



LEMBAGA PIAWAIAN PERAKAUNAN MALAYSIA
MALAYSIAN ACCOUNTING STANDARDS BOARD

CL 109

15 July 2004

The Chairman
International Accounting Standards Board
30 Cannon Street
LONDON EC4M 6XH
UNITED KINGDOM

Dear Sir David,

**EXPOSURE DRAFT OF PROPOSED AMENDMENTS TO IAS 39 FINANCIAL
INSTRUMENTS: RECOGNITION AND MEASUREMENT – FAIR VALUE OPTION**

The Malaysian Accounting Standards Board (MASB) is pleased to provide its comments on IASB Exposure Draft of Proposed Amendments to IAS 39 Financial Instruments: Recognition and Measurement, as set out in the accompanying pages.

We hope that you will find the comments useful in your deliberation of the above Exposure Draft.

We thank you for the opportunity to give our comments.

Yours sincerely,

Dato' Zainal Abidin Putih
Chairman

EXPOSURE DRAFT OF PROPOSED AMENDMENTS TO IAS 39 FINANCIAL INSTRUMENTS: RECOGNITION & MEASUREMENT - THE FAIR VALUE OPTION

Our comments are as follows:

1. Paragraph IN16

We suggest the drafting of paragraph IN16 to be improved in order to make clearer the intent of the paragraph:

"The Standard permits an entity to designate specified financial assets or financial liabilities which fulfill the condition as prescribed in the Standard, on initial recognition, as ones to be measured at fair value, with changes in fair value recognised in profit or loss. To impose discipline on this categorisation, an entity is precluded from reclassifying financial instruments into or out of this category.

2. Paragraph 9

We propose the Standard should require disclosure of the condition which the entity has satisfied to avail itself of the fair value option in paragraph 9. Such information is useful to users of financial statements.

The disclosure could be included after paragraph 92 of IAS 32 (as revised in December 2003) as follows:

"An entity shall disclose the condition it meets for the entity to designate, on initial recognition, the financial asset or financial liability as one to be measured at fair value through profit or loss".

3. Paragraph 9(b)

The Exposure Draft proposes that an item of financial asset or financial liability that meets one of the conditions listed in paragraph 9(b) could, upon initial recognition, apply the fair value option.

The MASB believed that the availability to apply the fair value option, notwithstanding on initial recognition, would allow an entity to cherry-pick the measurement basis of its financial asset or financial liability at fair value through profit or loss. This would occur because of the time lag

between the transaction date and recording date of the said financial asset or financial liability unless the entity's accounting record is on real time basis / immediately record updating.

We therefore, suggest refinement to the Standard in order to discourage cherry-picking by an entity in accounting for its financial asset or financial liability.

4. Paragraph 9(b)(iii)

We suggest the Standard to clarify the term "substantially" in paragraph 9(b)(iii) to ensure consistent application of the Standard.

5. Paragraph 9(b)(iv)

Loans and receivables containing embedded derivatives

Paragraph 9(b)(iv) prohibits a financial asset that meets the definition of loans and receivable to be designated as a financial asset at fair value through profit or loss.

We noted that there could be cases where a loan and receivable meet the condition in paragraph 9(b)(i) although they fall under the prohibition in paragraph 9(b)(iv). A case in point is a receivable containing embedded derivatives. Although paragraph 9(b) does not state that the conditions prescribed should be considered in a chronological order, the Standard should be clear whether the fair value option is available for loan and receivable that also meet other conditions prescribed in paragraph 9(b). In other paragraph, AV5, it indicates that the fair value option could be applied to loan and receivable if it qualifies under one of the first three categories in paragraph 9(b).

Therefore, we suggest that paragraph 9(b)(iv) to be redrafted for better clarity, as follows:

"The item is a financial asset other than one that meets the definition of loans and receivables unless it meets the condition in paragraph (i) or (iii) above."

6. Paragraph 9(b)(iv)

Loans and receivables

We suggest the IASB provides reasons for disallowing an item of loan and receivable upon initial recognition to choose the fair value option in its Basis for Conclusions. This is particularly important since the Board has in IAS 39 (as revised in 2003) permitted an entity to designate any financial asset or financial liability on initial recognition as one to be measured at fair value with changes in fair value recognised in profit or loss.