
What's next for Standard-setters in 2020?

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by MASB Secretariat

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'All you need is the plan, the road map and the courage to press on to your destination.'

- Earl Nightingale

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IASB's work plan

Speaking at the annual conference on regulatory developments organised by the American Institute of Certified Public Accountants, Sue Lloyd, Vice-Chair of the International Accounting Standards Board (IASB), talks about the year 2020 is an important time for setting the future direction for an evolving financial reporting landscape. These changes could have an important effect on the works of the accounting profession.

As we embarked into the year 2020, IASB has published a number of proposals that reflect how the IASB think financial reporting under IFRS Standards should evolve to respond to this changing environment. Unfortunately, during this period, the world has been inundated with Covid-19 outbreak causing an unprecedented global crisis. This pandemic has impacted the IASB initial work plan, in particular the consultation periods on certain proposals have been extended considering now that the stakeholders' priorities have changed. IASB has also added into its work plan proposed amendments to some of the standards to provide support to stakeholders at this difficult time.



The work programme of the Malaysian Accounting Standards Board (MASB) and its involvement in the application and implementation of Malaysian Financial Reporting Standards (MFRS) mirror that of IASB and its interpretative body, IFRS Interpretations Committee which works with IASB in supporting the consistent application and implementation of IFRS Standards. The impact of the Covid-19 pandemic on IASB work plan will in turn impact the work plan of the MASB.



For the year 2020, MASB has identified to focus on the following projects after assessing the possible impact of the Covid-19 pandemic on MASB's work plan and also to be in line with IASB's work plan:

Standard-setting projects



1. IFRS 16 Leases and Covid-19

Many lessors have provided, or are expected to provide, rent concessions such as rent holidays to lessees as a result of the covid-19 pandemic.

Applying IFRS 16 *Leases* to a potentially large volume of covid-19-related rent concessions could be complex for lessees - particularly in the light of the many other challenges they face during the pandemic. Complexity in applying the requirements arises in two main ways:

- a. assessing whether rent concessions are lease modifications; and
- b. applying the required accounting for rent concessions that are lease modifications.

In response to the complexity in applying the requirements, the IASB tentatively decided to permit lessees, as a practical expedient, not to assess whether particular covid-19-related rent concessions are lease modifications and instead account for those rent concessions as if they were not lease modifications.

IASB is seeking feedback on the Exposure Draft *Covid-19-Related Rent Concessions* published on 24 April 2020. This project is part of the IASB's work to support stakeholders during the covid-19 pandemic and hence the IASB is working on an accelerated timeline for this Exposure Draft. The IASB plans to issue the final amendments to IFRS 16 in May 2020.

2. Primary Financial Statements

Investors have told IASB that because financial statements can often be poorly presented, it can be difficult and time-consuming for them to identify useful information. IASB wants to contribute to making communication of information in companies' financial statements more effective.



Hence, '*Better Communication in Financial Reporting*', will be the themed underlying for a number of the IASB projects. These projects are designed to help make financial information more useful and improve the way financial information is communicated to users of the financial statements.

IASB issued the Exposure Draft ED/2019/7 *General Presentation and Disclosure* in December 2019 and consequently MASB issued the same draft pronouncement to obtain feedback from the Malaysian constituents. ED/2019/7 proposed improvements to the way information is communicated in the financial statements, with a focus on financial performance. Responding to investor demand, the proposals would require more comparable information in the statement of profit or loss and a more disciplined and transparent approach to the reporting of management-defined performance measures.

ED/2019/7 was originally exposed for comments up to 30 June 2020, but the deadline has been extended to 30 September 2020 because of the Covid-19 pandemic. MASB has followed the footsteps of IASB by extending the consultation period for the Malaysian constituents by another 3 months from the original deadline.

It is crucial for the Malaysian constituents to provide its feedback on ED/2019/7 considering the significant proposed changes to the statement of financial performance that, if finalised, would replace the existing IAS 1 *Presentation of Financial Statements* and is expected to affect all companies applying IFRS Standards.

3. Management Commentary

Fall within the '*Better Communication in Financial Reporting*' theme, IASB has added to its agenda a project to revise IFRS Practice Statement 1 *Management Commentary* in November 2017. This Project sets out a non-binding framework for preparing management commentary on financial statements prepared applying IFRS Standards.

IASB met on 21 April 2020 to discuss the disclosure objectives and supporting guidance to be included in the revised IFRS Practice Statement 1 *Management Commentary*. IASB tentatively decided to specify in the disclosure objectives that management commentary should provide information and analysis to help investors and creditors understand:

- a. how an entity's business model creates value and generates cash flows;
- b. management's strategy for sustaining and developing the entity's ability to create value and generate cash flows in the future; and
- c. the resources and relationships on which the business model and strategy depend.

IASB expects to publish an exposure draft on the revised IFRS Practice Statement 1 *Management Commentary* in the second half of 2020.

4. Rate-regulated Activities

Some companies supply goods and services whereby the pricing and timing of billing are subject to regulations that dictate how much and when they can charge their customers. Currently, these companies use different accounting models to report the effects of this rate regulation. Some of these models reflect incomplete information about how rate regulation affects a company's underlying financial performance, financial position, and cash flows. This incomplete information hinders investors from comparing and understanding the effects of rate regulation across different countries and companies.

IASB is currently developing a new accounting model that will require rate-regulated companies to provide information about their incremental rights to add amounts, and incremental obligations to deduct amounts, in determining the future rates to be charged to customers as a result of goods or services already supplied. That information will supplement the information provided by applying IFRS 15 *Revenue from Contracts with Customers*. It will provide users of financial statements with clearer and more complete information about the financial performance, financial position and prospects for future cash flows of such companies. IASB expects to issue an Exposure Draft on Rate-regulated Activities in the second half of 2020.

5. Goodwill and Impairment

One common strategy for companies that want to expand is growth by acquisition. Such acquisitions, which IFRS Standards call business combinations, are often large transactions. In this research project, IASB is exploring how to help investors hold companies to account for acquisitions and improve the accounting for goodwill.

To address this, IASB has issued Discussion Paper on *Business Combinations - Disclosures, Goodwill and Impairment*. This document sets out IASB's preliminary views that it should require a company to disclose information about its objective for an acquisition and, in later periods, information about how that acquisition is performing against those objectives.

IASB has also considered whether to reintroduce amortisation of goodwill; although, its preliminary views that it should retain the existing approach i.e. impairment test of business containing goodwill and does not amortise goodwill.

As with other IASB's draft pronouncement, MASB is also issuing the Discussion Paper to obtain feedback from the Malaysian constituents on IASB's preliminary views.

The consultation period for the Discussion Paper on *Business Combinations - Disclosures, Goodwill and Impairment* has been extended for three months from 15 September to 31 December 2020.



March 2020

IFRS® Standards
Discussion Paper DP/2020/1



IASB Discussion Paper
DP/2020/1 Business
Combinations—Disclosures,
Goodwill and Impairment

6. Dynamic Risk Management

Many companies, in particular large publicly held companies, have used risk-management instruments to hedge more effectively in order to align their internal supply of funds with their demand for funds. There are many instances in which exchange rates, commodity prices, or interest rates *do* affect the value of a company's investment opportunities.

IFRS 9 *Financial Instruments* introduced improved hedge accounting and disclosure requirements to enable companies to better reflect their risk management. However, those improvements did not cover situations in which a company manages those risks 'dynamically', i.e. when the risk position being hedged changes frequently and is hedged by an open portfolio of changing assets and liabilities.

Consequently, companies sometimes struggle to adequately reflect their risk management, which means that investors cannot easily understand the effect of hedging on a company's financial position and future cash flows. Without an adequate understanding of risk management, investors can make faulty judgements about a company's profits and future prospects. Market-wide misjudgements about company risks can influence national and global economies.

IASB is currently taking steps to consider whether it can develop an accounting model that would enable investors to understand a company's dynamic risk management activities and to evaluate the effectiveness of those activities. This is in response to the improved hedged accounting and disclosure requirements introduced in IFRS 9 *Financial Instruments* that enable companies to better reflect their risk management, but it did not cover situations in which a company manages those 'dynamically'. IASB plans to conduct an outreach on the core model to gather stakeholders' views before further developing the DRM model in its next phase of the project that is expected to be in the fourth quarter of 2020.

7. Business Combinations Under Common Control

IFRS Standards do not specify how to account for combinations of companies or businesses controlled by the same party. As a result, companies account for such transactions in different ways, which makes it difficult for investors and regulators to compare the effects of those transactions on companies' financial positions and performances.

The project on business combinations under common control is to discuss whether it can develop requirements that would improve the comparability and transparency of accounting for businesses under common control which would help investors the ability to compare and have a better understanding of information that companies provide in financial statements about such transactions.

To assist stakeholders affected by the Covid-19 pandemic, IASB has decided that the publication of the Discussion Paper will be postponed to the third quarter of 2020 (estimated September 2020).

8. Disclosure Initiative- Subsidiaries that are SMEs

IASB had initially added a research project into its pipeline that assessed whether it would be feasible to permit subsidiaries that are SMEs to apply the recognition and measurement requirements of IFRS Standards and the disclosure requirements of the *IFRS for SMEs* Standard with minimal tailoring of those disclosure requirements. This was in response to the suggestions made to the IASB in its 2015 Agenda Consultation. Subsequently in January 2020, IASB decided to move this project from the research programme to the standard-setting programme.

The objective of the project is to develop a reduced disclosure IFRS Standard that would apply on a voluntary basis to subsidiaries that are SMEs.

IASB met on 23 April 2020 and has tentatively agreed that the presentation requirements of IFRS Standards be applied by subsidiaries that are SMEs that elect to apply the IFRS Standard being developed in this project. The IASB will decide whether it will issue a Discussion Paper or an Exposure Draft in the fourth quarter of 2020.

9. Comprehensive Review of IFRS for SMEs Standard

While based on the principles in full IFRS Standards, the *IFRS for SMEs* Standard is a stand-alone standard that is tailored for small and medium size companies. It focuses on the information needs of lenders, creditors and other users of SME financial statements who are interested primarily in information about cash flows, liquidity and solvency. And it takes into account the costs to SMEs and the capabilities of SMEs to prepare financial information. The *IFRS for SMEs* Standard was first issued in July 2009 and is used by millions of small and medium size companies in more than 80 countries^[1].



In January 2020, IASB issued its *Request for Information on the Comprehensive Review of the IFRS for SMEs Standard* (Request for Information) in seeking views on its approach to updating the *IFRS for SMEs* Standard - whether and how aligning the *IFRS for SMEs* Standard with the full IFRS Standards could better serve users of financial statements prepared applying the *IFRS for SMEs* Standard without causing undue cost and effort for SMEs.

The Request for Information is the first step by the IASB in its second comprehensive review of the *IFRS for SMEs* Standard. Responses to this Request for Information will help the IASB to develop recommendations to IASB about possible amendments to the *IFRS for SMEs* Standard. Responses will also help IASB in developing possible amendments to the *IFRS for SMEs* Standard. IASB's comprehensive review of the *IFRS for SMEs* Standard will not necessarily lead to amendments. IASB's intention is that any amendments to the *IFRS for SMEs* Standard will be consistent with the approach to simplifications and disclosure reductions adopted when the *IFRS for SMEs* Standard was originally issued.

The International Accounting Standards Board (IASB) is asking for views on its approach to updating the IFRS for SMEs Standard—the simplified accounting standard for small and medium-sized entities.

IASB met on 23 April 2020 and received an update that, as part of outreach on the *Request for Information*, a survey would be published to provide an alternative way to comment for stakeholders without the capacity or resources to submit a comment letter. Because of the uncertainty and evolving nature of the global crisis the deadline for submitting comments on the *Request for Information* has been extended for another three months to 27 October 2020.



[1] <https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/#analysis>

Islamic Financial Reporting and Other Implementation Projects

Islamic Financial Reporting

Islamic Financial Reporting is part of MASB's work plan and the work is supported by the MASB Standing Committee on Islamic Financial Reporting which has the responsibility in advising the MASB Board as to whether an existing or proposed approved accounting standard can be made applicable to Islamic finance transactions. This includes providing comments from an Islamic financial reporting perspective on the IASB draft pronouncements.

Applying IFRS to Takaful is the theme for MASB's Islamic agenda for 2020. This started with the issuance of Issues Bulletin 1 MFRS 17 *Insurance Contracts: Definition and Scope for Takaful* which concludes that takaful falls within the scope of MFRS 17 Insurance Contracts. Next is the upcoming issuance of Issues Bulletin 2 on Columnar Presentation for Takaful and this reaffirms that columnar presentation could be made when MFRS 17 is applied to takaful. Issues Bulletin 2 is expected to be issued by end of May 2020. The Issues Bulletin for Takaful are expected to guide preparers during the implementation phase of MFRS 17.



On a medium to long-term project, the MASB plans to update its SOP i-1 *Financial Reporting from an Islamic Perspective* based on the 2018 Conceptual Framework for Financial Reporting. The SOP i-1, which was first published in 2010, serves to inform that MASB approved accounting standards shall apply to Islamic financial transactions, unless there is a Shariah prohibition.

MFRS Application and Implementation

The MASB's MFRS Application and Implementation Committee (MAIC) is tasked with the responsibilities of considering application and implementation issues raised by users of the MFRS by developing the MFRS Application and Implementation Guide (MAIG), Questions & Answers (Q&A) or any other forms of educational materials appropriate for its intended use.

For implementation issue of existing MFRS that cannot be addressed by the MAIC such as ambiguity of wordings or divergent views, MAIC will make recommendations to the MASB Board on the need to bring the issue identified to the IASB or IFRS Interpretations Committee or IASB Transition Resource Group.

For its 2020 agenda, the MAIC will continue to deliberate on the remaining six issues brought forward from the year 2019 and as well as considering any other forthcoming local issue. **-End-**