The Institute of
Chartered Accountants
of Pakistan

e Technical Update

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IASB UPDATE

IASB issues a revised version of IFRS 1 with improved structure

The IASB has issued a revised version of IFRS 1 First-time Adoption of International Financial Reporting Standards. The revised version has an improved structure but does not contain any technical changes.

Since it was issued in 2003, IFRS 1 has been amended many times to accommodate first-time adoption requirements resulting from new or amended IFRSs, and as a result the text has become increasingly complex.

In 2007 the IASB therefore proposed, as part of the annual improvements project, to restructure IFRS 1 to make it easier for the reader to understand and to allow it to accommodate more easily any future changes that might be necessary.

The revised version is effective for entities applying IFRSs for the first time for annual periods beginning on or after 1 January 2009. Earlier application is permitted.

IFRIC issues guidance on distributions of non-cash assets to owners

The International Financial Reporting Interpretations Committee (IFRIC) has issued an Interpretation that will standardise practice in the accounting treatment of distribution of non-cash assets to owners.

Existing IFRSs do not address how an entity should measure distributions of assets other than cash when it pays dividends to its owners. At present the dividend payable is sometimes recognised at the carrying amount of the assets to be distributed and sometimes at their fair value. As a result significant diversity in practice has developed and the IFRIC was asked to provide guidance.

The IFRIC released a draft Interpretation in January 2008 and in the light of the responses finalised the Interpretation, IFRIC 17 *Distributions of Non-cash Assets to Owners*. The Interpretation clarifies that:

- Dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity.

- An entity should measure the dividend payable at the fair value of the net assets to be distributed.

- An entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss.

The Interpretation also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation. IFRIC 17 applies to pro rata distributions of non-cash assets except for common control transactions.

Recognising the difficulty that entities would face in recognising past distributions at their fair values the IFRIC requires prospective application of the guidance. The Interpretation is effective for annual periods beginning on or after 1 July 2009. Earlier application is permitted.

IASB updates reclassification amendment for financial instruments to clarify effective date

The IASB has issued an updated version of the recent reclassification amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures (issued on 13 October 2008) to clarify the effective date of the amendments.

Following publication of the amendments, and in response to requests, the IASB subsequently clarified the effective date requirements at its meeting in October.

The main changes are as follows:

Reclassifications

An amendment to the Standard, issued in October 2008, permits an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category in particular circumstances. The amendment also permits an entity to transfer from the available-for-sale category to the loans and receivables category a financial asset that would have met the definition of loans and receivables (if the financial asset had not been designated as available for sale), if the entity has the intention and ability to hold that financial asset for the foreseeable future. A further amendment, issued in November 2008, clarified the effective date and transition requirements of that earlier amendment.

Effective date and transition

Reclassification of Financial Assets (Amendments to IAS 39 and IFRS 7), issued in October 2008, amended paragraphs 50 and AG8, and added paragraphs 50B–50F. An entity shall apply those amendments from on or after 1 July 2008. An entity shall not reclassify a financial asset in accordance with paragraph 50B, 50D or 50E before 1 July 2008. Any reclassification of a financial asset made in periods beginning on or after 1 November 2008 shall take effect only from the date when the reclassification is made.

Any reclassification of a financial asset in accordance with paragraph 50B, 50D or 50E shall not be applied retrospectively before 1 July 2008 to reporting periods ended before the effective date set out in this paragraph.

In the Introduction, paragraph IN8A is amended.

Reclassification of Financial Assets—Effective Date and Transition (Amendments to IAS 39 and IFRS 7), issued in November 2008, amended paragraph 103H. An entity shall apply that amendment on or after 1 July 2008.

Reclassification of Financial Assets (Amendments to IAS 39 and IFRS 7), issued in October 2008, amended paragraph 12 and added paragraph 12A. An entity shall apply those amendments on or after from 1 July 2008.

Reclassification of Financial Assets—Effective Date and Transition (Amendments to IAS 39 and IFRS 7), issued in November 2008, amended paragraph 44E. An entity shall apply that amendment on or after 1 July 2008.

The IASB publishes a revised proposal to simplify the disclosure requirements that apply to state-controlled entities

IAS 24 *Related Party Disclosures* requires entities to provide disclosures about transactions with related parties. However, state-controlled entities may find it difficult and costly to provide all the required details for transactions with other state-controlled entities. The IASB believes that it is possible to omit some of the required details while still providing sufficient information to users of financial statements.

As a result, the IASB published in 2007 a proposal to exempt state-controlled entities from providing disclosures about transactions with other state-controlled entities if specified conditions were met. However, respondents were concerned about the complexity of the proposals. The IASB has therefore modified its proposed exemption for state-controlled entities and has published the revised proposal.

Unlike the original proposal, the revised exemption would not require state-controlled entities to assess the extent of state influence. It would exempt such entities from providing full details about transactions with other state-controlled entities and the state. Instead, (unlike the 2007 exposure draft) it would require general disclosures about the types and extent of significant transactions.

The IASB invites comments on the exposure draft Relationships with the State (Proposed amendments to IAS 24) by 13 March 2009. For more details on the project or to view the exposure draft, visit the **'Related Party Disclosures'** project page on **www.iasb.org**

*Should ICAP members wish to comment on the above listed proposals, the same may be forwarded to Director Technical Services **(shahid.hussain@icap.org.pk)** before the due date. Appropriate CPD credit will be given for research articles provided.*

Basel Committee proposes fair value guidance

The Basel Committee on Banking Supervision has invited comment on proposed Supervisory Guidance for Assessing Banks' Financial Instrument Fair Value Practices. The comment deadline is 6 February 2009. The guidance is intended to help supervisors assess the rigour of banks' valuation processes and to promote improvements in risk management and control practices. The guidance supports one of the key recommendations for enhancing transparency and valuation set out in the April 2008 Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience.

The main principles in the proposed Basel Committee guidance are:

- strong valuation governance processes;
- use of reliable inputs and diverse information sources;
- independent verification and validation processes;
- communication of valuation uncertainty to internal and external stakeholders;
- consistency in valuation practices for risk management and reporting; and
- strong supervisory oversight around bank valuation practices.

In June 2008, the Basel Committee on Banking Supervision published an assessment of fair value measurement and modeling challenges faced by banks during the market turmoil. Building on that work as well as the Committee's 2006 guidance on the use of the fair value option the purpose of this document is to provide guidance to banks and banking supervisors to help strengthen their assessment of banks' valuation processes for financial instruments and promote improvements in banks' risk management and control processes.

This guidance applies to all financial instruments that are measured at fair value, both in normal market conditions and during periods of stress, and regardless of the financial reporting designation within a fair value hierarchy. This guidance does not set forth additional accounting requirements beyond those established by the accounting standard setters.

Full documents can be downloaded by using following links:
http://www.iasplus.com/crunch/0811baselfv.pdf
http://www.iasplus.com/crunch/0804fsf.pdf

IASB-FASB Roundtable - Global Financial Crisis

A Roundtable of IASB-FASB was held in London on 14 November 2008 to discuss Global Financial Crisis. Following topics were discussed based on submissions received from the participants:

- Impairment of financial assets
- Reclassification of financial instruments designated under the fair value option
- Fair value measurement
- Disclosures

Full documents can be downloaded by using following link:
http://www.iasplus.com/pastnews/2008nov.htm#crisisrtis

IFAC/IAASB NEWS

IFAC Global Leadership Survey on the Accountancy Profession

Summary of Results

Overall, leaders of accountancy bodies from around the globe see the accountancy profession as very important for economic growth and development and believe that in the coming years demand for accountants' services, particularly audit and assurance, accounting, tax, and advisory services, will continue to increase. Similarly, respondents predict that the demand for professional accountants working in business, industry and in the public sector will increase. However, some respondents indicate that the current crisis may negatively impact overall demand for professional accountants as economies falter.

According to respondents, student interest in pursuing a career in accountancy has increased over the past five years. Among the factors contributing to the attractiveness of the accountancy profession are the many career opportunities, the salary/earning potential, and the mobility or ability to work internationally. Factors negatively influencing the attractiveness of the profession, according to respondents, are work/life balance, legal liability, and regulation.

With respect to the most important issues faced by the accountancy profession, the majority of respondents indicate that educating professional accountants, addressing the needs of small and medium-sized enterprises (SMEs) and small and medium-sized practices (SMPs), and transitioning to International Standards on Auditing (ISAs) were the most important current issues. In the coming year, they see the SMP/SME issue as most critical, followed by meeting expectations to identify and prevent fraud, and dealing with the changing regulatory landscape.

Survey respondents expect their members in public practice to be more involved in the next year in forensic accounting, corporate recovery and insolvency services, assurance services (other than audits), as well as risk and compliance related work. They see their members in business being more involved in the areas of corporate social responsibility and sustainability, risk management and internal control, as well as governance and compliance.

With respect to the current financial crisis, survey respondents said a consequence of this crisis is an increased awareness of the value of professional accountants. Many also cite the fact that professional accountants' services and expertise are being sought after to help address issues related to the current financial and economic crisis.

Professional accountancy organizations globally are undertaking many initiatives to address the crisis including working with governments and regulators to identify solutions and supporting their members through seminars and educational programs.

Respondents suggest that IFAC should reinforce the message that qualified accountants are best equipped to assist businesses in making their way through these uncertain times. They also recommend that the accountancy profession continue to do what it does best: delivering accountancy services with a high degree of integrity and professionalism.

IFAC Invites Professional Accountants In Business to Help Select the 2008 Article of Merit award winner

The Professional Accountants in Business (PAIB) Committee of the International Federation of Accountants (IFAC) has recognized World Accountancy Week - December 7-13, 2008 - by launching an initiative to reach out to more professional accountants in business. The committee has invited their participation in selecting the winner of its 2008 Articles of Merit Award Program.

The program seeks to identify and promote outstanding articles on financial and management accounting topics that have been published by IFAC's 158 member bodies and associates. This is the first time that individual accountants worldwide have been invited to be part of the selection process.

Ten articles focused on leading-edge issues that PAIBs have addressed, have been selected by the PAIB Committee for global distribution and have been nominated for the top Article of Merit Award. Professional accountants in business are invited to rate their usefulness. This input will be used to select the winning article.

The ten articles may be viewed by going to **http://web.ifac.org/PAIB/articles-of-merit-2008**.

They focus on the following topics, among others:

- Outsourcing the finance and accounting function;
- Measuring board performance;
- Analyzing mergers and acquisitions;
- Managing strategic risk;
- Planning multi-year strategies; and
- Achieving employee alignment and motivation.

Reviews and ratings on these articles may be sent to IFAC by January 11, 2009. The winning article will be announced in early 2009.

SECP Update

- On the recommendation of the Institute, SECP vide its SRO 1261(I)/ 2008 dated December 2, 2008, has removed clause 6 of Part-I of the Fourth Schedule to the Companies Ordinance 1984. Further, definitions of "Arm's length price", "Related party" and "Transfer pricing" have also been removed. Through the same SRO definition of "Related party" given in the Fifth Schedule has also been done away with.

  Further, SECP through its another SRO 1260 (I)/2008 dated December 2, 2008 has also rescinded, the additional audit opinion as was prescribed through SRO-167 (I)/2003 dated February 14, 2003, relating to the related party transactions.

- Issued Non Banking Finance Companies and Notified Entities Regulations 2008 for the regulation of NBFCs carrying out leasing, investment finance services, housing finance services, asset management services and investment advisory services and their business activities. NBFC Regulations 2007 is hereby repealed, yet the provisions listed in Schedule XIII shall remain in force for the regulation of the existing NBFCs licensed to undertake the business of venture capital investment and venture capital funds till 20th February 2010.

- Change in section 42 of Companies Ordinance, 1984; not for profit association will now be allowed to carry out a single object instead of multiple objects

SBP Update

- All foreign exchange transactions will be monitored by SBP in real time once an online link is established with foreign exchange companies

- Minimum capital requirements for banks/DFIs have been changed as follows:

  - shall achieve the minimum capital adequacy ratio (CAR) of 9% on standalone as well as on consolidated basis, regardless of their CAMELS-S rating, latest by 31 December 2008

  - shall achieve the minimum CAR of 10% and the requirement of variable CAR BY 31 December 2009

  - CAR calculations shall be based on BASEL II and as per guidelines issued by SBP from time to time

FBR Update

- Proposed taxation measures unveiled with substantial withdrawal of exemptions in phases and bringing new areas under the tax net to be announced in the 2009-10 budget

- Strict monitoring of withholding taxes announced on contracts executed, supply of goods, sales/purchases, contracts with non resident companies and services sector under section 153 of the Income Tax Ordinance 2001

Local News Brief

- SECP has issued directive asking three bourses to remove floor by December 15, 2008