MALAYSIAN INSTITUTE
OF ACCOUNTANTS

31 January 2018

Mr John Stanford
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto, Ontario M5V 3H2
CANADA

Dear John,

EXPOSURE DRAFT 62, *FINANCIAL INSTRUMENTS*

The Malaysian Institute of Accountants ("MIA") is pleased to provide comments on the International Public Sector Accounting Standards Board ("IPSASB") Exposure Draft 62, *Financial Instruments* as attached in Appendix 1 to this letter.

We hope our comments would contribute to the IPSASB's deliberation in finalising the matter. If you have any queries or require clarification of this submission, please contact Rasmimi Ramli at +603 2722 9277 or by email at rasmimi@mia.org.my.

Yours sincerely,
MALAYSIAN INSTITUTE OF ACCOUNTANTS

DR NURMAZILAH DATO' MAHZAN
Chief Executive Officer

Specific Matters for Comment

Specific Matter for Comment 1: **Consistent with the relief provided in IFRS 9, the IPSASB has agreed in [draft] IPSAS [X] (ED 62) to allow an option for entities to continue to apply the IPSAS 29 hedging requirements. Do you agree with the IPSASB's proposal?**
In Malaysia, implementation of the accrual accounting is still in progress. Therefore, we do not have the experience of implementing the hedging requirements in the equivalent standard to IPSAS 29. Accordingly, we are not able to provide comments on whether such relief should be made available in the ED.
Specific Matter for Comment 2: **The IPSASB recognises that transition to the new standard [draft] IPSAS [X] (ED 62) may present implementation challenges as a result of the number of significant changes proposed. Therefore, the IPSASB intends to provide a 3-year implementation period until [draft] IPSAS [X] (ED 62) is effective (early adoption will be permitted). Do you agree with the proposed 3-year implementation period before [draft] IPSAS [X] (ED 62) becomes mandatory? Please explain.**
We understand the rationale for the IPSASB to provide a 3-year implementation period until the ED is effective for those who are currently using the IPSASB accrual-based standards. We noted a transitional relief period of three years was also granted, which is in line with the relief period provided for the recognition and/or measurement of other items in IPSAS 33 *First-Time Adoption of Accrual Basis IPSAS.* Given our experience in the transition of IAS 39 to IFRS 9 in Malaysia, we would be skeptical to see whether a public sector entity that is using a cash-basis or modified-cash basis would be able to have a smooth transition for a period of three years. We recommend for the IPSASB to carry out an impact assessment on the challenges of cash-based entities to implement the proposal in the ED.
Specific Matter for Comment 3: **Do you agree with the proposed transition requirements in paragraphs 153-180, consistent with those provided in IFRS 9? If not, what specific changes do you recommend and why?**
As Malaysia is still transitioning from cash-based to accrual-based accounting, we are not able to comment on the proposed transition requirements. We have provided our comment on the transitional relief period in SMC 2.

Other Comments

In Malaysia, a number of public sector entities provide concessionary loans such as staff and students loans at below market interest rates. Paragraph 57 of the ED states that "at initial recognition, an entity shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or a financial liability not at fair value through surplus or deficit, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability".

In order to measure such loans at fair value, the present value of all future cash receipts is discounted using the prevailing market rate(s) of interest for a similar intrument (i.e. similar as to currency, term, type of interest rate and other factors) with a similar credit rating. It was raised that these public sector entities have difficulties in determining the appropriate market rate of interest to be used given that there is no similar instrument available in the market.

We propose for the IPSASB to provide guidance on how to determine the appropriate market rate of interest to measure the fair value of such loans at initial recognition.