MACQUARIE GRADUATE SCHOOL OF MANAGEMENT

MGSM WORKING PAPERS IN MANAGEMENT

THE IMPACT OF AN ENFORCEABLE STANDARD IN MALAYSIA: ASSESSING THE COMPLIANCE OF DISCLOSURES FOR LARGE FIRST-TIME ADOPTERS UNDER FRS 136

Tyrone Carlin
Faculty of Economics and Business
The University of Sydney

Nigel Finch
Macquarie Graduate School of Management
Macquarie University

Nur Hidayah Laili
Macquarie Graduate School of Management
Macquarie University

MGSM WP 2008 - 12
October 2008

Disclaimer
Working papers are produced as a means of disseminating work in progress to the scholarly community, in Australia and abroad. They are not to be considered as the end products of research, but as a step towards publication in scholarly outlets.

Research Office
Macquarie Graduate School of Management
Macquarie University
Sydney NSW 2109
Australia

Tel **+61 2 9850 7732**
Fax **+61 2 9850 9019**
Email **research@mgsm.edu.au**
URL **http://www.mgsm.edu.au/research**

Associate Dean of Research Professor Richard Badham
Research Administrator Mrs Kerry Daniel

ISSN **1445-3029** **Printed copy**
1445-3037 **Online copy**

MGSM WP 2008-12

Title: The Impact of an Enforceable Standard in Malaysia: Assessing the Compliance of Disclosures for Large First-Time Adopters Under FRS 136

*** Corresponding Author**
Nigel Finch
Director of the Centre for Managerial Finance
Macquarie Graduate School of Management
Macquarie University NSW 2109 Australia

Phone: +61 2 9850 9030
Fax: +61 2 9850 9019
Email: Nigel.Finch@mgsm.edu.au

THE IMPACT OF AN ENFORCEABLE STANDARD IN MALAYSIA: ASSESSING THE COMPLIANCE OF DISCLOSURES FOR LARGE FIRST-TIME ADOPTERS UNDER FRS 136

TYRONE M CARLIN
Faculty of Economics and Business
The University of Sydney

NIGEL FINCH §
Macquarie Graduate School of Management
Macquarie University

NUR HIDAYAH LAILI
Macquarie Graduate School of Management
Macquarie University

ABSTRACT

After many years of debating the appropriate treatment for goodwill, Malaysia finally has an enforceable accounting standard on this topic. Applicable for business combinations with reporting dates commencing on or after 1 January 2006, FRS 136 - Impairment of Assets requires that goodwill acquired in a business combination is allocated to cash generating units and tested for impairment at least annually.

This new requirements is a radical departure to the existing practice of goodwill reporting in Malaysia, with financial statement prepares now having to deal with complex and rigorous techniques for assessing impairment, and the added disclosure requirements in relation to goodwill allocation and the estimate of recoverable amounts. Given the change in the reporting requirements, there exists the possibility of inconsistent compliance and varying levels of disclosure quality by companies as they transition into the new reporting regime.

Thus, the purpose of this paper is to examine the level of compliance with the provisions of FRS 136 – Impairment of Assets and assess the quality of disclosures made in accordance with this new standard. Using a sample of 36 of the largest Malaysian listed corporations as at 2006, we find significant levels of non-compliance and substantial variation in the quality of note-form disclosures pertaining to impairment testing.

Keywords: Goodwill Accounting, Financial Reporting Standard, FRS 136, Impairment, Malaysia

Correspondence Details:

Nigel Finch
Director of the Centre for Managerial Finance
Macquarie Graduate School of Management
Macquarie University NSW 2109 AUSTRALIA
Phone: + 61 2 9850 9030
Fax: + 61 2 8080 8381
nigel.finch@mgsm.edu.au

INTRODUCTION

Goodwill and the standards which regulate its measurement and reporting are commonly regarded as some of the most controversial aspects of financial reporting. One consequence of this has been the diversity of practice in relation to goodwill accounting and reporting, both within and across jurisdictions. Malaysia represents a good case in point. Prior to the adoption of an IFRS based reporting framework[1] in that country, no binding standard governing on goodwill had ever reached the point of implementation.

Before the achievement of that significant milestone three approaches to goodwill reporting were commonly used in Malaysia. First, goodwill was capitalised as a permanent item but subjected to periodic review for write down purposes[2]. Second, goodwill was capitalised and subjected to systematic amortization against profit and loss and, third, immediate write-off against reserves.

By contrast, the decision to adopt IFRS and with it a standard specifically bearing on the question of goodwill reporting, FRS 136 - Impairment of Assets, introduced a formal requirement that goodwill acquired in a business combination no longer be amortized but rather subjected to systematic impairment testing (FRS 136, para. 55). Pursuant to this new treatment, the carrying amount of goodwill must be written down to the extent of any impairment and the impairment loss recognized in the calculation of profit (FRS 136, para. 60).

Whereas the lack of a binding standard relating to goodwill had resulted in considerable diversity in practice with the consequence of lower consistency, comparability and transparency, the provisions of FRS 136 provide a basis upon which these types of challenges may be resolved with the consequence of higher reporting quality. In particular, the highly prescriptive disclosure requirements pertaining to the nature of goodwill impairment testing processes undertaken by reporting entities provides far greater transparency than has previously been the case (Sevin et. al., 2007).

However, the opportunity for greater transparency inherent in the design of FRS 136 is contingent on the navigation, on the part of preparers and auditors through a highly complex reporting regime. In particular, FRS 136 calls for the disclosure of a range of factors which organisations may view as sensitive, including projected growth rates and the provision of a segmented perspective on firm risk characteristics. In the absence of adequate audit and regulatory oversight, the complexity of the FRS 136 regime, together with the frequency with which its application calls for the exercise of discretion and judgement may conspire to result in the production of information of a lower quality than that hoped for by standard setters or delivered under competing reporting frameworks (Watts 2003).

Thus, the achievement of transparency and quality benefits is contingent on the degree of realized compliance post standard adoption. This is an empirical question rather than a fact which ought be treated as given. As such, using data drawn from a sample of large Malaysian listed firms, this

[1] The effective introduction date of IFRS was 1 January 2006. All reports for periods commencing on or after that date were required to be produced in compliance with the new IFRS based system.
[2] In contrast to the requirements of the IFRS framework however, there was no prescription in relation to the timing or frequency of valuation reviews, nor in relation to the methodologies to be employed as the foundation for such reviews or disclosures in relation to key assumptions used in the review process.

paper looks specifically at evidence relating to the level of compliance with a variety of the provisions of FRS 136 and an assessment of the quality of disclosures provided in accordance with that standard.

The paper is set out as follows. Section 2 comprises a brief review of key developments in the regulation of goodwill accounting and reporting in Malaysia. Section 3 contains a review of the data and methodology employed for the purposes of the study. Section 4 contains a discussion of the results of study while section 5 sets out key conclusions and suggests some implications of this study for practice and potential further research.

2. OVERVIEW OF GOODWILL REPORTING ARRANGEMENTS IN MALAYSIA

In Malaysia, formal financial reporting standard setting activities commenced during the early 1970s. A technical committee was formed in 1971 with the remit to act on a letter[3] dated 10 September 1971 sent by Bank Negara to the President of Malaysian Association of Certified Public Accountants[4] (MACPA). The letter pointed out the need for the generation of greater understanding of goodwill and the criteria by which accountants would be prepared to accept the existence and valuation of goodwill[5]. Subsequently, this issue was raised several times by Bank Negara and the Capital Issuance Committee[6] (CIC). After an extended hiatus marked by a high level of inactivity, the Malaysian Institute of Accountants (MIA)[7] was approached to develop a standard in 1987. Consequently, both MACPA and the MIA committed to a process of joint work towards the goal of the development of a Malaysian accounting standard for goodwill

As an element of that agreed course of action, on July 1, 1987 the President of MIA and the President of MACPA signed a joint Circular to members enclosing a questionnaire inviting comments on a discussion paper on Goodwill Accounting (Junaidah, 2003). The proposed treatments in the discussion papers were very similar to the recommendations of the United Kingdom's then current SSAP 22 - Accounting for Goodwill, which evinced a preference for the writing off of purchased goodwill against reserves but allowed capitalisation and amortization as an alternative (Tan, 1992). The Discussion paper drew more than 80 responses but the views expressed were so diverse that insufficient consensus to support the development of an exposure draft was judged to have been achieved. Consequently, the MIA and MACPA decided to defer the issuance of a standard until some later time when opinion on the matter had congealed into a more coherent and consistent form.

The two bodies did not pursue the matter for several years until there was further prompting from the CIC. In 1991, the CIC decided to take matters into its own hands by including in its guidelines

[3] The Governor of Bank Negara referred to the issue of goodwill in the same letter as "these analyses give rise to serious reservations about the upward revaluations of certain assets and the creation of goodwill by companies prior to offering their shares to the public or applying for listing on the Stock Exchange.. Generally, our Committee tends to view goodwill with scepticism and I would like to have the assurance that the auditing profession would not support the valuation placed on goodwill without full confidence that it is fairly stated".

[4] MACPA is now known as Malaysia Institutes of Certified Public Accountants (MICPA). It is set up by individuals as a private association in 1958 (Susela, 1999).

[5] Minutes of the Technical Committee on 13 October 1971.

[6] Part of the Ministry of Finance.

[7] MIA has been set up in 1987 by the State as a statutory body to regulate the accounting profession.

subsection 17.51 (CIC, 1991), which specifically states that goodwill should be treated in accordance with relevant accounting guidelines or accounting standards acceptable to the CIC. However, this was a modest step, leaving open far more questions (for example in relation to the recognition and measurement criteria for intangibles such as goodwill) than it answered.

Perhaps spurred on by the CIC's interest in the matter, the MIA and MACPA commissioned a study[8] the objective of which was to yield clear insights into goodwill accounting and reporting practices in Malaysia. The study indicated the existence of a diversity of approaches to goodwill accounting and reporting treatments being adopted by listed companies in Malaysia. This revelation stimulated the preparation of another discussion paper on goodwill by the MIA and MICPA, issued in late 1991[9]. Based on the comments obtained in response to this document, MAS 6 – Accounting for Goodwill was issued as an exposure draft by the MIA in September 1992 (Yap and Guan 1997). The integral features of MAS 6 were based on the UK's Exposure Draft 47 - Accounting for Goodwill, which required that goodwill be capitalised and amortized over a period of no longer than 25 years.

In April 1993, MAS 6 was issued as a standard to be operative for periods commencing on or after 1 January 1995. However, due to substantial lobbying pressure and a series of requests by influential bodies including MACPA for a delay in the adoption of the standard, the effective operative date of MAS 6 was delayed to 1 January 1997 (Susela, 1999). Nonetheless, controversies persisted and in early 1997 the Minister of Finance instructed that the implementation of MAS 6 be further deferred for another two years. According to this directive, MAS 6 was not to become effective until 1999.

A key development in the regulation of financial reporting in Malaysia transpired in July 1997, when the Financial Reporting Act 1997 was passed and the Malaysian Accounting Standard Board (MASB) was formed with a remit to issue legally binding accounting standards. In a Subsequent related reform, the Companies Act 1965 was amended to require compliance with approved accounting standards. However, since no operative standard on goodwill existed, this series of initiatives did not immediately transform practice in Malaysia, but rather, sowed the seeds for the creation of a more consistent and rigorously enforced reporting framework as future standards were promulgated.

As matters transpired, it was to be some time before this had direct implications for the accounting and reporting arrangements germane to goodwill. The decision by the Minister of Finance in 1997 to delay the implementation of MAS 6, given the subsequent creation of the MASB, effectively resulted in MAS 6 being rendered void, with no alternative standard produced to fill its place.

Despite these missteps, some progress towards clarification and codification of goodwill reporting arrangements occurred in January 2001 when reporting standard MAS 22 - Business Combinations was made effective. However, though mentioned in the standard, the question of goodwill was ultimately tangential to the chief thrust of MAS 22's provisions with the result that the standard lacked detailed coverage on the matter. Thus, whilst foreshadowing the promulgation of a standard

[8] A survey conducted on 276 published annual reports for companies listed on the main board of Kuala Lumpur Stock Exchange (KLSE). It revealed that 155 companies included a goodwill accounting policy.
[9] A total of 112 responses were received, which 76% preferred for the amortization method, while 22% preferred for permanent item and 2% preferred for immediate write-off.

specifically directed towards goodwill, the guidance on the subject in MAS 22 was limited to the directive that goodwill "… should be treated in accordance with the generally accepted accounting principals on goodwill." (para.77, MAS 22). As has been made clear above, these were anything but clear or consistent. Thus, it is strongly arguable that no material progress in relation to goodwill reporting was made in Malaysia over the span of three decades.

Some attempt to redress this was evident in the MASB's issuance in November 2000 of an exposure draft on the subject of goodwill accounting, ED 28[10]. The central thrust of that document was its recommendation that purchased goodwill be recognized and amortized on a straight-line basis over a period not exceeding twenty years. The exposure draft was intended to be operative beginning 1 July 2001. Again, the initiative was stillborn, the exposure draft not leading to a pronounced standard due to changes in the international domain, principally FASB's decision to radically alter goodwill accounting and reporting arrangements via the promulgation of SFAS 141 and 142.

The key elements of those two standards were the removal, pursuant to SFAS 141 – Business Combinations of the capacity to account for acquisition transactions using the pooling of interests method combined with the adoption pursuant to SFAS 142 – Intangible Assets of an impairment testing based regime for goodwill, replacing the former capitalise and amortise regime.

Ultimately, it required the decision that Malaysian companies would adopt a localized version of IFRS[11]with effect from 1 January 2006 to engender progress on the goodwill reporting front. Under the new framework, Malaysian companies are required to implement all the Financial Reporting Standards (FRSs[12]) issued by MASB in the preparation and presentation of financial statements. The move by MASB to adopt IFRSs is a reflection of Malaysia's commitment to align with global accounting standards in order to achieve harmonization with international practice.

As a consequence to the adoption of IFRSs, Malaysia at last has an accounting standard on goodwill. The IFRS goodwill accounting treatment is now prescribed in Malaysia's FRS 3 - Business Combinations, and FRS 136 - Impairment of Assets. These standards initiate three significant changes which substantially impact the treatment of goodwill in Malaysia. First, goodwill acquired in a business combination is not to be amortized but will be tested for impairment annually or whenever events or circumstances indicate its value may have been impaired (FRS 136). Second, all business combinations within the scope of the standards are to be accounted for using purchase method (FRS 3). Third, FRS 136 prohibits the recognition of internally generated goodwill and the reversal of write-downs on purchase goodwill.

FRS 136 is intended to improve financial reporting transparency by reflecting more clearly the underlying economics of goodwill. In order to realize improved financial reporting transparency, FRS 136 requires that goodwill should, from the acquisition date, be allocated to cash-generating units (or CGU's) of the combined entity. A CGU is the smallest identifiable group of assets that generates cash inflows which are substantially independent of cash inflows from other assets or group of assets. From an internal oversight perspective, CGUs represent the lowest level within the

[10] ED 28 – Accounting for Goodwill.
[11] The substance of what might be termed M-IFRS is essentially identical to the substance of IFRS – but with transitional arrangements designed to minimize the disruption associated with the move to IFRS, given local conditions.
[12] MASB standards are now called FRSs. In 2005, MASB renamed and renumbered the MASBs as FRSs and the numbers coincide closely with the numbering of IASs and IFRSs.

entity at which goodwill is monitored for internal management purposes. Whether an impairment of goodwill has occurred is determined via a comparison of an estimate of the recoverable amount of each CGU to which goodwill has been allocated[13] and the book value of CGU assets, with impairment charges being recognized wherever CGU book values exceed CGU recoverable amount estimates.

The requirement that this new standard be adopted as the basis for goodwill accounting and reporting represents a substantial challenge to Malaysian reporting entities and their auditors. After several decades in which a laissez faire approach to the problem represented the dominant paradigm, the highly prescriptive and technical provisions of FRS 136 represent a very substantial variation from past practice. This in turn gives rise to questions about the extent to which Malaysian companies and their auditors have fared during the process of transition to a complex new reporting regime and in consequence to the quality and consistency of reports produced pursuant to that new regime. The data and methods employed with a view to providing insights into these questions are discussed in section 3, below.

3. DATA AND METHODOLOGY

All reporting entities with reporting dates commencing on or after 1 January 2006 are required to comply with the requirements of FRS 136. Thus, 2006 represents the first reporting period for Malaysian companies during it was mandatory to apply FRS 136. The commencing sample for the research was the 100 constituent firms which comprised the FTSE[14] Bursa Malaysia Index as at 2006.

However, it was necessary to exclude a substantial number of these firms from the final research sample, which ultimately comprised 36 companies. Firstly, some 36 companies were excluded as not having goodwill as an element of their asset base in their 2006 consolidated financial statements. A further 28 companies were excluded by reason of having a reporting date other than 31 December[15]. Details of the final research sample's constituent firms, their market capitalization and the value of their goodwill balances are set out in Appendix A. The research sample represented 66.8% of FTSE Bursa Malaysia total market capitalization as at the conclusion of December 2006.

To facilitate analysis of the final research sample, the thirty six companies were divided into six groups comprising organizations with related principal lines of business. At the date of sampling, the companies included in the final sample controlled assets valued at RM 678,289 million, which included goodwill of RM 31,260 million. An overview of the research sample broken down by assigned sector, the Ringgit Malaysia value of company assets within the sector, and the Ringgit Malaysia value of goodwill for each sector is shown in Table 1, below.

[13] This amount may be estimated on a fair value less cost to sell or a value in use basis.

[14] The largest 100 FTSE Bursa Malaysia companies are ranked by market capitalization at the conclusion of 2006.

[15] Recall that FRS 136 only became mandatory for reporting periods commencing 1 January 2006. By definition, any reporting period which concluded prior to 31 December 2006 commenced prior to 1 January 2006 – and thus was not subject to the requirement to adopt FRS on a mandatory basis. Whilst early adoption was possible, the focal point of testing in this paper lies on apparent discrepancies between mandatory procedures and actual observed behaviour. Thus, the inclusion of reports issued by voluntary adopters (or voluntary partial adopters) could induce distortions into the dataset. This problem will not be encountered in the context of datasets from 2007 and later years.

Table 1– Overview of Research Sample

Sector	Total Assets (RM million)	Total Goodwill (RM million)	Goodwill as % of Total Assets
Basic Materials & Oil & Gas (n=2)	5,695	195	3.43%
Consumer Goods (n=6)	160,685	831	0.52%
Consumer Services & Health Care (n=4)	67,253	5,225	7.77%
Financials (n=11)	349,289	9,783	2.80%
Industrials (n=9)	82,159	4,136	5.03%
Technology, Telecommunication & Utilities (n=4)	13,208	11,090	83.96%
TOTAL (n=36)	**678,289**	**31,260**	**4.61%**

Whether the value of goodwill has been impaired in a given year is determined through a process of comparing estimates of the recoverable amount of portfolios of CGU assets with the book value ascribed to those assets. Paragraph 18 of FRS 136 – Impairment of Assets, defines recoverable amount as the higher of an asset's or a cash generating unit (CGU's) fair value less costs to sell and its value in use. This provides reporting entities with a choice between fair value and value in use as a basis for recoverable amount estimation, which choice carries substantial implications for the types of disclosures required by the entity[16].

In Malaysia's case, the absence of active and liquid markets for many types of assets valuation leads to a natural tendency on the part of reporting entities to adopt the value in used method as the dominant means of determining the recoverable amount. This then drives a series of disclosure requirements consequent on that choice. Paragraph 134 (d) of FRS 136 – Impairment of Assets, states that the disclosure requirements if the unit's (group of units') recoverable amount is based on value in use are;

i. a description of each key assumption on which management has based its cash flow projections for the period covered by the most recent budgets/forecasts. Key assumptions are those to which the unit's (group of units') recoverable amount is most sensitive[17] ;
ii. a description of management's approach to determining the value(s) assigned to each key assumption, whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information[18] ;
iii. the period over which management has projected cash flows based on financial budgets/forecasts approved by management and, when a period greater than five years is used for a cash-generating unit (group of units), an explanation of why that longer period is justified[19] ;

[16] Including the very obvious threshold requirement that reporting entities clearly specify the valuation approach they have adopted for the purpose of estimating CGU recoverable amount.
[17] FRS 136 – Impairment of Assets, Paragraph 134 d (i)
[18] FRS 136 – Impairment of Assets, Paragraph 134 d (ii)
[19] FRS 136 – Impairment of Assets, Paragraph 134 d (iii)

iv. the growth rate used to extrapolate cash flow projections beyond the period covered by the most recent budgets/forecasts, and the justification for using any growth rate that exceeds the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market to which the unit (group of units) is dedicated[20] ; and
v. the discount rate(s) applied to the cash flow projections[21]

In implementing the new standard for goodwill, companies need to deal with significantly expanded disclosure requirements in particular in relation to recoverable amount, impairment and information about key assumptions adopted in the value simulation process. This has not changed the format of information recognized in the balance sheet but has materially changed the information required in the notes to the accounts.

Specifically, the highly detailed disclosure requirements set out in FRS 136 present an opportunity to interrogate the level of compliance and disclosure quality exhibited by reporting entities – and by extension, yield insights into the implications of and challenges associated with transition to new and complex reporting regimes.

For the purposes of this study, a number of matters are of particular interest. First, the fact that goodwill acquired in a business combination is required to be allocated to cash generating units (CGUs) in order to be tested for impairment. Second, the fact that the adoption of a value in use approach to the estimation of CGU recoverable amount requires the application of appropriate discount rates as an integral element of the cashflow modelling central to the valuation exercise under the value in use approach. Third, that the same modelling exercise also requires the application of growth rate assumptions. Each of these elements is subject to technically precise disclosure requirements and, as is becoming evident from a growing raft of evidence, potential gaming (Ramanna & Watts, 2007; Zhang & Zhang, 2007).

The importance of the technical processes pursuant to which goodwill impairment testing transpires has been explored in a range of previous literature (e.g Lonergan, 2007). Prior research has suggested that one key challenge faced in the context of FRS 136 is the manner in which goodwill is allocated between CGUs for the purposes of impairment testing. A particular risk relating to this process is known as the "CGU aggregation problem"[22], where too few CGUs are defined and have goodwill allocated to them. This induces the risk that impairment charges which should occur are avoided, or at least inappropriately delayed.[23]

The selection of appropriate discount and growth rates and the generation of appropriate disclosures in relation to these choices also represent matters of material concern. Arguably, the nature of choices made by reporting entities, the level of their compliance with the precepts of FRS 136 and the quality of disclosures made pursuant to that standard all convey evidence pertinent to an

[20] FRS 136 – Impairment of Assets, Paragraph 134 d (iv)
[21] FRS 136 – Impairment of Assets, Paragraph 134 d (v)
[22] See, Carlin & Finch, 2007.
[23] CGUs are defined as the smallest elements of a business which generate independent streams of cashflows and in relation to which management reporting exists. As a rule, these should be no smaller than the industry segments defined for the purposes of segment reporting. Aggregation occurs where fewer CGUs than required are defined. The consequence of this is that poorly performing areas of the business where impairment is likely to have occurred can be shielded from the requirement for impairment charges to be recognized by combining them with better performing segments of the business. Thus undermines a key rationale for the design of the FRS-136 impairment testing regime.

assessment of the robustness of the financial reporting climate, the level of transparency engendered via the adoption of a particular framework, and the policy implications of transition to new reporting approaches.

Consequent upon the matters discussed above, a number of analytical structures were applied to the data. First, the financial reports for the firms included in the research sample were examined to determine the extent to which it was possible to reconcile between the disclosed balance sheet value of goodwill and the value of goodwill disclosed as having been allocated to CGUs.

It is a basic requirement of FRS 136 that all goodwill be allocated to CGUs and that adequate disclosures be made allowing financial statement users to reconcile between the headline value ascribed to goodwill on balance sheet and the subcomponents of that balance split between CGUs. This data assisted with the development of insight into the level of compliance with basic disclosure requirements set out in FRS 136.

Second, the financial statements of each firm in the research sample were scrutinized to determine the relationship between the number of industry segments they defined for reporting purposes and the number of CGUs defined for the purposes of goodwill impairment testing. This data provides evidence related to the likelihood of CGU aggregation behaviour (as detailed above) on the part of reporting entities.

Third, a CGU to business segment ratio was calculated for each of the sample firms. This analysis builds upon the procedure described in step three (above) and also goes to the likelihood of CGU aggregation behaviour among reporting entities.

Fourth, firms included in the research sample were categorized according to the method they adopted for the purposes of determining the recoverable amount of CGU assets. The disclosure of the value estimation approach adopted for the purposes of the impairment testing process is a requirement of FRS 136. Consequently, information on the nature of disclosures made in relation to this factor assists in the development of insights into standards compliance levels among Malaysian reporting entities. Further, the choice of value estimation method has substantial consequences for the structure and content of other disclosures required under FRS 136. In particular, where the value in use approach is adopted, a range of disclosures in relation to discount rates and growth rate projections are required.

Thus, the fifth basic line of enquiry undertaken for the purposes of the study was to examine the reports of sample firms which adopted the value in use approach for evidence of disclosure quality relating to discount rates used in the impairment testing process. A multi classification taxonomy for data categorisation was applied, comprising four groupings. These were;

1. ‘no effective disclosure’;
2. ‘range of discount rates’ (where a firm stipulated that the discount rates employed laid within a disclosed range but did not link any particular discount rate to any particular CGU);
3. ‘single explicit discount rate’ (where a single rate was used to discount the cash flows of all defined CGUs); and
4. ‘multiple explicit discount rates’ (where a unique rate was used to discount the cash flows in each different CGU).

Allocation of a company to the first category signified that companies provided inadequate disclosure regarding the discount rate and in consequence provided no meaningful information for external analysts relating to the impairment testing process. Companies in this category clearly breached a key element of the disclosure requirements stipulated under FRS 136.

Firms categorised as falling within the second category, ‘range of discount rates’, provided a degree of information regarding the process of impairment testing but given the lack of specificity of this data, it is questionable whether disclosure of this sort meets the requirements or objectives of FRS 136.

Companies in the third category i.e. ‘single explicit discount rate’ disclosed the application of a single discount for recoverable amount modelling in each of their CGUs. While this treatment leaves financial statement users in no doubt as to the rate applied to the key task of future cashflow discounting, it nonetheless raises questions in relation to the appropriateness of the rates employed by these entities, given the need to shape discount rates to the risk characteristics of CGUs, and the likelihood that risk varies between CGUs.

Finally, companies in the fourth category appeared to fully comply with the requirements of FRS 136 in relation to discount rates by disclosing unique rates applicable to each of their various CGUs. This form of disclosure fully complies with the requirements of the standard, but also provides a higher assurance of process quality through an explicit matching of applied rates to the individual risk characteristics of defined CGUs.

A very similar taxonomy was adopted as the means of classifying growth assumption disclosures made by firms in the research sample, which comprised the sixth analytical frame applies to the data. Companies in the sample were allocated between four categories i.e. ‘multiple growth rates and periods for each CGU’, ‘single growth rate and period for all CGUs’, ‘partial disclosure only’ or ‘no effective disclosure’. The results of the analysis are reported in section four.

4. RESULTS AND DISCUSSION

The first group of analytical procedures performed on the data gathered for this study focused on the use of CGUs as an element of the impairment testing process. A threshold question of interest was the degree to which the total reported value of each sample firm’s goodwill could be completely reconciled to the sum of the goodwill values disclosed as having been allocated that firm’s defined CGUs. The annual reports of thirty six companies reveal evidence of substantial non compliance with this basic element of the FRS 136 disclosure architecture.

As Table 2 demonstrates, a subset of 21 companies from the final research sample complied with the requirement to produce disclosures which facilitated full reconciliation between the balance sheet value of total goodwill and the total amount split between defined CGUs. However 15 companies (almost 42% of the final sample) failed to produce disclosures permitting reconciliation between their balance sheet goodwill and amounts allocated to CGUs. In many instances the reason for the lack of capacity to undertake this process of reconciliation stemmed from a total absence of disclosures pertaining to CGUs.

Table 2 – CGU Allocation Compliance by Sector

Sector	Fully compliant (number of companies)	Non-compliant [24] (number of companies)
Basic Materials & Oil & Gas (n=2)	-	2
Consumer Goods (n=6)	2	4
Consumer Services & Health Care (n=4)	2	2
Financials (n=11)	9	2
Industrials (n=9)	5	4
Technology, Telecommunication & Utilities (n=4)	3	1
TOTAL (n=36)	**21**	**15**

While some firms made no disclosures at all about the identity or nature of their defined CGUs, others[25] provided details of the identity and nature of their defined CGUs but failed to specify the dollar amount of goodwill allocated to each. It is possible that the explanation for the high frequency with which firms failed to provide the basic information the subject of this analysis relates to materiality based considerations.

In nine of the fifteen firms where no meaningful CGU goodwill allocation disclosures were made, goodwill represented an average of 2.91% of total assets, a relatively small amount[26]. However, FRS 136 stipulates that the relevant value benchmark against which to determine materiality for the purposes of impairment testing disclosures is not total assets, but total intangible assets[27]. The application of this benchmark suggests that no materiality based disclosure exclusion should have applied to the financial reports of these firms.

A further five[28] of the non complying firms failed to provide meaningful disclosures pertaining to the allocation of goodwill to CGUs even though goodwill as a proportion of their balance sheets

[24] Non-compliant companys were those who failed to allocate any goodwill to CGUs. The requirement under Paragraph 80 of FRS 136 Impairment of Assets are "For the purpose of impairment testing, goodwill shall be allocated to each of the acquirer's cash-generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units". Those companies and the value of their goodwill, deemed non-compliant can be view at Appendix B. In total, RM7,483 million in goodwill was not allocated to CGUs. This represents approximately 24% of the combined goodwill of the top 36 companies.

[25] Kumpulan Guthrie Berhad is an example. This firm disclosed the existence of 19 CGUs, but failed to provide details of the amount of goodwill allocated to these.

[26] The nine companies with relatively small amounts of goodwill (% of goodwill of total assets) are: BIPORT (1.06%), BSTEAD (1.87%), KNM (0.42%), GUTHRIE (2.91%), MAGNUM (1.29%), NESTLE (4.18%), PACMAS (0.80%), PPBOIL (2.28%), TAANN (0.42%) and UEMBLDR (2.31%).

[27] FRS 136, paragraph 134.

[28] Five companies with material amount of goodwill are; MPHB (13.14%), BAT (25.41%), CCM (12.93%), GENTING (18.17%), TIMECOM (25.88%).

was very material. It is difficult to understand the existence of any basis upon which these firms might have relied for not producing disclosures in accordance with the requirements of FRS 136[29].

Beyond concerns focused on basic compliance, a key concern of this study was to gather evidence relating to the degree to which firms may have exercised discretion to configure their goodwill impairment testing processes in such a manner as to minimize the risk of forced impairment losses. One means of achieving this is to inappropriately aggregate defined CGUs, contrary to the admonitions of the standard.

One potential means of detecting this form of behavior is to compare the number of CGUs defined by firms with the number of business segments they disclosed in satisfaction of their segment reporting requirements. According to paragraph 80 of FRS 136, CGUs or groups of CGUs to which goodwill is allocated for the purpose of impairment testing represent the lowest level within the company at which goodwill is monitored for internal management purposes but should not in general be larger than related segments as defined for segment reporting purposes.

This yields the expectation of a relationship between the number of defined business segments and the number of defined CGUs, pursuant to which systematic reporting of fewer CGUs than business segments may be interpreted as evidence of potential aggregation behaviour, with the consequence that the objectives of the FRS 136 impairment testing regime may be undermined, at least to a degree[30].

The data in Table 3 suggests a tendency to define fewer rather than greater numbers of CGUs for the purposes of impairment testing. In twelve of nineteen firms (63%) which made meaningful disclosures about the identity of their CGUs, fewer CGUs than business segments were disclosed to exist. In a further four firms (21%), the number of disclosed CGUs equaled the number of disclosed business segments. In the remaining five firms where a comparison was possible, more CGUs than business segments were defined.

While the abject failure of in excess of forty percent of the total research sample to provide any useable information in relation to CGUs may reduce the degree to which it is possible to be confident in interpretations of this data, some inferences nonetheless seem plausible. One appears to be that the preponderance of the tendency evident in the data for firms to define fewer rather than greater numbers of CGUs is consistent with the existence of aggregation behaviour on the part of listed Malaysian reporting entities. This is evident both in the data as presented in Table 3 and in Table 4 which sets out further details and provides details of CGU to segment ratios across the sample.

[29] It is notable that none of the audit reports of these firms was qualified in any way.
[30] In the face of deep firm value losses, CGU aggregation would cease to function as an effective shield against required impairment charges.

Table 3 – Business Segments and CGU Aggregation by Segment

Sector	No. CGUs > No. Segments	No. CGUs = No. Segments	No. CGUs < No. Segments	No effective disclosure [31]
Basic Materials & Oil & Gas (n=2)	-	-	-	2
Consumer Goods (n=6)	-	-	2	4
Consumer Services & Health Care (n=4)	1	1	-	2
Financials (n=11)	2	2	5	2
Industrials (n=9)	2	-	3	4
Technology, Telecommunication & Utilities (n=4)	-	1	2	1
TOTAL (n=36)	**5**	**4**	**12**	**15**

Table 4 – Analysis of Controlled Entities, Segments and CGUs

Sector	Avg. No. of Controlled Entities	Avg. No. of Business Segments	Avg. No. of CGUs	Avg. value of Goodwill ($ million)	Avg. Goodwill per CGU ($ million)	Ratio CGUs to Business Segments
Basic Materials & Oil & Gas (n=2)	27.50	3.00	N/A	98	N/A	N/A
Consumer Goods (n=6)	54.00	3.83	1.17	139	119	0.30 : 1
Consumer Services & Health Care (n=4)	71.25	4.00	1.25	1,306	1,045	0.31 : 1
Financials (n=11)	35.55	5.73	4.09	889	217	0.71 : 1
Industrials (n=9)	23.33	3.89	2.00	460	230	0.51 : 1
Technology, Telecommunication & Utilities (n=4)	19.50	2.50	1.75	2,773	1,584	0.70 : 1
WHOLE SAMPLE (n=36)	**37.31**	**4.25**	**2.28**	**868**	**381**	**0.54 : 1**

[31] The companys that provided no effective disclosure on business segments and CGU allocation were : BPORT (Industrials), BSTEAD (Industrials), BAT (Consumer Goods), CCM (Basic Materials & Oil & Gas), GENTING (Consumer Services & Health Care), KNM (Industrials), GUTHRIE (Consumer Goods), MAGNUM (Consumer Services & Health Care), MPHB (Financials), Nestle (Consumer Goods), PACMAS (Financials), PPBOIL (Consumer Goods), TAANN (Basic Materials & Oil & Gas), TIMECOM (Technology & Telecommunication & Utilities), UEMBLDR (Industrials).

Overall, the data conveys an impression of a tendency to define fewer CGUs, to allocate relatively large sums of goodwill to the small number of defined CGUs with the result that the impression is generated that goodwill is being monitored at the very high level only.

The next issues of disclosure for goodwill impairment testing was related to the choice of method employed in estimating the recoverable amount of CGU assets and determined whether goodwill impairment had occurred. As discussed in section 3, Table 5 sets out the frequency of companies' choice of method in estimating the recoverable amount of CGUs.

Table 5 – Method Employed to Determine Recoverable Amount

Sector	**Fair Value method**	**Value in Use method**	**Mixed method [32]**	**Method not disclosed**
Basic Materials & Oil & Gas (n=2)	-	-	-	2
Consumer Goods (n=6)	-	5	1	-
Consumer Services & Health Care (n=4)	-	3	-	1
Financials (n=11)	-	9	1	1
Industrials (n=9)	-	5	-	4[33]
Technology, Telecommunication & Utilities (n=4)	-	3	-	1
TOTAL (n=36)	**-**	**25**	**2**	**9**

Table 5 shows that nine out of 36 companies failed to disclose the method used in determining the recoverable amount[34] of CGU assets. Of those firms which did make meaningful disclosures on this matter, it is evident that the main approach used as a basis for the estimation of recoverable amount was the value in use method, used by 25 of 36 companies in the research sample. Two firms employed a combination of value in use and fair value approaches[35] as the basis for the estimation of recoverable amount, while none of the companies exclusively adopted the fair value basis for undertaking this task.

As discussed in section 3, in Malaysia's particular economic and institutional context, the opportunity to use a fair value approach as a basis for estimating CGU recoverable amount is limited given a general absence of active and liquid asset markets (Fah, 2006). This could explain why none of the companies in the final research sample adopted fair value as the exclusive basis of estimating CGU recoverable amount.

[32] The companies (goodwill value and sector) which elected to use a mixed method comprising fair value for some CGUs and value in use method for others are: MULPHA RM 13 million (Financials) and PPB RM 33 million (Consumer Goods).
[33] BIPORT indicated in their notes to the account that they are using amortization of goodwill instead of using impairment testing. This is due to binding agreement with the Malaysian government under term of the Privatization Agreement. The company is granted license to port services for the period of that land lease which expires in year 2022.
[34] It is clearly shown that these companies breach FRS 136, due to failure to disclose the information regarding the method employed to determined recoverable amount.
[35] That is, used value in use for some defined CGUs and fair value for others.

Because value in use was the dominant method elected as a basis for CGU recoverable amount estimation, the question of the degree to which firms using this approach complied with the resulting disclosure obligations pursuant to FRS 136 arises. The results of an analysis of discount rate disclosures consistent with the approach described in section 3 are set out in Table 6, below.

Table 6 – Discount Rate Disclosures

	Multiple explicit discount rates	**Single explicit discount rate**	**Range of discount rates**	**No effective disclosure**	**Minimum Discount Rate (pre-tax)**	**Maximum Discount Rate (pre-tax)**
Basic Materials & Oil & Gas (n=2)	-	-	-	2	-	-
Consumer Goods (n=6)	1	2	1	2	5.98%	31.50%
Consumer Services & Health Care (n=4)	-	2	-	2	5.75%	14.00%
Financials (n=11)	5	3	1	2	6.00%	13.60%
Industrials (n=9)	1	2	1	5	5.03%	11.00%
Technology, Telecommunication & Utilities (n=4)	2	1	-	1	7.00%	18.50%
TOTAL (n=36)	**9**	**10**	**3**	**14**		

A disappointing pattern is evident from even a cursory review of the data. Some 40% of the firms in the final sample failed to provide any information relating to discount rates employed for the purposes of goodwill impairment testing. This is broadly consistent with the non compliance rates identified in relation to CGU disclosures, as discussed above. Further, of the sixty percent of firms which provided some information in relation to this dimension of the impairment analysis process, the quality of disclosures appeared weak, in general.

Three companies disclosed a range of discount rates employed for the purposes of the value estimation exercise, but provided no details of specific discount rates used in each CGUs[36]. This form of disclosure yields little useful insight into the risk profile of the various defined CGUs or other information which would assist financial statement users with the development of insights into the robustness of the testing process.

[36] The pre-tax discount rate employed by PPB, MULPA and UEMWRLD for the purpose of determining recoverable amount ranged from 5.98% - 12.8%, 5% - 7%, 7% - 11%, respectively. However, MULPA used a discount rate based on bank borrowing rates, whereas, UEMWRLD selection of discount rates reflects the management's estimate of return on capital.

A further ten[37] companies (around 28% of the total sample or 45% of the subsample which provided any information relating to discount rates) reported that they had applied a single standardized discount rate in the valuation simulation exercises applying to all of their defined CGUs. This appears to conflict with the clear expectation of FRS 136 that discount rates employed in recoverable amount simulations should reflect the business risk inherent in each CGU. It is difficult to accept the proposition that there was no within firm variation in CGU business risk among these organizations, thus suggesting not only poorer than required disclosure quality but also less than complete compliance with the requirements of the standard. Only 9 firms (25% of the final research sample) stipulated individualized risk adjusted discount rate for each CGU and explicitly disclosed these[38].

Over issues raised by the data go to the appropriateness of the level of discount rates selected by firms in the research sample for application within the impairment testing process. Not only do the ranges of disclosed discount rates employed within industry groupings appear wide, but the minimum rates employed by firms captured in the sample appear in some cases inexplicably low[39]. In four of the five industry segments represented in the final research sample, the minimum disclosed discount rate lay in the range of five to six percent, with the lowest observed discount rate observed across all firms at 5.03% (pre-tax)[40]. Compared to yields available on Malaysian Government Security at 4.29% as of 2006[41], there seems little room for the inclusion in adequate risk premia in a number of instances.

Similar difficulties and anomalies were evident in the disclosures provided by sample firms in relation to growth rate estimates employed for the purposes of CGU recoverable amount modeling. Table 7 reports on the disclosure for estimating future growth rate by companies in this sample. Even fewer companies provided growth rate data than provided discount rate data, 60% of the research sample failing to provide any information on this matter.

Of those firms which did provide growth rate estimates, all provided a single point estimate of growth for all future time periods, consistent across all defined CGUs. This is inconsistent with the requirement of FRS 136 that growth rates be attuned to the circumstances of individual CGUs and that growth rates may vary across the forecast horizon. Thus no firms can be treated as having fully complied with the parameters of the FRS 136 disclosure regime.

[37] One of the companies, BURSA had used the Group's Return on Equity as a basis to determine the discount rate. However, according to paragraph 50(b) of FSR 136 – Impairment of Assets, that future cash flow estimates used in testing goodwill impairment are prepared on a pre-tax basis (i.e. the cash flows do not include estimates of income tax receipts or payments). It is vague if BURSA has used pre-tax or post-tax cash flows to test for impairment. There is an impact on using a post-tax discount rate instead of pre tax discount rate, the recoverable amount of CGU assets is more likely to be overstated, potentially avoiding the recognition of an impairment loss and have a material impact on the financial statements.

[38] In accordance with the requirements of the standard.

[39] This results in the risk that impairment charges which ought to have been recognized were inappropriately deferred.

[40] WTK applied a 5.03% pre-tax discount rate for the impairment testing process.

[41] See: Central Bank of Malaysia, MGS Indicative Price available at https://fast.bnm.gov.my

Table 7 – Growth Rate Disclosures

Sector	Avg. explicit forecast period (years)	Multiple growth rates and periods for each CGU	Single growth rate and period for all CGUs	Partial disclosure only	No effective disclosure	Minimum Terminal Value Growth Rate	Maximum Terminal Value Growth Rate
Basic Materials & Oil & Gas (n=2)	-	-	-	-	2	-	-
Consumer Goods (n=6)	3.00	-	2	-	4	3.00%	15.30%
Consumer Services & Health Care (n=4)	3.75	-	2	-	2	0.00%	5.00%
Financials (n=11)	3.73	-	4	-	7	0.00%	6.50%
Industrials (n=9)	2.78	-	3	-	6	3.50%	50.00%
Technology, Telecommunication & Utilities (n=4)	3.50	-	3	-	1	1.50%	4.90%
WHOLE SAMPLE (n=36)	**3.14**	**-**	**14**	**-**	**22**		

The disclosure quality in relation to growth rate is worse compared to disclosures made in the discount rate. A total of 22 companies, this is 61.11% of the observation, did not disclose the growth rate used in estimating the recoverable amount for an impairment testing. The remaining 38.89% of the observed companies failed to provide information which would assist external analysts in undertaking basic independent assessment of the impairment testing process. None of the observed companys disclosed growth rate assumptions in a manner fully consistent with the framework by FRS 136.

Further, there was evidence of the employment of highly unusual[42] growth estimates in a number of cases, the most egregious example being the firm[43] which disclosed that its recoverable value estimation process had been predicated on an assumption of growth at a compounded rate of 50%[44] in perpetuity after the conclusion of the explicit cash flow forecast period built into its recoverable amount estimation model.

Paragraph 33 of FRS 136 indicates that the growth rates employed in the context of recoverable amount modeling shall not exceed the long term average growth rate for the products, industries, or

[42] If not outrageous.
[43] SCOMI.
[44] SCOMI reported in the notes to the account that "the weighted average growth rate are consistent with the forecast included in industry reports".

country or countries in which the company operates, unless a higher growth rate can be justified. However, SCOMI's growth rate is extremely high in the context of industry, long term global and local GDP growth and no apparent justification for this highly unusual view of growth was offered.

5. CONCLUSION

The requirement that FRS 136 be adopted in Malaysia represented a substantial break from a past in which there had been no mandatory standard framework for goodwill accounting and reporting. Thus, at least this element of the move to IFRS in Malaysia must be viewed as having the character of a substantial shock, leading to questions as to the degree to which reporting entities, auditors and regulators would be positioned to respond effectively.

This pressure was exacerbated in the case of Malaysia's new goodwill standard as a consequence of its inherent complexity, and the degree to which the exercise of judgment and discretion are necessary elements of the standard's operating machinery. The research question posed in this paper related to the extent to which firms required to report under this new framework demonstrated a capacity to do so in a manner which resulted in systematic compliance and which resulted in the production of more transparent, higher quality financial disclosures.

The evidence set out above suggests that the quality of the response has been mixed indeed. While some firms produced financial reports and appear to have adopted value analysis practices largely consistent with the technical requirements objective thrust of the new standard, many failed to meet the mark.

A number of factors may explain this. In part, the results we report may be related to a misinterpretation of the materiality rules and their impact on what is and what is not required to be disclosed. However the proposition that this explains all observed deviations from prescribed practice appears difficult to sustain, in light of the evidence.

It is also possible that some of the variation in the results we observed may be attributable to the need for the exercise of judgment (for example in determining future growth rates or appropriate risk adjusted pre-tax discount rates) as an element of undertaking the activities required by the standard and then configuring resulting financial statement disclosures. Yet again, the existence of clear outlying data (unusually low discount rates or unusually high assumed growth rates) suggests that this too cannot be seen as a total explanation for the state of the reporting practices observed across the research sample.

It may be that some of the results are able to be explained as creatures of the teething problems often associated with the implementation of new processes, especially where these are as intricate and complex as those embedded in FRS 136. This is an empirical question which may be resolved via the analysis of reporting practices in years to come, but even if an accurate explanation for the empirical phenomena observed, raises troubling policy questions. The IFRS rules do not contain provisions sanctioning inaccurate or incomplete compliance in the early years post adoption.

Of course, if our results point to a deeper problem than initial year teething difficulties, much more challenging questions arise. Given that compliance with the accounting standards is mandated at law, evidence of non compliance coupled with a lack of evidence of obvious enforcement action would represent a basis for substantial concern about the efficacy of the financial regulatory framework operating in Malaysia, including the role and impact of financial statement audits and by extension throw up the spectre of similar difficulties in other jurisdictions.

Even viewing the problem through this lens the point of enquiry logically returns to questions pertaining to motivation. Holding aside the concerns associated with the character and efficacy of regulatory responses, the question of why systematic non compliance manifests to begin with must be of concern.

Could this be a manifestation of inadequate competence or of stubborn unwillingness to yield to the precepts of the mandated reporting framework – comforted by a sense that meaningful rebuke is unlikely? Could this be a signal that policy makers have promulgated standards so complex, unwieldy and conceptually challenged that there is never any hope of systematic compliance? These are questions which deserve further enquiry. It would appear that the broad based transition to IFRS based reporting in Malaysia and many other jurisdictions presents an opportunity for substantial future research along these lines.

REFERENCES

Carlin, T., & Finch, N., (2007) "Early Impressions of Australia's Brave New World of Goodwill Impairment", MGSM Working Paper No. 2007-1.

Fah, F. Y. (2006). "Understanding Fair Value Accounting", New Straits Times, Kuala Lumpur, Malaysia.

Lonergan, W., (2007), "A-IFRS, A Practitioner's View", Journal of Applied Research in Accounting & Finance, 2(1): 9 - 19

Ramanna, K., and Watts, R., (2007), "Evidence on the Effects of Unverifiable Fair-Value Accounting", Harvard Business School Working Paper 08-014.

Sevin, S., R. Schroeder, & S., Bhamornsiri., (2007). "Transparent Financial Disclosure and SFAS No. 142." Managerial Auditing Journal 22(7): 674 - 687.

Susela, S. D. (1999). ""Interest" and Accounting Standard Setting in Malaysia" Accounting, Auditing & Accountability Journal 12(3): 358-387.

Watts, R., (2003), "Conservatism in Accounting Part I: Explanations and Implications", Accounting Horizons, Vol 17, pp. 207 – 221.

Zhang, I., and Zhang, Y., (2007), "Accounting Discretion and Purchase Price Allocation After Acquisitions", HKUST Business School Research Paper No. 07-04.

APPENDIX A

	Co. Code	Company Name	Market Cap (RM million)	Goodwill (RM million)
		Financial Sector		
1	AFFIN	AFFIN HOLDINGS BERHAD	3,183	990
2	COMMERZ	BUMIPUTRA-COMMERCE HOLDINGS BERHAD	33,492	4,503
3	BURSA	BURSA MALAYSIA BERHAD	6,076	48
4	EONCAP	EON CAPITAL BERHAD	4,714	138
5	MIDF	MALAYSIAN INDUSTRIAL DEVELOPMENT FINANCE BERHAD	1,448	155
6	MULPHA	MULPHA INTERNATIONAL BERHAD	2,384	13
7	MPHB	MULTI-PURPOSE HOLDINGS BERHAD	2,623	548
8	OSK	OSK HOLDINGS BERHAD	2,155	149
9	PACMAS	PACIFICMAS BERHAD	575	10
10	PBB	PUBLIC BANK BERHAD	32,099	2,065
11	RHBCAP	RHB CAPITAL BERHAD	8,607	1,168
(n=11)		**Sub-total Financial**	**97,354**	**9,783**
		Non-Financial Sector		
		Basic Materials & Oil & Gas		
12	CCM	CHEMICAL COMPANY OF MALAYSIA BERHAD	1,265	191
13	TAANN	TA ANN HOLDINGS BERHAD	2339	4
(n=2)		**Sub-total**	**3,604**	**195**
		Consumer Goods		
14	BAT	BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD	13,134	412
15	GUTHRIE	KUMPULAN GUTHRIE BERHAD	6,316	255
16	NESTLE	NESTLE (MALAYSIA) BERHAD	5,651	61
17	PPB	PPB GROUP BERHAD	9,365	33
18	PPBOIL	PPB OIL PALMS BERHAD	6,697	51
19	UMW	UMW HOLDINGS BERHAD	5,849	20
(n=6)		**Sub-total**	**47,015**	**831**
		Consumer Services & Health Care		
20	GENTING	GENTING BERHAD	32,325	5.126
21	KFC	KFC HOLDINGS (MALAYSIA) BERHAD	1,140	43
22	MAGNUM	MAGNUM CORPORATION BERHAD	5,157	31
23	STAR	STAR PUBLICATIONS (MALAYSIA) BERHAD	2,381	25
(n=4)		**Sub-total**	**41,002**	**5,225**

	Co. Code	Company Name	Market Cap (RM million)	Goodwill (RM million)
		Industrials		
24	BPORT	BINTULU PORT HOLDINGS BERHAD	2,000	11
25	BSTEAD	BOUSTEAD HOLDINGS BERHAD	1,525	108
26	KNM	KNM GROUP BERHAD	3,227	4
27	LCEMENT	LAFARGE MALAYAN CEMENT BHD	5,155	1,188
28	MMC	MMC CORPORATION BERHAD	9,668	1,714
29	SCOMI	SCOMI GROUP BERHAD	1,259	547
30	UEMBLDR	UEM BUILDERS BERHAD	1,590	80
31	UEMWRLD	UEM WORLD BERHAD	5,858	474
32	WTK	WTK HOLDINGS BERHAD	1,376	9
(n=9)		**Sub-total**	**31,659**	**4,136**
		Technology & Telecommunication & Utilities		
33	MAXIS	MAXIS COMMUNICATIONS BERHAD	31,290	3,487
34	PUNCAK	PUNCAK NIAGA HOLDINGS BERHAD	1,497	186
35	TELEKOM	TELEKOM MALAYSIA BERHAD	35,124	6,826
36	TIMECOM	TIME DOTCOM BERHAD	2,063	591
(n=4)		**Sub-total**	**69,974**	**11,090**
(n=25)		**Sub-total Non-Financial**	**193,254**	**21,477**
(n=50)		**Grand Total**	**290,608** [45]	**31,260**

Source: FTSE Bursa Malaysia as at December 2007

[45] Market capitalisation as at the conclusion of December 2006 quoted from FTSE Bursa Malaysia. The total market capitalisation of the 100 FTSE Bursa Malaysia at this time was approximately RM 792,314 million; hence this sample of 36 companies represents 36.7% of the total market value of the bourse.

APPENDIX B

	Co. Code	Company Name	Goodwill (RM million)
1	BPORT	BINTULU PORT HOLDINGS BERHAD	11
2	BSTEAD	BOUSTEAD HOLDINGS BERHAD	108
3	BAT	BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD	412
4	CCM	CHEMICAL COMPANY OF MALAYSIA BERHAD	191
5	GENTING	GENTING BERHAD	5,126
6	KNM	KNM GROUP BERHAD	4
7	GUTHRIE	KUMPULAN GUTHRIE BERHAD	255
8	LCEMENT	LAFARGE MALAYAN CEMENT BHD	1,188
9	MAGNUM	MAGNUM CORPORATION BERHAD	31
10	MMC	MMC CORPORATION BERHAD	1,714
11	MPHB	MULTI-PURPOSE HOLDINGS BERHAD	548
12	NESTLE	NESTLE (MALAYSIA) BERHAD	61
13	PACMAS	PACIFICMAS BERHAD	10
14	PBBOIL	PPB OIL PALMS BERHAD	51
15	SCOMI	SCOMI GROUP BERHAD	547
16	TAANN	TA ANN HOLDINGS BERHAD	4
17	TIMECOM	TIME DOTCOM BERHAD	591
18	UEMBLDR	UEM BUILDERS BERHAD	80
19	UEMWRLD	UEM WORLD BERHAD	474
20	WTK	WTK HOLDINGS BERHAD	9
(n=20)		**Sub-total**	**4,136**