

# PULLING



# TOGETHER

We talk to **Mohammad Faiz Azmi**, chairman of the Malaysian Accounting Standards Board, and founding chair of the Asian-Oceanian Standards Setting Group, about the need for an Asian voice on the development of international accounting standards



**I**nternational may be the first word in International Financial Reporting Standards, but some Asian finance practitioners have felt that IFRS is a Western import they have never had a chance to customise.

Now that may be changing. Established in November 2009, the 21-country Asian-Oceanian Standards Setting Group (AOSSG) is intending to help make the standards truly international, by serving as a forum to bring Asian points of view to the attention of the International Accounting Standards Board (IASB).

**Q** What was the impetus for the formation of the AOSSG?

**A** This was something which some of the more developed economies in this part of the region – China, Japan and Korea – had mooted at one point. Although they themselves had their own regional groups, the feeling was that, as Asians, many of the problems they were facing were common to other countries as well. Correctly or incorrectly, there was a perception that many of these standards were potentially more accommodative towards the G7. The feeling was that, if IFRS was to be implemented as a global standard, then it was important that the voices of developing countries – and in particular of the countries in this region – should be heard.

**Q** Could you give us an example of where emerging economies were getting short shrift?

**A** Fair value. There is a lot of concern about the fact that in developing countries, the ability to arrive at a fair value is not an easy one, and in some cases we felt that the issue had not been properly addressed by the IASB.

We operate in environments which are very dissimilar from the West. Therefore we feel that we need more

guidance, not only to prevent abuses, but also to be clearer about applying the principles here. We are very positive about IASB's attempt to try and codify what isn't fair value and so on. At the same time, we have concerns that it's perhaps a little bit light in terms of examples and guidance.

The IASB actually came for a hearing on the fair-value measurement in Malaysia and we pointed out that, based on our level of development as an economy, our concern was that many of our estimates would end up as Level 3.

While that's not necessarily a bad thing, unfortunately analysts tend to misread the importance of being Level 3. I've heard the expression 'toxic assets', but is that fair when you consider that the market is immature? There is also an issue of liquidity. There are something like 2,600 bonds in Malaysia but only 1% get traded in a year. That means that 99% of the time you're more likely to have a mark-to-model value than a mark-to-market.

Islamic finance is another example. While it may be quite a niche area in the West, you have countries here which are predominately Islamic financed – Iran, Sudan, and so on. You also have countries such as Malaysia which are dual-system economies.

There are certain IFRS standards that cause us problems. For instance, we have this thing called a qard hassan, which is a benevolent loan which has a zero yield because you can't charge anything for it, but how do you value it? And more importantly, if you then ascribe a diminution in value because it's a zero-yielding asset, although it costs you something to lend the money, would that be imputing the time value of money into the creation and would that be Shariah-compliant?

It's to IASB's credit that it has tried a lot more in the last two years to reach out. For example, it sent someone here



Australia



China



India



Japan



Hong Kong



South Korea



Malaysia



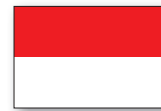
New Zealand



Saudi Arabia



Singapore



Indonesia



Macau



Brunei



Cambodia



Kazakhstan



Nepal



Oman



Thailand



Sri Lanka

## \*SO FAR, SO GOOD

Reaction to the formation of the Asian-Oceanian Accounting Standards Setting Group (AOSSG) has been positive so far, both from the International Accounting Standards Board (IASB) and the Asian accounting community.

IASB chairman Sir David Tweedie is enthusiastic about the project. 'Anyone following IASB press coverage could be forgiven for concluding that IFRS are a bilateral project between the European Union (EU) and the US. Yet in the last few years it has been predominantly Asian countries that have been most active in embracing IFRS,' he says.

'The Asia-Oceania region is already well represented on the board and the various advisory bodies to the IASB, but the region needs to find its collective voice in order to provide a more effective counter-balance to other regions of the world,' he adds.

Practitioners agree with Tweedie about AOSSG's potential value. 'I think everybody is really happy with it,' says Stephen Taylor, a technical partner for Deloitte China, who believes that the AOSSG may help give Asia some counterweight with the IASB, in much the same way as the EU and the Financial Accounting Standards Board in the US have been able to serve as advocates to those markets.

However, one item Taylor hopes makes the Asian wish list is the use of plain English. '[The IASB] is going to have to try to simplify the English it uses in the standards. It has to realise that they are going to be translated,' he says.

for a day to talk to a government entity about Islamic finance to make sure it understood it a little better, and I know they have someone who is trying to read every book he can about Islamic finance to try to understand a little more of the game.

**Q Do you think you'll be able to come up with some sort of compromise or are the two world views too different?**

**A** My personal view is this: Islam says that all things are permissible unless prohibited. Our argument has been that until or unless you can show that IFRS contradicts the Shariah, then we'll use IFRS. If you look at our statement of concern, which we issued a few months back, we had spent about two, three years thinking about this issue and we finally concluded that fundamentally, reflecting the substance of a transaction or describing it in a particular way is not a Shariah issue. To make it clearer, we actually went to the Shariah Advisory Council of Bank Negara Malaysia about this and it basically said: 'Who cares what the accountants do?'

**Q So Islam and IFRS can co-exist?**

**A** If you look at the Malaysian experience, although there are pressure points, by and large it has worked. That's why we made the point to IASB that it might need commentators such as ourselves, to make the case to other commentators that it's not

a big deal. And in fact, Saudi Arabia, Qatar and Kuwait follow IFRS, so it's not that big a deal.

**Q Are there other pressure points that you can see?**

**A** The big issue for us in emerging countries is that there aren't enough people who actually understand accounting standards. If you look at the number of professionals, for example, in Malaysia, I think there are only 25,000 accountants out of a population of 20 million. So how do you explain to decision-makers and to business people that the game has changed, and how do you preserve that principle of comparability in the interpretation of these standards?

That's why, to speak for ourselves, meet with other regulators which may be slightly ahead of the curve than us, and share how they got round things, is actually very interesting. If they have a similar kind of DNA and have managed to convince their governments to do things in a particular way, then maybe we should do things that way as well to get our objectives met.

There is the formal output of AOSSG, which is the reviewing of a document and a feeding back of our ideas, but the mere fact that we're getting at least 21 countries around a table, sharing different points of view as to how they did things, is also very powerful.

**Bennett Voyles, journalist**