

Companies, banks ready for new accounting standard

Simulation tests show firms could comply with FRS 139 before 2010

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KUALA LUMPUR: With less than six months to the mandatory adoption of Financial Reporting Standard (FRS) 139, Malaysian companies and banks appear ready to meet the Jan 1, 2010 deadline.

Deloitte Malaysia executive director Dr Nordin Zain said: "I'm confident that Malaysian institutions will be able to meet the first deadline of 2010 in applying FRS 139."

He was speaking to reporters on the sidelines of a one-day seminar on "Managing IFRS in Critical Times", jointly organised by Deloitte Malaysia and the Securities Commission (SC). The implementation of FRS 139 on Jan 1, 2010 is to be followed by full International Financial Reporting Standards (IFRS) migration on Jan 1, 2012.

Nordin said simulation tests conducted by the government found that companies could comply with FRS 139 before 2010, but it was decided that the deadline be set for Jan 1, 2010 as it coincided with Basel II

implementation. Basel II, published in June 2004, is the international standard on banking regulations that generally focuses on how much capital banks need to guard against financial and operational risks.

FRS 139 refers to the standard for Financial Instruments: Recognition and Measurement which, according to a Deloitte Malaysia report, has far-reaching implications on financial statements of not just banks but industries ranging from transportation, and oil and gas, to hospitality, real estate and plantation.

The adoption of FRS 139 is significant as Deloitte Malaysia's report also characterises it as the most complex accounting standard issued in Malaysia — requiring companies to calculate the fair values of financial assets, financial liabilities, derivatives and other financial instruments.

Even so, which banks are prepared and which are not?

Nordin said: "Those listed should be ahead of the pack while others such as development institutions may have some issues."

On the cost, Nordin put it at 0.13% of revenue but pointed out that his colleague and Deloitte China, global leader partner, IFRS for financial services industry Dr Philip Goeth's experience showed that larger com-

panies tended to spend less as a percentage of revenue compared to small or medium firms.

Even as companies and banks work towards compliance with the new standard, an exposure draft was issued last week for IAS 39 — the FRS 139's international counterpart — advocating a simplification of the standard from four different kinds of classifications of financial instruments into just two categories and only one type of impairment versus several in the existing standard.

An exposure draft is a proposed version of an accounting standard that is issued by the committee for open discussions prior to its release as a final document. Nordin expects the amended IAS 39 to be issued by the international committee at the beginning of 2010.

On the full-fledged adoption of international accounting standards, Deloitte Malaysia country managing director Tan Theng Hooi said: "The adoption of IFRS is not only an accounting issue but a strategic one for companies as well."

IFRS adoption would impact almost all aspects of the company including financial reporting systems, Internet controls, taxes, treasury, management compensation, cash management and legal issues, he added.

Today, Malaysia is four standards away from full IFRS compliance with 33 standards adopted versus 37 standards in the IFRS. In terms of interpretation notices that help companies apply the accounting rules, Malaysia has adopted six versus the 17 issued internationally.

Other countries in the region adopting IFRS in 2012 are Singapore and Indonesia while India has set its deadline for 2011.

China has claimed compliance since 2007 having transitioned to international standards over time while Japan is still uncertain for 2010 or 2015.

SC managing director and executive director of enforcement Datuk Dr Nik Ramlah Mahmood said the adoption of IFRS would impact investment in the country.

"The point to note is that not only does IFRS promote good corporate governance but that today, countries that wish to compete for foreign direct investment (FDI) and foreign portfolio investment (FPI) have to adopt international standards that are in line with good corporate governance practices," she said.

She added that among the focus of global investors was the efficient transnational comparison of companies.