



MALAYSIAN INSTITUTE
OF ACCOUNTANTS
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MIA 2/2009

IFRS CONVERGENCE IN 2012

EMBRACING THE WAVE OF CHANGE

What is in store for you between now and then



October 2009

WHAT DO YOU KNOW ABOUT IFRS CONVERGENCE

The Financial Reporting Foundation ("FRF") and the Malaysian Accounting Standards Board ("MASB") announced on 1 August 2008 the plan to bring Malaysia's Financial Reporting Standards ("FRSs") to **full convergence with International Financial Reporting Standards ("IFRS") by 1 January 2012.**

The impact of IFRS convergence may not be easily envisaged without carrying out a detail diagnostic and a thorough scrutiny on the nature of transactions that an entity engages in. Most organization would have taken the easy route by engaging experts to carry out such exercise which essentially result in considerable cost being incurred.

The responsibilities to prepare a set of IFRS compliant financial statements rest with the management of an entity. Is convergence a painful exercise to many organizations? Perhaps this would be better established by first understanding what significant changes will the convergence bring about to an organization.

MALAYSIA IN THE EYES OF THE WORLD

The Financial Reporting Act 1997 established the Financial Reporting Foundation and the Malaysian Accounting Standards Board. By virtue of this Act, MASB is the designated organization that issues accounting standards in Malaysia.

Prior to the establishment of MASB, the function of issuing accounting standards was assumed by the Councils of the Malaysian Institute of Accountants ("MIA") and the Malaysian Association of Certified Public Accountants ("MACPA", now known as Malaysian Institute of Certified Public Accountants). The accounting standards then were substantially derived from the International Accounting Standards ("IAS") issued by the International Accounting Standards Committee ("IASC"), the predecessor body of the International Accounting Standards Board ("IASB"), and some local standards termed as Malaysian Accounting Standards ("MAS"). These accounting standards were by large adopted by MASB subsequently as approved accounting standards in Malaysia. This set of standard, which we termed as the MASB Standards, were effective for financial period beginning 1 July 1999 onwards. The overall MASB framework is consistent, in all material respects with the IASB.

The first attempt to converge took place in year 2005 when MASB issued 21 new and revised accounting standards to align with the IASB accounting standards. These set of standards are effective for annual periods beginning on or after 1 January 2006 in Malaysia.



This initiative gave rise to the introduction of a two-tier financial reporting structure in Malaysia, namely the Private Entity Reporting Standards ("PERS") applicable to private entities¹ and the Financial Reporting Standards applicable to entities other than private entities. Despite the first attempt, the FRSs issued by MASB are not fully converged with IFRS.

FRS for Entities other than Private Entities

In view of Malaysia plans for convergence with IFRS by 2012, continuous effort has been put in place by the MASB to close the gap between existing FRSs with those of the IASBs. The MASB staff has worked out a tentative calendar setting the milestone to catch up with the IASB standards which is reproduced in following section.

PERS for Private Entities

Notably, in February 2007, the IASB issued an international equivalent of the PERS which is entitled IFRS for Small and Medium-sized Entities ("SMEs"). The IFRS for SMEs is applicable to entities that do not have public accountability and do not publish general purpose financial statements for external users. The contents of IFRS for SME are derived from the full IFRS, with appropriate modifications based on the needs of users of SME financial statements and cost-benefit considerations. The IASB published the IFRS for SMEs on 9 July 2009. Whether the IASB's IFRS for SME is set to replace the existing PERS is an unknown fact at this juncture.

¹A private entity is defined as a private company, incorporated under the Companies Act 1965, that:

- Is not itself required to prepare or lodge any financial statements under any law administered by the Securities Commission or Bank Negara Malaysia; and
- Is not a subsidiary or associate of, or jointly controlled by, an entity which is required to prepare or lodge any financial statements under any law administered by the Securities Commission or Bank Negara Malaysia.

An entity may only be treated as a private entity in relation to such annual periods or interim periods throughout which it is a private entity.

THE MALAYSIAN CONVERGENCE CALENDAR

The MASB released a tentative calendar showing the milestone to adoption of IFRS. The tentative timeline shown below is updated as at 15 September 2009 and may be subject to change.

No.	Standards/ Interpretations	IASB Effective Date	Proposed Effective Date in Malaysia	Status
1 JANUARY 2010				
1.	IAS39 Financial Instruments: Recognition and Measurement	1 January 2005	1 January 2010	Issued as FRS139 in February 2006.
2.	IFRS7 Financial Instruments: Disclosures	1 January 2007	1 January 2010	Issued as FRS7 in November 2008.
3.	IFRS4 Insurance Contracts	1 January 2005	1 January 2010	Issued as FRS4 in November 2008.
4.	IFRIC Interpretation 9 Reassessment of Embedded Derivatives	1 June 2006	1 January 2010	Issued as IC Interpretation 9 in November 2008.
5.	IFRIC Interpretation 10 Interim Financial Reporting and Impairment	1 November 2006	1 January 2010	Issued as IC Interpretation 10 in November 2008.
6.	IAS23 Borrowing Costs (revised)	1 January 2009	1 January 2010	Issued as FRS123 in May 2009.
7.	Amendment to IFRS2 Share-based Payment – Vesting Conditions and Cancellations	1 January 2009	1 January 2010	Issued as Amendment to FRS2 in May 2009.
8.	IFRIC Interpretation 11 IFRS2 – Group and Treasury Share Transactions	1 March 2007	1 January 2010	Issued as IC Interpretation 11 in May 2009.
9.	IFRIC Interpretation 12 Service Concession Agreements	1 January 2008	1 January 2010	Issued as MASB [draft] IC Interpretation 12 in November 2008.
10.	IFRIC Interpretation 13 Customer Loyalty Programmes	1 July 2008	1 January 2010	Issued as IC Interpretation 13 in May 2009.
11.	IFRIC Interpretation 14 FRS119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2008	1 January 2010	Issued as IC Interpretation 14 in May 2009.
12.	IAS1 Presentation of Financial Statements (revised)	1 January 2009	1 January 2010	Issued as FRS101 (revised) in September 2009.
13.	Amendments to IFRS1 and IAS27 Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 January 2009	1 January 2010	Issued as Amendments to FRS1 and FRS127 in May 2009.
14.	Improvements to IFRSs (2008)	1 January 2009	1 January 2010	Issued as Improvements to FRSs (2009) in September 2009.
15.	Amendments to IAS32 and IAS1: Putable Financial Instruments and Obligations arising on Liquidation	1 January 2009	1 January 2010	Issued as Amendments to FRS132 in September 2009.
16.	Amendments to IAS39: Eligible Hedged Items	1 July 2009	1 January 2010	Issued as Amendments to FRS139, FRS7 and IC Interpretation 9 in September 2009.

THE MALAYSIAN CONVERGENCE CALENDAR

(continued)

No.	Standards/ Interpretations	IASB Effective Date	Proposed Effective Date in Malaysia	Status
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1 JANUARY 2010 (continued)

17.	Amendments to IAS39 and IFRS 7: Reclassification of Financial Assets	1 July 2008	1 January 2010	Issued as Amendments to FRS 139, FRS 7 and IC Interpretation 9 in September 2009.
18.	Amendments to IFRIC 9 and IAS39 Embedded Derivatives	30 June 2009	1 January 2010	Issued as Amendments to FRS 139, FRS 7 and IC Interpretation 9 in September 2009.
19.	Improvements to IFRS (2009)	1 July 2009 / 1 January 2010	1 January 2010	Issued as Amendments to FRS 139, FRS 7 and IC Interpretation 9 in September 2009.

1 JULY 2010

20.	IFRS3 Business Combinations (revised)	1 July 2009	1 July 2010	Issued as MASB ED 64 in June 2009.
21.	IAS27 Consolidated and Separate Financial Statements	1 July 2009	1 July 2010	Issued as MASB ED 65 in June 2009.
22.	IFRS1 First-time Adoption of IFRS (revised)	1 January 2009	1 July 2010	Issued as MASB ED 66 in June 2009.
23.	IFRIC Interpretation 15 Agreements for the Construction of Real Estate	1 January 2009	1 July 2010	Issued as MASB [draft] IC Interpretation 15 in June 2009.
24.	IFRIC Interpretation 16 Hedges of a Net Investment in a Foreign Operation	1 October 2008	1 July 2010	Issued as MASB [draft] IC Interpretation 16 in June 2009.
25.	IFRIC Interpretation 17 Distributions of Non-cash Assets to Owners	1 July 2009	1 July 2010	Issued as MASB [draft] IC Interpretation 17 in June 2009.

1 JANUARY 2011

26.	Amendments to IFRS 7 Improving Disclosures about Financial Instruments	1 January 2009	1 January 2011	Work in progress. The staff plans to expose Amendments to IFRS 7 in Quarter 4 of 2009.
27.	IFRIC Interpretation 4 Determining whether an Arrangement Contains a Lease	1 January 2006	1 January 2011	Work in progress. The staff plans to expose IFRIC 4 in Quarter 4 of 2009.
28.	IFRIC Interpretation 18 Transfers of Assets from Customers	1 July 2009	1 January 2011	Work in progress. The staff plans to expose IFRIC 18 in Quarter 4 of 2009.
29.	Amendments to IFRS 2 : Group Cash-settled Share-based Payment Transactions	1 January 2010	1 January 2011	Work in progress. The staff plans to expose Amendments to IFRS 2 in Quarter 1 of 2010.
30.	Amendments to IFRS 1 : Additional Exemptions for First-time Adopters	1 January 2010	1 January 2011	Work in progress. The staff plans to expose Amendments to IFRS 1 in Quarter 1 of 2010.

TO BE ANNOUNCED

31.	IAS41 Agriculture	1 January 2003		Issued as MASB ED 50 in January 2006
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(Source: MASB website at <http://www.masb.org.my>)

It's A Moving Target

Catching up with the IFRS is a challenging task at least from now to 2012. Not only Malaysia needs to close the gap between what we are lagging behind as shown in MASB Convergence Calendar above, the International Accounting Standards Board is also at the meantime revising its existing standards as part of the convergence between the IFRS with the US generally accepted accounting principles (US GAAP). It is clear that Malaysia is chasing after a moving target from now to 2012. The only way to achieve convergence by 2012 is to move at a faster pace to be on par with the IASB.

IASB Work Plan – Projected timetable as at 1 August 2009

The timetable shows the current best estimate of IASB's document publication dates. The work plan anticipates the completion of several projects in 2010 and 2011 which may be subject to change depending on input received throughout a project's development.

No.	IASB project	Latest document issued	Comments expiry date	Estimated publication date		
				DP	ED	IFRS
Financial Crisis Related Projects						
1.	Classification of rights issues				Q3 2009	Q4 2009
2.	Derecognition	ED	31 Jul 2009			H2 2010
3.	Consolidation	ED	20 Mar 2009			Q4 2009
4.	Credit Risk in Liability Measurement	DP	1 Sept 2009			
5.	Fair Value Measurement Guidance	ED	28 Sept 2009			Q2 2010
6.	Financial Instruments (IAS 39 replacement)					
	▪ Classification and Measurement	ED	14 Sept 2009			Q4 2009
	▪ Impairment				Q4 2009	Q2 2010
	▪ Hedge Accounting				Q4 2009	Q2 2010
New Standards						
7.	Revenue Recognition	DP	19 Jun 2009		Q2 2010	H1 2011
8.	Leases	DP	17 Jul 2009		H2 2010	H1 2011
9.	Income Taxes	ED	31 Jul 2009			H2 2010
10.	Emissions Trading Schemes				Q2 2010	H1 2011
11.	Financial Statement Presentation	DP	14 Apr 2009		Q2 2010	H1 2011
12.	Financial Instrument with Characteristics of Equity	DP	5 Sept 2008		Q1 2010	H1 2011
13.	IFRS for SMEs	ED	1 Oct 2007			Q2 2009
14.	Insurance Contracts	DP	16 Nov 2007		Q4 2009	H1 2011
15.	Joint Ventures	ED	11 Jan 2008			Q4 2009
16.	Management Commentary	ED	1 Mar 2010		(CG) H2 2010	
17.	Post-Employment Benefits (including pensions)	DP	26 Sept 2008		Q3 2009	2011
	▪ Discount rate				Q3 2009	Q4 2009
	▪ Recognition and presentation				Q4 2009	H1 2011
18.	Rate-Regulated Activities	ED	20 Nov 2009			Q2 2010
Amendments						
19.	Annual Improvements 2008 - 2010				Q3 2009	Q2 2010
20.	Annual Improvements 2009 - 2011				H2 2010	H1 2011
21.	Discontinued Operations (IFRS 5)	ED	23 Jan 2009			Q4 2009
22.	Earnings per Share (IAS 33)	ED	5 Dec 2008			H2 2010
23.	First-time Adoption of IFRS (IFRS 1): Additional Exemptions	ED	23 Jan 2009			Q3 2009
24.	Amendments to IFRIC 14	ED	27 Jul 2009			Q4 2009
25.	Liabilities (IAS 37 amendments)	ED	28 Oct 2005			Q4 2009
26.	Related Party Disclosures (IAS 24)	ED	13 Mar 2009			Q4 2009
27.	Share-based Payment: Group Cash-settled Transactions (IFRS 2 and IFRIC 11)	ED	17 Mar 2008			Q4 2009
Conceptual Framework						
28.	Phase A: Objectives and Qualitative Characteristics	ED	29 Sept 2008			
29.	Phase B: Elements and Recognition			H2 2010	H2+2011	
30.	Phase C: Measurement			Q4 2009	H2 2010	
31.	Phase D: Reporting Entity				Q3 2009	
Research and Other Projects						
32.	Extractive Activities				Aug 2009	

Abbreviations:

DP: Discussion Paper

ED: Exposure Draft

IFRS: International Financial Reporting Standard

CG: Completed Guidance

Source: IASB website <http://www.iasb.org>

The Malaysian Institute Of Accountants (“MIA”)

MIA is a statutory body established under the Accountants Act, 1967 to regulate and develop the accountancy profession in Malaysia. To date, MIA has close to 25,000 members. For more information please visit: www.mia.org.my

The Use of the Word “Accountant”

In Malaysia, the word “accountant” is protected as provided for under the provisions of the Act which states that no one can hold himself out or practise as an accountant unless he is registered as a member of MIA.

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