



The Institute of  
Chartered Accountants  
of Pakistan

# e Technical Update

October 2009

## Contents .....

### IASB Update

IASB Foundation published the exposure draft of the IFRS for SMEs Taxonomy

Part Two - Proposals for Enhanced Public Accountability

IASB amends the accounting for rights issues

Financial Instruments: Replacement of IAS 39 Project

### IFAC Update

Forum of Firms Focuses on Enhancing Internal Quality Assurance Processes

IAASB Releases New Tools To Support Clarity ISA Implementation

IFAC and *The Banker* Release Results of Global SME Lending Survey

IFAC Supports G-20 Initiatives; Calls for Corporate Governance Reforms and Early Adoption of Global Standards

IFAC and International Valuation Standards Council to Collaborate on Improving Global Valuation Consistency

Ethics Board Publishes Implementation Support Materials

New Guidance Issued for Evaluating and Improving Costing Approaches

IPSASB and IMF Form Joint Task Force on Government Interventions in Financial Crisis

ISA Implementation Monitoring Project

PAIB Starts Projects On Governance, Risk, And Internal Control

First Draft of SMP Practice Management Guide Complete

SMP Forum 2009 To Be Held In Beijing

New Project on Business Support for SMEs  
IAESB Consultation Expands Scope of IES Framework

IFAC Members Report on Progress with Action Plans

IPSASB Confirms Approach on Financial Instruments Project

Discussion Started on New IPSASB Strategy

### ICAP Update

SECP Update

SBP Update

FBR Update

Local News Brief

World News Brief

ICAP House  
Chartered Accountants Avenue  
Clifton, Karachi. (Pakistan)  
UAN: 111-000-422

PABX: 99251636-39 Fax: 99251626

E-mail: info@icap.org.pk Website:

http://www.icap.org.pk

## IASB UPDATE

### IASB Foundation Published the Exposure Draft of the IFRS for SMEs Taxonomy

**Comment Deadline: 27 November 2009**

The International Accounting Standards Committee (IASC) Foundation has published for public comment an exposure draft of the IFRS for SMEs Taxonomy. The Taxonomy is a complete translation of the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) into XBRL (eXtensible Business Reporting Language).

XBRL is a licence-free electronic language used to communicate information between businesses. Its use enables companies and regulators to benefit from easier filing, and makes financial data easier for investors, analysts and others to access and compare.

The exposure draft of the IFRS for SMEs Taxonomy is accompanied by a comprehensive review package containing a sample XBRL filing and explanatory materials, as well as illustrative financial statements and a presentation and disclosure checklist.

The IFRS for SMEs was issued by the International Accounting Standards Board (IASB) on 9 July 2009 as a self-contained standard of about 230 pages tailored for the needs and capabilities of smaller businesses. Many of the principles in full IFRSs for recognising and measuring assets, liabilities, income and expenses have been simplified, topics not relevant to SMEs have been omitted, and the number of required disclosures has been significantly reduced. To further reduce the reporting burden for SMEs the IASB aims to limit revisions to the IFRS to once every three years.

The exposure draft of the IFRS for SMEs Taxonomy is available online at IFRS for SMEs and is open for comment until 27 November 2009. The IASC Foundation aims to publish the final version of the IFRS for SMEs Taxonomy in December 2009.

### Part Two - Proposals for Enhanced Public Accountability

**Comment Deadline: 30 November 2009**

The IASC Foundation has issued proposals for enhanced public accountability.

The proposals build on governance enhancements implemented as a result of the first five-yearly Constitution Review, completed in 2005. They follow the recent establishment of a public accountability link to a Monitoring Board of capital market authorities as a result of the first part of this review.

The objectives of the proposals are to enhance further the governance of the organisation, improve the involvement of stakeholders with a broad range of perspectives in both developed and emerging markets, and make operational improvements.

As a result of the first Constitution Review, completed in June 2005, the Trustees took a number of steps to reinforce public accountability. These included steps to formalise the Trustees' oversight function more clearly and to enhance the IASB's due process to make possible improved global consultation.

Additionally, to respond to the accelerating pace of IFRS adoption globally, the Trustees initiated a broad strategy review, which was completed in 2007. That review was intended to inform the second Constitution Review, which began last year, and of which this consultation is a part. The strategy review also identified the issues of public accountability and global acceptance as the major areas of continued concern.

As a result of the first part of the Constitution Review the Trustees established a link to a Monitoring Board, an independently formed body of leading public capital market authorities. This relationship seeks to replicate on an international basis the traditional relationship in most countries between accounting standard-setters and public capital markets authorities. Whilst reaffirming the emphasis on technical expertise and practical experience of IASB members, the Trustees also provided guidance regarding the geographical spread of the IASB's membership.

The second part of the Constitution Review seeks to build on the previous actions by seeking additional advice on how further to enhance the organisation's governance. Particular themes emerged from the December 2008 consultation, as follows:

- Enhanced IASB agenda-setting processes
- Enhanced oversight and due process procedures
- Caution regarding the use of accelerated fast-track due process
- Clarification and protection of the IFRS brand
- The need for a secure funding base to ensure independence
- Geographical balance among the Trustees

This document explains the changes in the Constitution proposed by the Trustees and the rationale for these changes. The main changes proposed are as follows:

- Change of name of the IASC Foundation to the IFRS Foundation and the IASB to the IFRS Board.
- Clarification of the objectives of the organisation.
- A clear acknowledgment of the role the Monitoring Board now plays in the governance structure of the organisation.
- Formal recognition of Africa and South America in the composition of the Trustees.
- The establishment of a procedure for an accelerated due process.
- The ability to appoint up to two vice-chairmen for both the Trustees and the IFRS Board.
- An amendment regarding the length of a possible second term of the IFRS Board members to ensure appropriate turnover.
- Enhanced IASB consultation on the standard-setting agenda with the SAC and the Trustees, with a possibility for others to comment.

## IASB Amends the Accounting for Rights Issues

The International Accounting Standards Board (IASB) issued an amendment to IAS 32 *Financial Instruments: Presentation*. The amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously such rights issues were accounted for as derivative liabilities. However, the amendment issued today requires that, provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated. The global financial crisis has led to an increase in the number of such rights issues as entities seek to raise additional capital. The IASB has moved swiftly to address this issue.

## Financial Instruments: Replacement of IAS 39 Project

The International Accounting Standards Board met in London on 6 October 2009 for an additional Board meeting to continue work on the project Financial Instruments: Replacement of IAS 39, when it discussed:

### Classification and Measurement - phase 1

- Interaction between the two classification conditions
- Amortised cost
- Fair value option (FVO)
- Reflecting changes in own credit risk for financial liabilities not measured at amortised cost
- Accounting for embedded derivatives
- Unquoted equity instruments: elimination of cost exception

### Impairment - phase 2

- Guidance for variable interest rates
- Presentation and Disclosures
- Impairment - interaction with other IFRSs (IAS 28 and IFRS 4)

### Hedge Accounting - phase 3

- Applying cash flow hedge accounting mechanics to a fair value

IASB will hold round table discussions in November and December 2009, on its proposals for fair value measurement. Round tables will be held in North America, Asia and Europe. An audio recording of the round table discussions will be made available on the website shortly after each round table.

## IFAC UPDATE

### Forum of Firms Focuses on Enhancing Internal Quality Assurance Processes

Over 40 senior audit professionals from 23 international networks of accounting firms recently had a meeting to share their experiences, industry insights, and current practices in establishing and strengthening global internal inspection processes, at a workshop organized by the Forum of Firms (Forum). The Forum assembled a group of experts to discuss new developments, including innovations in inspection organization, methodology and staffing, practical implementation issues, and processes for internal reporting.

This workshop was designed to provide participants with a better understanding of current trends and practices as well as an opportunity for audit partners to exchange views and experiences in their continuing efforts to manage high-quality audit practices.

Every member of the Forum must follow international professional standards on quality control at the firm level and for each transnational audit engagement: International Standard on Quality Control 1 (ISQC 1) and International Standard on Auditing 220 (ISA 220) as issued by the International Auditing and Assurance Standards Board. These standards require firms to establish a system of quality control to provide them with reasonable assurance that the firm and its personnel comply with professional standards and regulatory and legal requirements, and that reports issued by the firm or engagement partners are appropriate in the circumstances. Additionally, Forum members must conduct regular globally coordinated internal inspection reviews to monitor adherence to these standards across their networks.

### **IAASB Releases New Tools to Support Clarity ISA Implementation**

To promote awareness and understanding of the newly clarified International Standards on Auditing (ISAs), the International Auditing and Assurance Standards Board (IAASB) has released a series of “ISA Modules” focusing on some of the new and more significantly revised ISAs. Each of these modules combines short video presentations and accompanying slides that explain the key principles of, and major changes in, individual ISAs, including the implications for audits of small- and medium-sized entities (SMEs).

This new resource includes modules that provide an introduction to, and an overview of, the clarified ISAs, including ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, and audit documentation and SME audit considerations. Additional modules cover ISAs that address related parties, auditing accounting estimates, including fair value estimates, communication with those charged with governance, and communicating deficiencies in internal control.

The ISA Modules are available to download from the IAASB Clarity Center on the IFAC website [web.ifac.org/clarity-center/support-and-guidance](http://web.ifac.org/clarity-center/support-and-guidance)

### **IFAC and *The Banker* Release Results of Global SME Lending Survey**

IFAC and *The Banker* magazine, part of the *Financial Times* group, recently released the results of a global survey of banks on lending to small and medium-sized entities (SMEs). This survey of more than 500 SME lenders indicates that SMEs may have access to more credit down the road, but will have to pass more rigorous tests to demonstrate their creditworthiness. The survey, which appears in the supplement to the October issue of *The Banker*, also highlights the critical role of accountants in supporting both SMEs and lenders. To view the survey results, go to [www.ifac.org/financial-crisis/smp-sme-resources.php](http://www.ifac.org/financial-crisis/smp-sme-resources.php)

### **IFAC Supports G-20 Initiatives; Calls for Corporate Governance Reforms and Early Adoption of Global Standards**

The International Federation of Accountants (IFAC) supports the goals expressed by G-20 Leaders at the Pittsburgh Summit 2009 to advance “a framework for strong, sustainable, and balanced growth,” which includes reform of executive compensation packages, the adoption of a single set of high-quality global accounting standards, and increased resources for the World Bank

and international development banks. IFAC recommends that these goals remain priorities and that G-20 Leaders act on them at a national level.

Two issues at the top of IFAC's agenda, which were reflected in its submission to the G-20 finance ministers in July, are the need for governments to address corporate governance issues and to move ahead on implementing common global standards not only for accounting, but also for auditing and for auditor independence.

IFAC has recommended that the G-20 nations adopt and implement the Organization for Economic Cooperation and Development's (OECD's) Principles of Corporate Governance and that they ask the OECD to address the design of remuneration systems within its corporate governance framework. In addition, IFAC has strongly urged governments to support an increased role for corporate audit and compensation committees and for ensuring that members of these committees have the appropriate expertise.

As part of its governance recommendations, IFAC has called for "competency requirements for those preparing financial statements." IFAC believes these competency requirements should apply not only to those working in listed companies, but also to those preparing governmental financial reports. This is especially critical as governments assume new forms of assets and liabilities as a result of their bailouts and stimulus plans. Greater transparency by governments, made possible through high-quality financial reporting, will help keep taxpayers informed and boost investor confidence.

In addition to supporting global adoption of IPSASs, IFAC has long advocated the adoption of International Financial Reporting Standards and International Standards on Auditing. Global standards will create a level playing field in the interpretation and exchange of financial information and contribute to economic and financial stability. Similarly, the adoption of global standards on auditor independence, such as those expressed in the *Code of Ethics for Professional Accountants*, will help to sustain trust in capital markets.

IFAC also recognizes the key role the World Bank plays in helping to achieve more balanced economic growth and applauds the G-20 nations for their commitment to it. IFAC continues to work closely with the World Bank to develop and strengthen the accountancy profession, particularly in emerging countries. A strong accountancy profession, supported by high-quality, robust standards, is a vital component of a country's financial system. To view IFAC's recommendations to the G-20, go to [www.ifac.org/financial-crisis](http://www.ifac.org/financial-crisis)

### **IFAC and International Valuation Standards Council to Collaborate on Improving Global Valuation Consistency**

The International Federation of Accountants (IFAC) and the International Valuation Standards Council (IVSC) have signed a Memorandum of Understanding designed to enhance their respective impact on issues surrounding valuations-particularly those related to improving the consistency of global valuation standards affecting the preparation and audits of financial reports.

Valuation standards, coupled with clear accounting and auditing principles, are key to the efficiency of the global market economy. This Memorandum of Understanding demonstrates the cohesive and united approach of the IVSC, IFAC, and International Auditing and Assurance Standards Board (IAASB) to maintaining standards as global markets continue to develop.

## **Ethics Board Publishes Implementation Support Materials**

The staff of the International Ethics Standards Board for Accountants have developed support materials to assist in the adoption and implementation of the revised *Code of Ethics for Professional Accountants* (revised July 2009). These materials, including an overview of the revised Code and a tool to assist jurisdictions in comparing the revised to the existing Code, are located in the Resources section of the Ethics homepage at <http://www.ifac.org/Ethics/Resources.php>

## **New Guidance Issued for Evaluating and Improving Costing Approaches**

The Professional Accountants in Business (PAIB) Committee has published new International Good Practice Guidance (IGPG) to assist professional accountants in making decisions about their approaches to costing. The IGPG, titled *Evaluating and Improving Internal Control in Organizations*, establishes six fundamental principles for evaluating and improving costing methods.

The guidance is targeted to professionals working in commerce, industry, as well as the public sector. It also recognizes the importance of distinguishing between the purposes and information needs of cost accounting to meet the demands of external reporting, cost measurement, and reporting for internal decision support in organizations.

A companion document for the guidance, titled *Evaluating the Costing Journey: A Costing Levels Maturity Model*, has also been published to help professional accountants decide upon the level of sophistication in the costing information they will need to provide, given the requirements of their organizations and the needs of managers and employees. The model can help professional accountants exercise professional judgment to assess their organization's existing costing capabilities. IFAC welcomes comments on this model, which is a beta version currently being tested by users for its effectiveness.

Both documents can be downloaded from the PAIB section of the IFAC online bookstore at [www.ifac.org/Store](http://www.ifac.org/Store)

## **IPSASB and IMF Form Joint Task Force on Government Interventions in Financial Crisis**

The International Public Sector Accounting Standards Board (IPSASB) and the International Monetary Fund (IMF) have formed a joint task force to learn more about various government interventions in response to the global financial crisis and the application of accounting standards for reporting such government actions. The IPSASB has enjoyed a strong relationship with the IMF having benefitted from the IMF's observations and insights through the agency's participation as an official observer at IPSASB meetings.

This is the first time the two organizations have worked together collaboratively on a joint task force.

The IPSASB has been discussing the impact of the current global financial crisis on governments at each of its meetings since October 2008. Moreover, the task force has held meetings so far with five governments on their financial crisis initiatives. The information garnered at the meetings will be used by the IPSASB to inform its conceptual framework project and by the IMF to inform its G20 submissions and other work.

The following are objectives of the joint IPSASB/IMF task force:

- To learn how governments are intending to deal with assets, obligations, and commitments acquired as a result of their actions in response to the financial crisis, and comment/contribute to the thinking of these governments
- To learn how the existing accounting standards are used to report the variety of government actions in response to the financial crisis, and identify the need for any improvements
- To discuss the reporting and valuation approaches for these initiatives

To date, the task force has held meetings with five important sets of stakeholders. The task force updated the IPSASB on its progress on September 11, 2009, and will provide the Board with a draft document summarizing its results on October 31, 2009.

### **ISA Implementation Monitoring Project**

The IAASB has established a task force to gather information initially from certain national auditing standard setters (particularly those that are implementing the ISAs broadly in line with their effective date), IFAC member bodies, and audit firms about their experiences in preparing to implement the clarified ISAs. The IAASB is also planning at a later stage to obtain views and feedback from other interested stakeholders regarding how the ISAs have been implemented in practice. This information will assist the IAASB in determining a process for evaluating the effectiveness of the implementation of the clarified ISAs, including whether there is any need to further refine the standards. Information on this project, including updates on its progress, will be provided in the IAASB Clarity Center.

### **PAIB Starts Projects on Governance, Risk and Internal Control**

The Professional Accountants in Business (PAIB) Committee has launched two projects directed at improving guidance in the areas of governance, risk, and internal control. The first initiative will involve developing a reconciliation of the PAIB Committee's International Good Practice Guidance (IGPG) principles with the *OECD Principles of Corporate Governance*.

This project follows IFAC's recent publication of the IGPG on *Evaluating and Improving Governance in Organizations* and IFAC's July submission to the G20, which identifies corporate governance as a priority for reform.

IFAC's IGPG on governance complements the OECD principles as its main purpose is to support PAIBs and to help their organizations evaluate and further improve their governance structures and systems. The IFAC principles help restore the balance between compliance and performance in organizations.

The PAIB Committee is also developing the IGPG, *Evaluating and Improving Internal Control in Organizations*. The goal will be to provide practical guidance that will focus on common pitfalls in the way current internal control systems are being deployed and what should be done to avoid these pitfalls.

### **First Draft of SMP Practice Management Guide Complete**

Work is well advanced on the *Guide to Practice Management for Use by Small- and Medium-sized Practices* (the PM Guide) being developed by CPA Australia. A first draft, comprising seven modules, has been reviewed, and CPA Australia is now making revisions based on

comments from a panel of IFAC reviewers. The PM Guide, the third guide to be developed by the Small and Medium Practices (SMP) Committee, will share best practices on a range of practice management issues—managing people, using IT, client relationship management, etc.—to help make SMPs more successful. Publication of the first edition of the PM Guide is planned during the first half of 2010. Two IFAC member bodies, Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili and Certified General Accountants' Association of Canada, are helping to finance the project. Further information is available at IFAC's International Center for Small and Medium Practices at [www.ifac.org/SMP/index.php#Resources](http://www.ifac.org/SMP/index.php#Resources).

### **SMP Forum 2009 to be held in Beijing**

The IFAC Small and Medium Practices Forum 2009 will be held on October 28, 2009 at the Grand Hyatt, Beijing. It will be hosted by IFAC and co-hosted by the Chinese Institute of Certified Public Accountants and the Confederation of Asian and Pacific Accountants. The one-day forum will bring together regional and national accountancy bodies, standard setters, and other interested parties to discuss how to address the challenges and opportunities facing SMPs and small- and medium-sized entities (SMEs), especially in Asia. More information on the Forum is available in the resources section of the online International Center for Small and Medium Practices at [www.ifac.org/SMP/index.php#Resources](http://www.ifac.org/SMP/index.php#Resources)

### **New Project on Business Support for SMEs**

The SMP Committee has started to develop an information paper titled *Role of SMPs in Providing Business Support to SME Clients*. This project will involve an extensive review of professional literature, as well as research into the business advice and related service functions that SMPs provide SMEs. The project is expected to produce an information paper in early 2010.

### **IAESB Consultation Expands Scope of IES Framework**

The International Accounting Education Standards Board (IAESB) is currently developing a revised draft of the *Framework for International Education Standards* (Framework) as a result of its public consultation on proposed revisions to the document. The consultation was an important step of an ongoing project to revise the Framework conducted by the IAESB during the first two quarters of 2009.

Based on the review to date, the IAESB plans to expand the Framework by describing the various forms of learning and development that can be used in professional accounting education programs. The revision process will also improve the clarity of the Framework, update sections to reflect the IAESB's experience, and expand on the purpose of the IAESB's standards and guidance.

The Framework contains the concepts and principles upon which the IAESB's eight IESs are developed. The revision project reflects the IAESB's ongoing mission of serving the public interest and strengthening the profession by enhancing accounting education worldwide. Revising and clarifying the Framework document will enhance the relevance and consistency of the IESs, as well as their applicability to IFAC members and associates.

The proposed Framework explains the educational concepts of competence, initial professional development, continuing professional development, and measurement of the effectiveness of learning and development, which will be used by the IAESB when developing the IESs.

The IAESB will confer with its Consultative Advisory Group in the third quarter of 2009. Subject to these discussions, the IAESB expects to approve the Framework for publication in the fourth quarter of 2009.

For further information on this initiative, please visit the IAESB's project page on the IFAC website at [www.ifac.org/Education/ProjectHistory.php?ProjID=0073](http://www.ifac.org/Education/ProjectHistory.php?ProjID=0073)

### **IFAC Members Report on Progress with Action Plans**

Since the publication of the first Action Plan a year ago, the Part 3, Action Plan phase of IFAC's Member Body Compliance Program has achieved notable progress—with over 60 plans now available on the IFAC website.

These Action Plans outline the concrete steps that each member, associate, and regional accountancy group plans to take to fulfill IFAC's Statements of Membership Obligations. Each plan identifies the tools, resources, and regulatory changes that will be undertaken in these initiatives. They represent a significant commitment on the part of each participating organization to promote global adoption of accounting standards and strengthen the profession.

In order to be effective, accounting organizations continuously respond to national and international developments. For that same reason, maintaining Action Plans and reporting their progress must likewise be an ongoing process. IFAC members and associates are required to report on key developments and new challenges since their Action Plans were first published. All members will be required to conduct a formal review of their Action Plans one year after publication, to allow readers to follow their progress.

To support members with emerging issues, Compliance staff will also follow up with members every six months to ensure critical developments are considered as they occur. To date, preliminary updates have been completed on fourteen bodies that were among the first to publish their Action Plans in 2008. The updates carried out with these fourteen members so far indicate that progress has been made in a number of areas, including environmental changes, convergence to international standards, and capacity building.

Developing these plans has led to a number of positive impacts for member bodies, such as:

- Linkage of Action Plans to requests for donor funding
- Successful lobbying for new legislation
- Advancing the development of external quality assurance programs
- Continued translation of international standards
- Expansion of education activities to support adoption and implementation of new and revised standards

### **IPSASB Confirms Approach on Financial Instruments Project**

During its September 2009 meeting in Toronto, the IPSASB confirmed the approach on its financial instruments project after considering responses to three recently released Exposure Drafts (EDs). The following were the three EDs under consideration:

- ED 37, *Financial Instruments: Presentation*
- ED 38, *Financial Instruments: Recognition and Measurement*
- ED 39, *Financial Instruments: Disclosures*

These EDs were issued in April 2009 with a consultation period ending on July 31, 2009.

One of the objectives of the financial instruments project has been achieving convergence with the equivalent International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), with additional proposed amendments as considered necessary by the IPSASB.

The proposed International Public Sector Accounting Standards (IPSASs) incorporate IFRS requirements as of December 31, 2008, as follows:

- ED 37 was based on IAS 32, *Financial Instruments: Presentation*
- ED 38 was based on IAS 39, *Financial Instruments: Recognition and Measurement*
- ED 39 was based on IFRS 7, *Financial Instruments: Disclosures*

The IPSASB developed additional guidance within the proposed standards on three key public sector specific areas—the distinction between contractual and non-contractual arrangements, concessionary loans, and financial guarantees issued with nil or nominal consideration.

Many respondents raised concerns about the impending changes the IASB is making to IAS 39 and the impact this may have on the IPSASB's project. The IPSASB discussed this concern in detail and concluded that the project should continue as planned and that any changes the IASB makes to IAS 39 will be considered in due course as deemed necessary.

More information on the financial instruments project can be found on the IPSASB Project History page at [www.ifac.org/PublicSector/ProjectHistory.php?ProjID=0060](http://www.ifac.org/PublicSector/ProjectHistory.php?ProjID=0060)

### Discussion Started on New IPSASB Strategy

As the IPSASB reaches the end of its three-year planning cycle, it has launched a process to gather feedback from Board members to determine its activities and priorities for the next three-year period, 2010-2012.

A number of factors will impact the Board's work program over the next three years, including availability of staff and volunteer resources, access to funding of IPSASB standard-setting and operating activities, and potential changes to the IPSASB's oversight and governance arrangements.

The IPSASB staff is currently developing a draft strategy and operational plan that will reflect the Board's discussions. The draft will be circulated to IPSASB members prior to December 2009 for their comment with a view to discuss a revised draft at the December meeting.

### ICAP Update

- Circular 11/2009 – ICAP issues Guidelines for Accounting & Financial Reporting for NGOs/NPOs

### SECP Update

- SECP Circular 32 of 2009 sets minimum requirements for undertaking Discretionary and Non-discretionary portfolio management, for Investment Advisor Service or Investment Finance Service (NBFC) with immediate effect.
- SECP makes amendments in the Sixth Schedule vide S.R.O.793(I)/2009

- SECP is in the process of developing a regulatory framework for the issue of corporate bonds and shares to qualified institutional buyers and sophisticated investors
- SECP issued a guide for the Appointment of Statutory Auditors and Ancillary Matters
- SECP directed the KSE to make an amendment in the listing regulations which states that it will be mandatory for the directors of listed companies to have certification under the Board Development System in the Pakistan Institute of Corporate Governance
- Circular No 31/2009 – Ministry of Finance in SRO (1)/2009 dated 1 October 2009 notified that the National Executive Committee has specified that any transaction exceeding Rs. 2.5 million shall be reported as CTR to Financial Monitoring Unit

### SBP Update

- BSD Circular No. 09- Statutory Auditor(s) of Banks / DFIs, instead of expressing opinion in annual financial statements on efficacy of Internal Control over Financial Reporting (ICFR) can now submit their opinion on ICFR directly to BSD department and copy to Institute of Chartered Accountants of Pakistan (ICAP). This requirement is for the year ending 31-12-2009. However, from the year ending 31-12-2010, Statutory Auditor(s) of Banks/ DFIs shall express their opinion on ICFR in the annual financial statements as required under the guidelines-3 of Guidelines on Internal Controls.
- SBP will issue the Monetary Policy Statement (MPS) for the next two months on September 29 with expectations of one percent cut in CRR, The Federal Bureau of Statistics (FBS) reported CPI inflation at 10.7 percent in August, down from 11.2 percent in July. The State Bank Governor while issuing the last monetary policy statement had announced to increase the frequency of monetary policy decisions from four times to six times in a year, and constitution of an independent monetary policy committee.
- The time period for applicability of the amendments made in the Banking Schedule of the Income Tax Ordinance 2001 has now been specified by FBR through Circular 8 of 2009. The banking companies would be entitled to make provisions for advances and off-balance sheet items up to a maximum of one percent of total advances from tax year 2009. In this connection, the FBR has issued corrigendum to Circular No 3 of 2009 through Circular 8 of 2009.
- Circular 1/2009 (Treasury Department) – Guidelines for FX Interbank Deal/Trade Confirmations and Settlement
- Formal agreement signed between the government of Pakistan and banks for the issue of Rs 85 billion Term Deposit Certificates to eliminate circular debt
- BPRD Circular No 29 – Reminder to companies re Section 24 of the Banking Companies Ordinance, 1962 which covers financing facilities to related parties
- BPRD Circular No. 30 – Notification of final deadline for submission of Computerised National Identity Cards
- FE Circular No 5/2009 – Notification to allow cement exporters to retain 5% of export proceeds against the cement exports in their Special FCY Accounts maintained with banks in Pakistan

### FBR Update

- Extension in date for filing of tax returns until 20 October 2009
- SRO 820(1)/2009 – Agreement for avoidance of double taxation between Pakistan and Bahrain
- SRO 846(1)/2009 – Amendments in Sales Tax Special Procedure (withholding) rules 2007

### Local News Brief

- Delegation from China were informed that investment policy allows for 100% foreign equity in major sectors of the economy and full repatriation of profits and dividends in all the sectors
- NIT (National Investment Trust Limited) signed a Trust Deed with Central Depository Company of Pakistan (CDC) as Trustee for its upcoming NIT Income Fund
- Karachi Stock Exchange introduced Trading in the Debt Market Securities at the Exchange through Bond Automated Trading System (BATS) - KSE/N-4972
- Competition Commission of Pakistan issued amendments in the Competition (Leniency) Regulations 2007
- Effective from 5 October 2009 Pre Settlement Delivery Mechanism will be operational in Deliverable Futures Contract Market - KSE/N-5070
- Client Level Margining System live from 1 October 2009 - KSE/N-5078
- Specimen Authorisations for Clients Level Margining System - KSE/N-5172
- WTO allows Pakistan to grant licence for production and export of patent pharmaceuticals to countries with insufficient capacity in the pharmaceutical sector
- KSE has recommended two leverage products, Margin Financing System and Margin Trading System to SECP for approval
- Lower House of Parliament passed three bills – NFC Institute of Engineering Technology Multan Bill 2009, the Stock Exchange (corporatisation, demutualization and integration of stock exchange in Pakistan) Bill 2008 and the Modaraba Companies and Modaraba (Flotation and Control (amendment) Bill 2009

### World News Brief

- France passed a law which will facilitate the issuance of Islamic bonds. The move is part of France's two year drive to create a new European hub for Islamic Finance.
- Swiss bankers called for the introduction of a broad withholding tax on earnings generated by foreign wealth to end international pressure on bank secrecy
- **“Continuous auditing” is a moving target**  
Many companies say they perform “continuous” internal auditing, but the definition of that process is not clear. Some say it means auditing every few months; others say it's “an audit that happens immediately after or closely after a particular event.” But few companies actually audit in real time, David McCann writes. “We're not familiar with anyone out there that has mastered continuous auditing yet,” says Richard Chambers, president and CEO of the Institute of Internal Auditors. CFO.com
- **G-20 calls for single set of accounting standards by June 2011**  
The Group of 20 nations called on international accounting bodies “to redouble their efforts to achieve a single set of high-quality, global accounting standards within the context of their independent standard-setting process and complete their convergence project by June 2011.” The G-20 also said the International Accounting Standards Board's institutional framework should further enhance the involvement of stakeholders. JournalofAccountancy.com
- **IASB chief urges Europe to establish global accounting standards**  
David Tweedie, head of the IASB, said Europe has the “chance of a generation” to set global accounting rules and stressed “how important it is that we have Europe's backing.” More than 100 countries use or are in the process of adopting the IASB's standards, and Tweedie

said the U.S. likely will converge its standards with international rules by 2012. "This is the last chance for a generation for global standards — we won't get another chance," Tweedie told European parliamentarians. Financial Times

- **IFRS adoption to require risk planning and changes to internal controls**

Based on the Securities and Exchange Commission's proposed road map for the adoption of International Financial Reporting Standards, U.S. companies would be required to perform U.S. GAAP/IFRS parallel accounting over a multiyear period. Companies can leverage the expertise of their Sarbanes-Oxley compliance staff to evaluate the effects of IFRS conversion on business processes and internal control over financial reporting. Journal of Accountancy

- UAE Banks to introduce same day cheque clearing system

- **Proposed financial supervision reforms in EU**

The European Commission has proposed legislation intended to significantly strengthen the supervision of the financial sector in Europe. Specific goals of the proposals are:

- to sustainably reinforce financial stability throughout the EU;
- to ensure that the same basic technical rules are applied and enforced consistently;
- to be able to act together far more effectively in emergency situations and in resolving disagreements among supervisors.

The proposal notes that "the current financial crisis has highlighted weaknesses in the EU's supervisory framework, which remains fragmented along national lines despite the creation of a European single market more than a decade ago and the importance of pan-European institutions". The proposals are intended to address those weaknesses by creating:

- **European Systemic Risk Board (ESRB)** to monitor and assess risks to the stability of the financial system as a whole ('macro-prudential supervision'). The ESRB will provide early warning of systemic risks that may be building up and, where necessary, recommendations for action to deal with these risks.
- **European System of Financial Supervisors (ESFS)** for the supervision of individual financial institutions ('micro-prudential supervision'), consisting of a network of national financial supervisors working in tandem with new European Supervisory Authorities, created by the transformation of existing Committees for the banking securities and insurance and occupational pensions sectors. The three European Supervisory Authorities would be:
  - European Banking Authority (EBA)
  - European Insurance and Occupational Pensions Authority (EIOPA), and
  - European Securities and Markets Authority (ESMA).

If adopted, the proposals would result – for the first time ever – in certain financial markets supervisory powers being given to pan-European authorities. The proposal is supported by the three existing EU financial supervisory bodies, the CESR, CEBS, and CEIOPS, which would be replaced by the three new European Supervisory Authorities. The European Commission is urging swift approval by the Council and European Parliament so the new structure could begin functioning in 2010.

- **SEC defers internal control reports for small companies**

The US Securities and Exchange Commission has given non-accelerated filers (small public companies with a public float below \$75 million) a further deferral from complying with the provisions of Section 404(b) of the Sarbanes-Oxley Act of 2002. Section 404 requires public companies and their independent auditors to report to the public on the effectiveness of a company's internal controls. With the deferral, non-accelerated filers will now be required to provide the auditor attestation reports in their annual reports for fiscal years ending on or after 15 June 2010. The effective date previously had been for fiscal years ending on or after 15 December 2009.

- **CEBS consults on bank disclosures**

The Committee of European Banking Supervisors (CEBS) has published a consultation paper proposing disclosure guidelines intended to help financial institutions improve their risk disclosures in the wake of the financial crisis. The disclosure guidelines are divided into three different parts, discussing respectively:

- general principles to be applied to high quality disclosures
- principles dealing with the content of disclosures on areas or activities under stress, in particular business models, impacts on results and risk exposures, impacts on financial positions, risk management, and sensitive accounting issues
- guidance on presentational aspects of disclosures

- The Accounting Standards Board of Japan (ASBJ) and the International Accounting Standards Board (IASB) have held their tenth meeting in London on 7 and 8 September 2009 to accelerate convergence of Japanese generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRSs).

- The WCOA 2010 is being jointly organized by the Malaysian Institute of Accountants and IFAC and will be held from November 8-11, 2010 at the Kuala Lumpur Convention Center. It will focus on the theme, "Accountants: Sustaining Value Creation," and will feature over 30 topics by globally renowned speakers. These topics will include value creation, sustainable development, Islamic finance, and the impact of the G20's initiatives to address the global financial crisis. Other issues will include small and medium practices serving as trusted business advisors and global developments in corporate reporting. The sessions will feature keynote addresses, as well as plenary discussions. Recognizing the importance of the WCOA 2010 for enhancing the global economy, all of the foreign officials committed to supporting and promoting the World Congress to government and business leaders in their respective countries. For more information about the Congress, please visit [www.wcoa2010kualalumpur.com](http://www.wcoa2010kualalumpur.com)

- **Raising awareness of the IPSASB**

***Cash Basis Review Roundtable at CReCER 2009***

At the September 2009 CReCER (Spanish acronym of Accounting and Accountability for Regional Economic Growth) Conference in São Paulo, Brazil, a Cash Basis Review Roundtable addressed three key issues:

- Sharing experiences within Latin America on IPSAS adoption
- Discussion of cash basis IPSASs, which also addressed the subject of public sector accounting for public/private partnerships and service concession arrangements
- The need to increase Latin American representation on the IPSASB

To learn more about the Roundtable, please go to the CReCER 2009 website at [www.creceramericas.org](http://www.creceramericas.org)

**UNCTAD - IPSAS Conference on October 6, 2009, in Geneva**

The United Nations Conference on Trade and Development hosted a conference titled “Practical Implementation of International Public Sector Accounting Standards” in Geneva, Switzerland on October 6, 2009.

The topics discussed included the following:

- Overview of the IPSASB and IPSASs
- Transitioning from cash basis to accrual accounting
- Adoption and implementation obstacles and challenges
- Country experiences in implementing IPSASs

**ICPAK to host Public Sector Accountability Conference November 4-6, 2009, Nairobi**

The Institute of Certified Public Accountants of Kenya (ICPAK) will host a conference titled “Accountability as a Driver for Socio Economic Development” on Nov. 4-6, 2009, in Nairobi, Kenya. The conference is designed to help participants accomplish the following:

- Fully appreciate the role of IPSASs in their various public sector jurisdictions
  - Understand, engage, and relate to the standards
  - Strengthen services delivery as IPSASs focus on service as opposed to IFRSs, which lean towards wealth maximization for shareholders
  - Strengthen mechanisms for promotion of high standards of financial management and reporting in the public sector
- **New Zealand Discussion Documents Move IPSAS Convergence Forward**  
The New Zealand Ministry of Economic Development (MED) and the New Zealand Accounting Standards Review Board (ASRB) have released two discussion documents that address a proposed new statutory framework for financial reporting for the country.

The MED paper, *The Statutory Framework for Financial Reporting*, proposes changes to the New Zealand standard-setting infrastructure and discusses which entities should have financial reporting obligations. The ARSB paper, *Proposed Application of Accounting and Assurance Standards under the Proposed New Statutory Framework for Financial Reporting*, discusses the changes in accounting standards and assurance requirements that this new framework would entail. The papers outline a sector-specific framework that would have different reporting tiers, each with a different level of requirements.

