The Institute of Chartered Accountants of Pakistan

e Technical Update

February 2009

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IASB Update

Exposure Draft on IFRS Taxonomy 2009 (Comments Due Date: 12 March 2009)

On 12 January 2009, The International Accounting Standards Committee (IASC) Foundation announced the release of the near final version of the IFRS Taxonomy 2009 for public comment**.**

The IFRS Taxonomy 2009 is a translation of International Financial Reporting Standards (IFRSs) as issued at 31 December 2008 into **XBRL** (eXtensible Business Reporting Language), a language that is used to communicate information between businesses and other users of financial information.

The specific characteristics of XBRL allow companies, regulators, investors, analysts and others using the IFRS Taxonomy 2009 with easier filing, access to and comparison of financial data.

XBRL is rapidly becoming the format of choice for the electronic filing of financial information – particularly within jurisdictions reporting under IFRSs. In addition, on 4 March 2008 the recent US SEC rule that allows non-US companies listed in the US to file their financial reports according to IFRSs as issued by the International Accounting Standards Board (IASB) became effective. According to this rule non-US companies that choose to submit their financial reports in IFRS electronically will have to do so using the IFRS Taxonomy 2009.

The IFRS Taxonomy 2009 builds upon the architecture of the IFRS Taxonomy 2008. Amendments to the 2009 IFRS Taxonomy mainly reflect changes in IFRSs. However, improvements in the syntax (not affecting semantics) of the taxonomy have led to a decrease in size and download time.

The IFRS Taxonomy 2009 was reviewed by the external **XBRL Quality Review Team** (XQRT) that was established by the IASC Foundation at the end of 2007. Interested parties are invited to access the near final version of the IFRS Taxonomy 2009 and submit comments by 12 March 2009.

In accordance with XBRL International policy the near final version of the IFRS Taxonomy 2009 is freely available on the IASB website**. The final version is expected to be released in early April** 2009, when it will also be freely available.

Post Implementation Revisions to IFRIC Interpretations; Proposed Amendments to IFRIC 9 and IFRIC 16 (Comments Due Date: 2 March 2009)

On 30 January 2009, the International Accounting Standards Board (IASB) published for public comment an exposure draft on proposals to amend IFRIC 9 Reassessment of Embedded Derivatives and IFRIC 16 Hedges of a Net Investment in a Foreign Operation.

The proposed amendment to IFRIC 9 is a consequential amendment that became necessary as a result of the changed definition of a business combination in IFRS 3 issued in January 2008.

IFRIC 9: The Board proposes to exclude embedded derivatives in contracts acquired in combinations of entities or business entities under common control and in the formation of joint ventures from the scope of the Interpretation.

IFRIC 16: To allow entities to designate as a hedging instrument in a hedge of a net investment in a foreign operation an instrument that is held by the foreign operation that is being hedged.

Should members wish to comment on the above listed exposure draft and discussion paper, the same may be forwarded to Director Technical Services ***(asif.iqbal@icap.org.pk)*** *before the due date.*

Access to Unaccompanied IFRS

IASB has changed their policy regarding the public availability of unaccompanied IFRSs. As early as the second quarter of 2009 they will provide PDF copies of unaccompanied IFRSs in English (and some other languages to be determined), on their public website free of charge. However, they will not be providing free of charge the extensive material that is published with IFRSs, such as the Basis for Conclusions and Implementation Guidance.

They will also provide access to the IFRSs for SMEs (title under review) free of charge when approved by the IASB.

IASB Strategy for Global Financial Crisis

Overview of IASB activities relating to the crisis

Financial Crisis Advisory Group

Objective: The high level **advisory group** set up by the IASB and FASB will consider financial reporting issues arising from the global financial crisis.

Progress so far: The first meeting was held in London on 20 January 2009. Results will feed into the work of related projects and additional measures may be undertaken.

Public round tables

Objective: Identify financial reporting issues highlighted by the global financial crisis.

Progress so far: The IASB and US FASB jointly held three public round tables in **London**, Norwalk and **Tokyo** to identify any accounting issues that might require the urgent and immediate attention of the boards.

The round tables took place in November and December.

1. Accounting for off-balance sheet vehicles

Relevant project 1: Consolidation

Issue: Some entities may not have accounted for all other entities they control, especially some special purpose entities (SPEs) used for securitisation transactions.

What IASB doing: The IASB has accelerated this project, which it started before the global financial crisis. It is looking:

- To tighten up the definition of control so that entities account for all other entities that they control.
- To review how the control notion applies to structured entities (such as SPEs).
- To improve disclosure requirements for entities that rightly remain off balance sheet.

Progress so far: Exposure draft was published in December 2008.

The IASB is planning public round tables to obtain further input.

Relevant project 2: Derecognition

Issue: Some entities may have stopped accounting for assets they still control. This gives readers an incomplete picture.

What IASB doing: The IASB has accelerated this project, which it started before the financial crisis. It is looking to review and clarify when entities should stop accounting for assets transferred to other entities.

Progress so far: Exposure draft to be published in the first quarter 2009.

2. Disclosures

Relevant project: IFRS 7

Issue: Users of financial statements may need further information on how entities estimated the fair value of their financial instruments when there are only limited market data to support those estimates.
Existing disclosure requirements for liquidity risk do not focus on essentials (issue identified by the round tables).

What IASB doing:

- Improving disclosures about fair value measurements of financial instruments and about liquidity risk.
- Improving disclosures about investments in debt instruments.

Progress so far: IASB published a first **exposure draft on disclosures about liquidity risk** and the fair value measurement of financial instruments on 15 October 2008 with comments due by 15 December 2008.

IASB published a **second exposure draft on disclosures about investments in debt instruments on 23 December** with comments due by 15 January 2009.

3. Fair value

Relevant measure: Expert Advisory Panel

Issue: The financial crisis has raised concerns that it may be difficult to estimate fair value in illiquid markets.

What IASB doing: Set up an external **Expert Advisory Panel** in May 2008 to consider issues relating to measuring fair value in illiquid markets. The panel met seven times.

Progress so far: IASB published on 31 October 2008 **educational guidance** reflecting the outcome of the panel meetings.

Discussions at the panel meetings have also generated input for related projects, ie **Fair Value Measurement** and **Financial Instruments / IAS 39**.

Relevant project 1: Fair Value Measurement

Issue: Guidance on how to measure fair value is dispersed across standards and in some cases inconsistent.

What IASB doing: Creating a single standard clarifying how to measure fair value where existing standards require or permit fair value.

Progress so far: This **project** was on the Board's agenda before the financial crisis. However, responding to recent market developments the project will:

take into consideration outcome of the **Fair Value Expert Advisory Group** (FCAG) and other input received through round tables or the FCAG

Publication of the exposure draft is expected for Q2 2009.

Relevant project 2: Financial Instruments / IAS 39

Issue: Standard deals with the recognition and measurement of financial instruments. The existing standard is complex and does not always produce the most useful information.

What IASB doing: This is a **long-term project to replace IAS 39** with the objective of reducing its complexity and producing more relevant and reliable information for users. However, in response to the crisis:

Project will take into consideration possible results of the FCAG.

Progress so far: IASB issued amendments to IAS 39 to **permit the reclassification of certain financial instruments** in specified cases (October 2008).

IASB published **proposals to clarify the accounting treatment** for embedded derivatives (December 2008).

IFAC Update

IAASB Issues Practice Alert on Going Concern Issues

The International Auditing and Assurance Standards Board (IAASB) has issued a practice alert to help auditors and management assess the impact of the credit crisis on going-concern assumptions.

The IAASB, an independent standard-setting board under the auspices of the International Federation of Accountants, released the new practice alert, Audit Considerations in Respect of Going Concern in the Current Economic Environment.

The alert highlights areas within International Standard on Auditing 570, Going Concern, as well as other ISAs, that are particularly relevant in the current economic environment, and provides additional guidance for auditors in evaluating management's use of the going-concern assumption. It also raises awareness of issues surrounding liquidity and credit risk that may create new uncertainties for entities or exacerbate those already existing.

"While the alert notes that auditors are always required to evaluate management's use of the going-concern assumption, given current economic conditions, the evaluation will take on even more importance and is likely to be more complex," said IAASB executive director of professional standards James Sylph in a statement. "This is particularly the case with regard to the availability of credit and the impact of the current economic environment on budgets and forecasts, factors which are likely to result in additional disclosures in the current period's financial statements.

This is the second alert issued by the IAASB staff. The first, Challenges in Auditing Fair Value Accounting Estimates in the Current Market Environment, was issued in October 2008 to help auditors address the challenges of auditing fair value accounting estimates in times of market uncertainty. Both alerts can be downloaded for free at the IFAC Web site, **www.ifac.org**

New IFAC Sustainability Framework Supports Organizations in Improving Products, Lowering Costs, and Raising Good Will

(New York/February 6, 2009) - The Professional Accountants in Business (PAIB) Committee of the International Federation of Accountants (IFAC) has developed a comprehensive Sustainability Framework to support professional accountants and their organizations in integrating a sustainable way of thinking and working in all business processes. The Framework illustrates how a commitment to sustainability can help to further improve an organization's products or services, motivate its people, lower its costs and enhance its reputation.

Designed from four different perspectives - business strategy, internal management, financial investors, and other stakeholders - the new Framework challenges conventional ways of thinking about economic, social and environmental achievements. It also promotes the injection of sustainability leadership into the full management cycle, from making and executing strategic decisions to reporting on performance to all stakeholders.

Roger Adams, chair of the PAIB Committee's Sustainability Framework Project, highlights the holistic view of sustainability taken by the Framework: "It recognizes the importance of the three main dimensions of sustainability: economic viability, social responsibility, and environmental responsibility, as well as their interconnectivity. We hope that this Sustainability Framework provides the means and motivation for professional accountants to address sustainability issues with greater vigor."

”Although the accounting sector itself might be considered a relatively low-impact sector in terms of direct environmental and social impacts, it is the accountant’s involvement in the twin issues of organizational decision-making and external reporting that imposes on the accountancy profession the responsibility for understanding, absorbing and articulating the implications of the sustainable development debate,” emphasizes Mr. Adams.

IFAC’s Sustainability Framework is a web-based tool that allows users to easily navigate those sustainability issues that are most important to their immediate roles and to select and use those examples of good sustainability practice that can work in their organizations.

The Sustainability Framework can be accessed free-of-charge on the International Center for Professional Accountants in Business section of the IFAC website at: www.ifac.org/PAIB.

New IFAC Guidance on Corporate Governance Addresses Risks and Organizational Accountability

(New York/February 10, 2009) - As part of its ongoing commitment to support professional accountants in business and their organizations in enhancing governance and in improving organizational performance, the Professional Accountants in Business (PAIB) Committee of the International Federation of Accountants (IFAC) has released a new International Good Practice Guidance document entitled *Evaluating and Improving Governance in Organizations*. The new guidance to professional accountants in business includes a framework, a series of fundamental principles, supporting guidance, and references on how they can contribute to evaluating and improving governance in organizations.

”This International Good Practice Guidance brings together globally recognized and applicable good practice principles on effective governance into an international benchmark for the accountancy profession,” says IFAC Chief Executive Ian Ball. “It will help PAIBs and their organizations to further improve their governance structures and processes - something critical to ensuring an organizations viability and accountability.”

This guidance is designed to complement existing governance codes, such as the *OECD Principles of Corporate Governance* (2004), issued by the Organisation for Economic Co-operation and Development (OECD), by encouraging organizations to achieve a balance between conformance with rules and regulations and driving organizational performance. It also focuses on how to create sustainable stakeholder value in the form of good products or services, economic profitability, job security, safety, or other social or economical responsibilities.

A separate document, *Preface to IFAC’s International Good Practice Guidance*, sets out the scope, purpose, and due process of the committee’s International Good Practice Guidance series to which this guidance paper on governance belongs.

Both *Evaluating and Improving Governance in Organizations* and the *Preface to IFAC’s International Good Practice Guidance* can be downloaded free-of-charge from the PAIB section of the IFAC online bookstore at http://www.ifac.org/store. The PAIB Committee welcomes all feedback, which can be emailed to **paib@ifac.org**

SECP Update

- SECP notifies IFRS 4 effective for the period commencing from 1st January, 2009 on companies engaged in insurance and re-insurance business (SRO 149 (I)/2009)
  http://www.icap.org.pk/web/news-details.php?section=all&id=090213055528

- SECP grants relaxation in accounting treatment for equity securities held by companies under the head "Available for Sale" as required under IAS 39 (SRO 150(I)/2009)
  http://www.icap.org.pk/web/news-details.php?section=all&id=090213054849

- SECP directs KSE members to submit financial statements

- Amendment in listing regulations relating to related party transactions (KSE-N 269)

- Draft Companies (Buy Back of Shares) Regulations 2009 issued

- New eligibility criteria for the selection of scrips in Cash Settled Futures Contract Market (KSE/N 3241)

- Bid/Offer Mechanism for determining closing prices of all scrips issued(KSE/N-346)

- For the purposes of preparing financial statements for the year ended 31 December 2008, companies may use the market price as quoted on the stock exchange on 31 December 2008 as fair value of securities. The resulting revaluation surplus/deficit will be treated in accordance with IAS 39

- Sixth schedule revised amending the table of fees to be paid to the registrar and the commission (SRO 119/2009)

SBP Update

- Amendment to Prudential Regulation for Corporate/Commercial Banking applicable for Financial Statements duly audited by a practicing Chartered Accountant, relating to the business of every borrower which is a limited company or where the exposure of a bank / DFI exceeds Rs 10 million to be submitted by the borrower after December 31, 2009.

  However, if the borrower is a public limited company and exposure exceeds Rs. 500 million, banks/DFIs shall obtain the financial statements duly audited by a firm of Chartered Accountants which has received satisfactory rating under the Quality Control Review (QCR) Program of the Institute of Chartered Accountants of Pakistan. (BPRD Circular No. 03 February 11, 2009
  http://www.icap.org.pk/web/news-details.php?section=all&id=090213055300

- SBP sets Rs 60 billion sales target for Pakistan Investment Bonds for the period January to June 2009

- Under FE Circular No. 2 of 2009, banks will make all purchases of foreign exchange, relating to the import of furnace oil from the interbank market with effect from 2 February 2009 (SBP has withdrawn previous order under Para 3 of FE Circular No 8 of July 8, 2008)

- Amendment in Prudential Regulations for Corporate/Commercial Banking (BPRD Circular No 1 2009)

- Issues Operational Guidelines for Credit Card Business in Pakistan (PSD Circular No 1 2009)
- Report on Islamic Banking Review 2003-2007 issued
- SBP to provide one year moratorium on long term loans to textile industrialists
- Banks/DFIs to provide grace period to those borrowers who have availed financing under Long Term Financing for Export Oriented Projects (SMEFD Circular No 1 2009)
- Long term financing facility (LTFF) for Plant and Machinery which will be used by the export oriented projects for producing Ethanol is also eligible under the LTFF scheme introduced in December 2007 (SMEFD Circular No 02 2009)
- Implementation of Islamic Financial Accounting Standard for Ijarah (IFAS 2) with effect from 1 January 2009 (IBD Circular No 1)
- Discontinuation of Hard Copy submission of Quarterly Report of Condition (QRC)(OSED Circular Letter No 1)
- Amendments in Prudential Regulations – Provisioning of loans and advances: to allow the benefit of 30% of FSV of pledged stocks and mortgaged commercial and residential properties held as collateral against all NPLs for three years from the date of classification for calculating provisioning requirement w.e.f. 31 December 2008 (BSD Circular No 2)
- Banks/DFIs may use market prices as prevailing on 31 December 2008 for the purpose of preparing Annual Financial Statements for the year ended 31 December 2008 (BSD Circular Letter No 2)
- SBP to issue monetary policy statement on a quarterly basis
- Islamic Finance Guidelines for Agriculture issued (ACD Circular No 1)
- SBP closing forex window for oil imports
- Margin restrictions for financing against the security of sugar stock (both raw and refined) (BPRD Circular Letter No. 2)
- SBP clarified that 50 per cent cash margin condition on the financing against the sugar stock would not be applicable to financing facilities given for cane procurement for the ongoing crushing season (BPRD Circular Letter No. 4)
- Islamic Banks can submit LESCO sukuks as SLRs
- Personal loan and credit card limit fixed at Rs 1 million
- SBP sets new code for the obtaining of financial statements from borrowers.

- Amendments to Prudential Regulations for Consumer Financing have been made with immediate effect (BPRD Circular No. 04 February 11, 2009)

  At the time of granting facility banks / DFIs shall obtain a written declaration of various facilities already obtained from other banks/financial institutions. The banks / DFIs shall obtain a consumer credit report from the Credit Information Bureau of State Bank of Pakistan or from any consumer Credit Information Bureau of which they are a member.

  Banks / DFIs shall ensure that the total monthly amortization payments of consumer loans should not exceed 50% of the net disposable income of the prospective borrower.

  Bank/DFI may issue credit card to one person with a maximum unsecured limit not exceeding Rs 1,000,000/,

  Banks/DFIs may assign personal loan (including loans for purchase of consumer durables) limits to one person with a maximum unsecured limit not exceeding Rs 1,000,000/ on condition that total unsecured personal loans limits availed by that person from all banks/DFIs does not exceed Rs. 1,000,000.

FBR Update

- FBR has directed the Large Taxpayers Unit (LTU) to check non payment of capital value tax on buying and selling of property by housing/development societies
- FBR to issue new reward rules for external informers to place a clear and transparent mechanism in tax evasion cases
- Amendment in Income Tax Rules 2002 through SRO54(I)/2009 where a committee has been formed for speedy processing of applications of new foreign investors and non resident companies who wish to obtain advance rulings on tax matters

Local News Brief

- Board of Investment plans to issue electronic visas to business community to promote increased trade
- Public-private partnership mode: Privatisation Commisssion approves parameters of new privatization policy
- UK based Securities and Investment Institute enters Pakistan market
- NSS investors to get profit of Rs 1400 per month
- Changes in Industrial Relations Act 2008 – tripartite conference to work out recommendations
- Real Estate Investment Management Trust to be set up
- Supreme Court restores power for financial institutions to auction mortgaged property

ICAP News

- ICAP has introduced a diploma in IFRS keeping in view the increasing demand for IFRS specialist. This will provide an opportunity to candidates, taking their accounting skills to highly advanced level and be able to progress within various accounting support roles as IFRS specialists.

World News Brief

- **U.S. Foreclosures spiked by more than 81% in 2008**
  NEW YORK (CNNMoney.com) **—** U.S. foreclosure filings spiked by more than 81% in 2008, a record, according to a report released Thursday, and they are up 225% compared with 2006.

  A total of 861,664 families lost their homes to foreclosure last year, according to RealtyTrac, which released its year-end report Thursday. There were more than 3.1 million foreclosure filings issued during 2008, which means that one of every 54 households received a notice last year.

- **Become an IFRS expert and increase your career rewards**
  For career advancement purposes, gaining bona fide expertise in IFRSs in the short term may be a sure ticket to bountiful career rewards. “It’s one of two very hot areas, fair value being the other one,” said H. David Sherman, an accounting professor at Northeastern University and a former Securities and Exchange Commission academic fellow. “Anybody becoming an expert in either of those areas has a guaranteed career for many years.”

  An accountant who establishes a position as the “go-to” person on IFRS within a company will have great influence over how the company appears to the public, especially analysts and investors, Sherman noted. (CFO.com 13/01/09)

- **Does going concern basis provide a true and fair view?**
  For many businesses, the UK government’s measures announced yesterday to free up lending to the corporate sector come too late. The heavy audit work on 2008 financial statements is about to start. Accountants are zeroing in on whether books that companies have drawn up on a going concern basis provide a true and fair view of their businesses. Auditors are under particular pressure to probe whether a company’s access to funding is sufficiently robust to enable it to make it to the next balance sheet date. Companies that have not yet secured bank lines will be sweating.

  The absence of sufficient committed borrowing facilities does not of itself necessarily cast doubt upon the ability of a company to continue as a going concern. A bank may simply tell the auditor that in the current economic environment, it is not providing such confirmations to any of its customers, however creditworthy, as a matter of policy. Nonetheless, auditors have to judge whether there is a material uncertainty about the ability of an entity to continue as a going concern. Companies expecting to receive the benefit of the doubt are in for a shock. The likelihood is that investors will soon see a proliferation of so-called “emphasis of matter” warning paragraphs in audit reports.

Flagging concerns with such riders is less nuclear than qualifying the accounts, but it hardly enhances creditworthiness in the eyes of prevaricating loan officers. Companies whose audit reports have been scarred in this way should, for example, almost certainly expect to find their terms of trade abruptly altered. Over the next few weeks, banks and auditors must work together closely to break this vicious circle so that sound businesses do not perish unnecessarily. Government lending guarantees should help, but the urgency of the situation can hardly be overstated. (FT.com 14/01/09)

- **Appreciation key to managing in tough times**
  Keeping staff motivated while still cutting costs is tricky, but successful executives will remember that empathy is free and it's the key to great staff morale. MGM Grand CEO Gamal Aziz has instituted daily meetings and maintained training and recognition programs to keep spirits high by showing workers that management cares about their well-being. Aziz says keeping workers invested in their jobs is the key to prospering during a downturn. BusinessWeek (1/16)

- **Accounting Board: CFO crucial to efficient audits**
  The Public Company Accounting Oversight Board's recent staff guidance on audits for small companies recommends that auditors focus on the CFO when reviewing internal controls over financial reporting. The guidance notes that a company with many years of operations and a seasoned accountant with extensive experience as its CFO calls for less testing than a developmental phase company and a CFO who never documented its policies and procedures. CFO.com (1/23)

- **Global Accounting Alliance calls for debate on financial reporting**
  The Global Accounting Alliance, an international group that includes the AICPA and nine other accountancy bodies, has published a report that it says makes the case for an international debate on how to cope with financial reporting complexity and speed the shift to principles-based standards. Journalofaccountancy.com (2/3)

- **Indonesia launches retail Islamic bond**

- **January 2009: Most EU financial institutions have not reclassified assets**
  A study by the Committee of European Securities Regulators (CESR) has found that many banks in the European Union have chosen, up to now, not to use the option that the IASB added to IAS 39 in October 2008 to permit reclassification of some financial instruments out of the fair-value-through-profit-or-loss and available-for-sale categories. CESR reviewed the application of the reclassification amendment by financial institutions within the EU in their third quarter interim financial statements and interim management statements. CESR's analysis covered all 22 financial institutions in the FTSE Eurotop 100 index and 78 other financial institutions. The 100 companies are based in 21 EU member states. CESR found:

  - More than half of the financial companies concerned did not reclassify any financial instruments in their 3rd quarter 2008 financial statements.

  - For the companies in the FTSE Eurotop 100 index almost two thirds of these companies did not reclassify any financial instruments in any of the categories.

CESR's report also responds to a request from the European Commmission for CESR's views on accounting issues in addition to reclassification:

- **Fair value option.** CESR believes that 'there is a need to examine the effects of the use of the fair value option in more detail within a short timeframe', including whether reclassification should be permitted for financial assets measured using the fair value option.

- **Embedded derivatives.** CESR welcomes the IASB's recent ED on amendments to IFRIC 9 and IAS 39 and encourages the IASB and the FASB to work together to assess whether further clarification is needed relating to embedded derivatives. 'Furthermore, CESR would recommend that the IASB provides guidance on the main types of synthetic structures covered and on which factors are important for issuers in determining whether an embedded derivative exists and if so, whether it should be measured separately. This clarification should also state that embedded financial guarantee-types do not need to be separated out.'

- **Impairment of available-for-sale items.** CESR recommends the IASB examines the issues surrounding impairment for available for sale financial instruments.

CESR's report also recommends that 'the IASB should develop due process procedures – including public consultation – that, in rare circumstances, would enable it to 'amend its standards in response to emergency circumstances'.

- **EC wants loss provisioning reforms**
  In a speech titled 'The Credit Crisis – Looking Ahead', Charlie McCreevy, the European Commissioner for Internal Market and Services, offered views on the causes of the current problems in the global financial markets. He cited two accounting issues – mark-to-market measurements and prohibition of 'dynamic provisioning' (recognition of expected, rather than incurred, loan losses) – as factors that contributed to the problems of financial institutions in Europe.

- The European Bankers Association is asking the International Accounting Standards Board for assurance that some collateralized debt obligations can be valued at their amortized cost, a position already accepted by the U.S. Financial Accounting Standards Board. The bankers said IASB guidance is being widely, and incorrectly, interpreted as taking the position that all CDOs contain a "separable embedded derivative," which FASB said is not the case for fully funded CDOs. MarketsMedia (2/11)