REPORTING BY THE ACCOUNTANTS TODAY EDITORIAL TEAM

MPERS - TRANSFORMING SMALL BUSINESS FINANCE

Malaysian regulators and standard-setters are committed to making small and medium enterprises (SMEs) - which comprise the heart of the economy – more globally competitive and hence, sustainable. One such initiative to facilitate SMEs as the business environment becomes more challenging and liberalised is the rollout of the Malaysian Private Entities Reporting Standards (MPERS), which has been described as MFRS made simple for small business.

EFFECTIVE 1 January 2016, all private entities, including Small and Medium Enterprises (SMEs), are required to apply the Malaysian Private Entities Reporting Standards (MPERS) in the preparation of their financial statements. Alternatively, private entities that choose not to adopt MPERS can opt to apply the Malaysian Financial Reporting Standards (MFRS).

This is certainly a timely move, said MIA Vice-President Datuk Zaiton Mohd Hassan at the 2015 MPERS Conference, given that the Private Entity Reporting Standards (PERS) currently being used by private entities is outdated, having been developed based on the 2003 version of International Accounting Standards.

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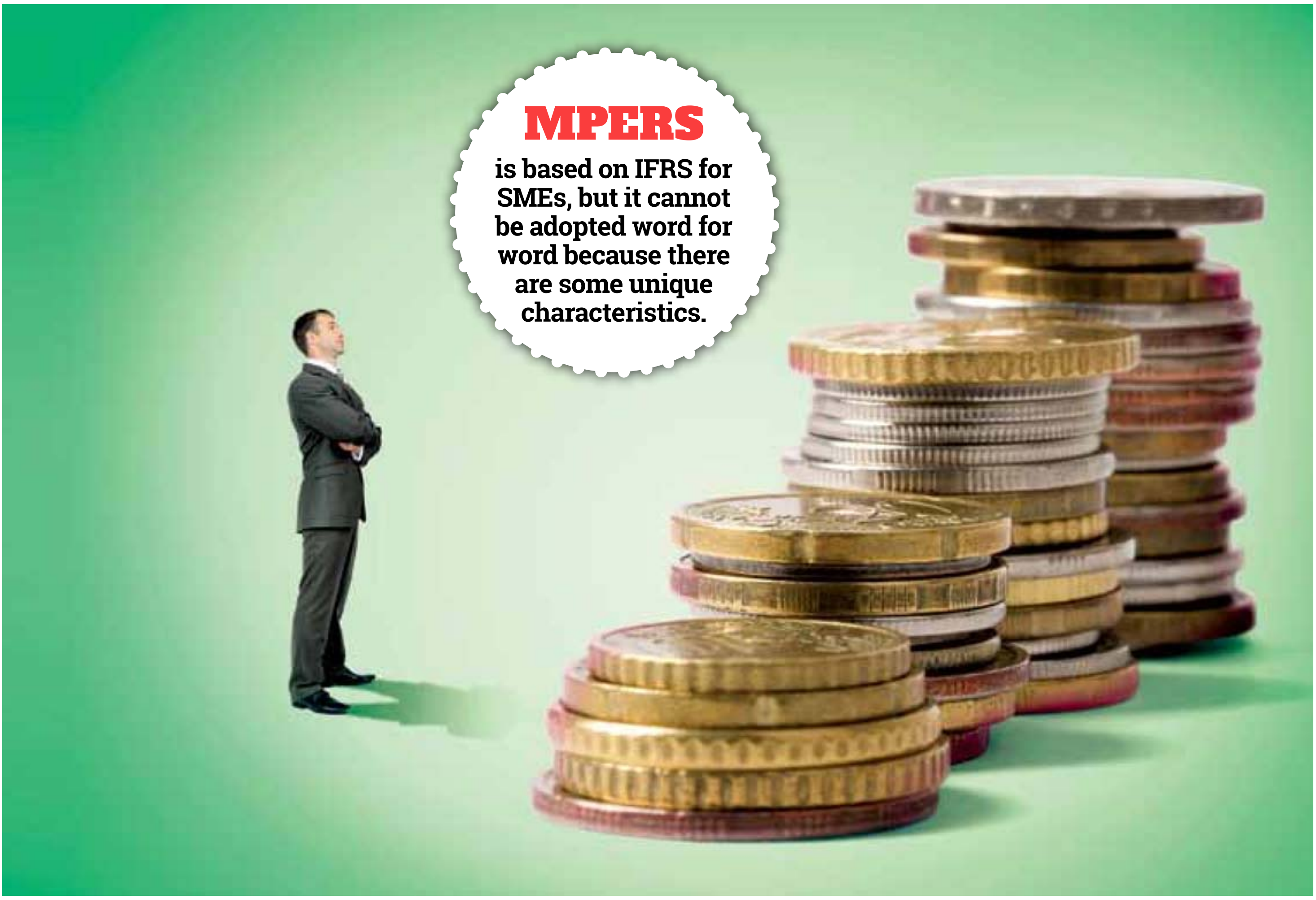
"The business environment has undoubtedly changed over the last 12 years and hence the need for MPERS which is based on the International Financial Reporting Standards for Small and Medium Enterprises (IFRS for SMEs), which was issued by the International Accounting Standards Board (IASB) in 2009, with further minor amendments on income tax and property development activities," commented Datuk Zaiton.

MPERS adoption will ensure the convergence and comparability of local business with their international counterparts, even as the landscape becomes more integrated and liberalised due to initiatives such as the ASEAN



Economic Community and the Trans-Pacific Partnership Agreement (TPPA). According to the IASB, 73 countries already use IFRS for SMEs, and another 14 countries are considering it. This means the financial statements of Malaysian private entities comprising mainly of SMEs will be comparable to the financial statements of SMEs in at least 73 countries including the UK, Australia, Hong Kong and Singapore. The IASB recently issued amendments to the IFRS for SMEs and the Malaysian Accounting Standards Board (MASB) should be issuing the amendments to MPERS as well.

THE OPPORTUNITIES

Like other changes to the regulatory landscape, MPERS potentially opens up exciting new prospects and markets. "MPERS brings opportunities for businesses because it is an international standard," said Dr. Nurmazilah Dato' Mahzan, Deputy CEO, MIA. "It is a simplified version of MFRS and should be embraced because of its internationality. Of course, it comes with challenges because the changeover process to get it right is imperative, and the transition process will involve retraining and relearning. It also requires all accounting processes to be aligned, particularly in the treatment of fair value, in order to benefit the business as a whole."

Recounting how MPERS was developed, Mohamed Raslan Abdul Rahman, Chairman, MASB explained the different dynamics in disparate standards that gave rise to various difficulties in achieving a single standard. "MPERS is based on IFRS for SMEs, but it cannot be adopted word for word because there are some unique characteristics," he said. "The World Bank declared that if Malaysia wanted to be an international player, our Private Entity Reporting Standards (PERS) would have to be updated, because

Members of the panel (L-R) Mohamed Raslan Abdul Rahman, Dr. Nurmazilah Dato' Mahzan, Mr. Stephen Oong Kee Leong, Goh Kean Hoe and Lee Hin Kan

it had been in use since 2003. MPERS was issued in 2014, with adjustments for property development and tax."

But even with the inclusion of the most current amendments, he cautioned that companies wanting to adopt MPERS will have to keep themselves abreast of the recent amendments which will be effective in 2017. "So far, 73 jurisdictions have embraced IFRS for SMEs, out of more than 140 countries," he said. "But all adoptions need to be tweaked before being fully implemented. The UK, Hong Kong, Singapore, the Philippines and South Africa are some of the countries which have adopted IFRS for SMEs – primarily because SMEs are growing faster today than they have ever done before. Bankers can make comparisons easily when they are looking at funding. With MPERS, we are on the same page, and are talking the same language."

AND THE CHALLENGES

Apart from bankers, venture capitalists too will be able to make comparisons more easily with other countries – perhaps paving the way for more foreign investment in small companies. Additionally, consolidation and reconciliation across jurisdictions is expected to become easier with MPERS. This will spur cross border commerce transactions and improve transparency.

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While agreeing with Mohamed Raslan on the advantages of moving to MPERS, Lee Hin Kan, a consultant, said that while it was important to keep abreast of market developments, this was not quite as simple from the preparers' perspective.

Constant change is a challenge for preparers, who must learn to be agile and flexible in order to keep up. "There were 55 amendments to IFRS even before implementation, and the IASB (the International Accounting Standards Board) is still inviting comments on its Conceptual Framework Exposure Draft," he said. "It's already complicated enough but even before one topic can be fully understood, another amendment comes in. The Conceptual Framework appears to be constantly moving. Will there be more changes, and if so, how do we keep up? How do we understand and implement the standards, if we are being constantly bombarded with changes?

Furthermore, the talent shortage exacerbates the challenges of transitioning to MPERS. "We have to look at the quality of accountants and there is also the problem of staff – we do lack preparers – and this is compounded by the fact that SMEs differ greatly in size. Some can afford better quality accounting services, and some cannot. What happens if they cannot cope?"

He stressed further that as preparers in private enterprises, the preparers' range of roles is wide and not limited exclusively to accounting. On the positive side, the adoption of MPERS will push the bar further up, and could expand demand for the services of SMPs, which are already being retained by SMEs for auditing and other jobs.

MAKE THE RIGHT CHOICE

Stating that it was "too late to decide whether we like or dislike MPERS," Stephen Oong, Partner, Assurance Division, EY Malaysia, urged SMEs to accept the fact that by 2016, private entities can no longer prepare their financial statements using PERS. However, he reminded private entities that it is not necessary that they must change from PERS to MPERS. Under certain circumstances, changing from PERS to MFRS may be a better option. Preparers should take this opportunity to consider carefully whether changing from PERS to MFRS is a better option. "There are many aspects to be considered before making a choice whether to switch to either MPERS or MFRS," he said. "If you are a property developer, you will probably not go for MPERS because MPERS requires all borrowing costs to be expensed. Likewise, if you are an entity with huge intangible assets or goodwill, you may not like MPERS because all your intangible assets and goodwill will have to be amortised over 10 years and expensed to profit or loss. And if you are a plantation company, all your trees will have to be measured at fair value under MPERS – which is something most plantation companies have been trying to avoid," added Oong.

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"MPERS is MFRS simplified. The unintended consequence of a simplified accounting standard is that the standard contains very little details and application guidance. Accordingly, preparers will encounter significant and many application issues when applying MPERS and there will be divergence in the application of MPERS. As a result, comparability of financial statements among private entities would be difficult to achieve – which is not a desirable consequence because comparability is one of the objectives of a good financial reporting framework."