides exemption from certain requirements as a result of undue cost or effort. In most cases, do you agree with your clients’ assessment of undue cost or effort exemption?

- a) Measure investments in non-convertible preference shares and non-puttable ordinary or preference shares that are publicly traded or their fair value can otherwise be measured reliably without undue cost or effort, at fair value
- b) Measure all financial instruments within the scope of Section 12 of MPERS (except for financial instruments stated in paragraphs 12.8(a) and 12.8(b))
- c) Measure investments in associates at fair value
- d) Measure interests in jointly controlled entities at fair value
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**SUMMARY**

**Findings from the Malaysian Private Entities Reporting Standard (“MPERS”) Survey 2017**

*Summary of responses:*



## SUMMARY

### Findings from the Malaysian Private Entities Reporting Standard (“MPERS”) Survey 2017

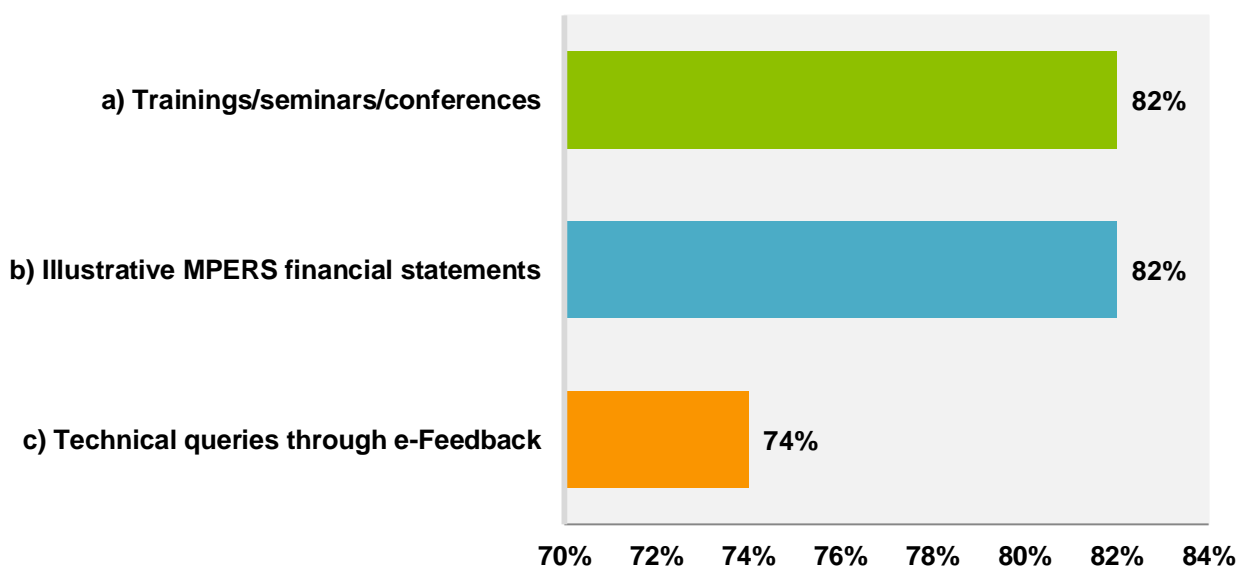
#### Responses from Both Preparers and Auditors

##### *Question:*

How do you rate the usefulness of the following assistance that MIA has provided in helping you to implement MPERS? (5 being very useful, while 1 is not useful)

##### *Summary of responses:*

More than 70% of the respondents rated MIA assistance being 3 and above.



**SUMMARY**

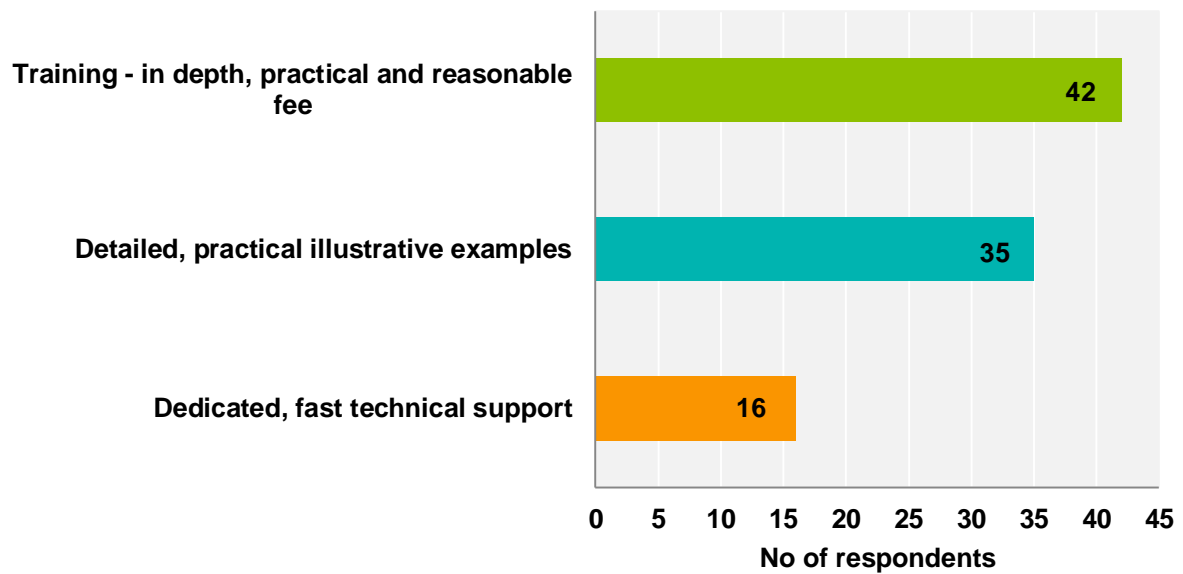
**Findings from the Malaysian Private Entities Reporting Standard (“MPERS”) Survey 2017**

**Question:**

How can the MIA be of further assistance to you in implementing MPERS?

**Summary of responses:**

The top three further assistances identified by the respondents are as follows:



## SUMMARY

### Findings from the Malaysian Private Entities Reporting Standard (“MPERS”) Survey 2017

#### *MIA staff observation:*

##### Preparation to move to MPERS

Only 30% of preparers are over 60% ready to move to MPERS while 44% of auditors are over 60% ready to audit the first MPERS financial statements.

##### Most challenging sections in MPERS

Both preparers and auditors ranked Section 35 *Transition to the MPERS* as the most challenging area in moving to MPERS. Other challenging areas include financial instruments, notes to the financial statements, investment property, related party disclosures and specialised activities.

##### Assets to be measured at fair value

- Preparers – A very small number of preparers responded that they are ‘not sure or do not know how to estimate’ the fair value of these assets.
- Auditors – The majority of auditors either agreed with their clients on how to arrive at the fair value of these assets or in the event of disagreement, the unadjusted difference is not material.

##### Undue cost or effort

- Preparers – A small percentage of preparers responded that they faced challenges in applying certain requirements where MPERS provides exemption as a result of undue cost or effort.
- Auditors – In contrast to preparers, the majority of auditors responded that they faced challenges in applying those requirements.

##### Assistance from MIA

###### *Trainings:*

MIA have been providing a number of in-depth and practical MPERS trainings and will continue to improve the trainings based on the feedback of the participants.

###### *Detailed, practical illustrative examples:*

MIA published *Illustrative MPERS Financial Statements, with Commentaries* in 2016 as a tool to facilitate the transition to MPERS. Detailed and practical illustrative examples were incorporated in a number of MPERS trainings organised by MIA and MIA will continue to improve the trainings based on the feedback of the participants.

###### *Dedicated, fast technical support:*

The MIA technical staff adhere to the MIA’s Policies On Answering Technical Enquiries which include, among others, the following:

- Queries shall be in writing.
- It is the MIA’s policy not to comment on the specific facts pertaining to a company or its financial statements. Enterprise-specific queries should be raised with the enterprise concerned.
- The MIA technical staff are able to assist members by providing information that guides them to the most appropriate source of information. To enable meaningful discussions,



## SUMMARY

### Findings from the Malaysian Private Entities Reporting Standard (“MPERS”) Survey 2017

members are expected to consult and understand the relevant requirements themselves first before raising further questions.

- The MIA technical staff will strive to answer 85% of queries, which contain all the information specified in the policy, within 10 working days of receipt.

In addition to the above, MIA will issue a list of frequently asked question (FAQs) on MPERS to assist preparers and auditors with MPERS implementation.