



The Institute of
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Technical Update

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IASB Update

IASB and FASB Publish Proposals on Reporting Entity Concept

The International Accounting Standards Board (IASB) and US Financial Accounting Standards Board (FASB) has published for public comment an exposure draft on the reporting entity concept.

The proposals form part of a joint project to develop a common and improved conceptual framework that provides the basis for developing future accounting standards.

A discussion paper on the reporting entity concept was published in May 2008. Respondents broadly supported the boards' preliminary views. In response to these comments the exposure draft proposes what a reporting entity is and when an entity controls another entity.

To access the exposure draft "**Conceptual Framework for Financial Reporting: The Reporting Entity**" visit the "Open to comment" section on www.iasb.org

IASB Foundation Publishes Second Batch of Training Material for the *IFRS for SMEs*

The International Accounting Standards Committee (IASC) Foundation has published the second batch of training material for the *International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)*. The training material is designed to assist companies and accounting practitioners in applying the IFRS. It will also assist educators in teaching how to apply the *IFRS for SMEs*. The remaining material will be published in the course of this year as it is completed.

The free-to-download training material forms part of a range of initiatives undertaken by the IASC Foundation and the International Accounting Standards Board to support the widespread adoption of the *IFRS for SMEs*. The training material is available for download from <http://go.iasb.org/smetraining>

As part of these activities the IASC Foundation recently held Train-the-Trainers workshops in India and Malaysia jointly with the Confederation of Asian and Pacific Accountants (CAPA). The workshops support the development of local trainers to teach implementation of the *IFRS for SMEs* within their own jurisdictions.

The next IASC Foundation workshop will be held in Tanzania on 11-13 May 2010, hosted jointly with the Eastern Central and Southern African Federation of Accountants (ECSAFA). Similar regional workshops will be held in the Middle East, Latin America and the Caribbean later in 2010.

The IASC Foundation has also introduced an *IFRS for SMEs* email alert to allow interested parties to keep up to date on developments related to the standard. Registration is free.

To subscribe to the email alert, click here:
<http://www.iasb.org/IASB+Registration.htm>

IASC Foundation Publishes Proposed IFRS Taxonomy 2010

The International Accounting Standards Committee (IASC) Foundation has published for public comment an exposure draft of the International Financial Reporting Standards (IFRSs) Taxonomy 2010. The proposed taxonomy is consistent with IFRSs and the IFRS for Small and Medium-sized Entities (SMEs).

It contains significant architectural improvements when compared with the 2009 version; in particular the proposed architecture integrates IFRSs and the IFRS for SMEs into a single taxonomy. Other proposed improvements include an extended use of axes (dimensions) in the taxonomy, reconsideration of the IASC Foundation's approach for concept naming and of its principle of deleting redundant (deprecated) concepts.

The IFRS Taxonomy 2010 is a translation of IFRSs as issued at 1 January 2010 into XBRL (eXtensible Business Reporting Language). XBRL is rapidly becoming the format of choice for the electronic filing of financial information - particularly within jurisdictions reporting under IFRSs - because it facilitates simpler and faster filing and comparison of IFRS financial data by companies, regulators, investors, analysts and other users of the IFRS Taxonomy. Interested parties are invited to comment on the exposure draft of the IFRS Taxonomy 2010 and accompanying materials by 22 April 2010. The proposed taxonomy and related material can be accessed at <http://www.iasb.org/XBRL/IFRS+Taxonomy/IFRS+Taxonomy+2010/Exposure+draft+IFRS+Taxonomy+2010.htm>. The final version is expected to be released at the end of April 2010.

IFAC Update

IFAC Launches New and Improved Publications and Resources Website

The International Federation of Accountants (IFAC) has launched a newly redesigned and expanded Publications and Resources website, featuring over 200 titles developed by IFAC and its standard-setting boards and committees. This new site improves the user experience through enhanced navigation and features, including links to recommended publications based on user's selection.

The website includes the following broad range of pronouncements and resources:

- IFAC policy position papers and special reports;
- International standards on auditing and assurance, accounting education, ethics, and public sector financial reporting developed by IFAC's independent standard-setting boards;
- Good practice guides on corporate governance, sustainability, and other topics of interest to professional accountants in business; and
- Videos, presentation slides, guides to assist small and medium accounting practices, and other tools and resources to facilitate the adoption and implementation of international standards.

Global Accountancy Leaders Support IFAC Focus on SMEs and Their Financial Advisors

IFAC has announced that Global accountancy leaders support the International Federation of Accountants' (IFAC) recommendations to intensify its efforts to strengthen small- and medium-sized enterprises (SMEs) and accounting practices (SMPs).

IFAC recently convened the chief executives of more than 40 accountancy organizations to discuss how to further alleviate the challenges arising from the recent global financial crisis—also identified in IFAC's 2009 Global Leadership Survey.

The following areas were at the top of the list for the chief executives who attended IFAC's annual meeting:

- Expand monitoring of global regulatory reform to ensure its suitability for SMEs and SMPs
- Increase the visibility and voice of SMEs and SMPs
- Collaborate with IFAC members to develop guides and resources to provide practical assistance to SMPs

The chief executives also agreed that IFAC should consider how to increase the participation of SMEs and SMPs in its standard-setting activities.

The chief executives backed IFAC's proposal to increase emphasis on sustainability reporting and corporate governance-related matters in its priorities for future action.

IFAC will take a stronger role in urging businesses to integrate sustainability throughout the whole of an organization's decision-making processes. The chief executives supported IFAC's cooperative work with the Prince of Wales' Accounting for Sustainability Project and its development of an international connected reporting committee to advance decision making and reporting on sustainability.

The chief executives agreed corporate governance was essential to effective financial reform and that IFAC should press for the implementation of good corporate governance principles, both in the private and public sectors. The accountancy profession's support for national financial frameworks that embrace corporate governance will be discussed at a joint conference hosted by IFAC and the United Nations Conference on Trade and Development in April in Geneva.

Other topics discussed in the chief executives' meeting included the issues facing the profession in developing and emerging economies and actions to reinforce the invaluable role of professional accountants in business.

The input received from the chief executives will be considered by the IFAC Board as it develops its strategic plan for 2011-2014.

IFAC Launches Financial Crisis Resource Center

To help professional accountants address issues related to the global financial crisis, IFAC has launched a resource center on its website that serves as an inter-national clearinghouse of programs, articles, speeches, and other initiatives undertaken by IFAC, its independent standard-setting boards, members and associates, as well as other organizations that are relevant to professional accountants working in public practice, business, and government. A special section of the site will be devoted to resources for SMPs and SMEs. The resource center can be accessed at www.ifac.org/financial-crisis

IFAC Issues Paper on Standard Setting and Regulation

The International Federation of Accountants (IFAC) has released a policy paper that explains the process for setting international standards on auditing and assurance, ethics, and accounting education. The paper, titled *International Standard Setting in the Public Interest*, describes how public and private sector organizations share responsibility to produce high-quality standards which serve the public interest.

The paper identifies five underlying principles deemed essential to successful standard setting. These principles are legitimacy, independence, transparency, accountability, and performance (encompassing technical competence, responsiveness, and efficiency).

Other significant standard-setting elements include highly transparent due process systems and strong roles for IFAC's Consultative Advisory Groups (CAGs). These advisory groups provide technical advice from the perspective of external stakeholders, including regulators.

Member bodies and others are encouraged to use this paper in their own discussions with governments, standard setters, regulators, and other relevant groups.

The paper can be downloaded from the IFAC website at www.ifac.org/Store

IAESB Releases ED on IES Framework

The International Accounting Education Standards Board (IAESB) has released a exposure draft (ED), *Framework for International Education Standards*, for public comment. The Framework document sets out the concepts that underlie the IAESB's suite of eight International Education Standards (IESs). More specifically, the revised Framework has:

- Deleted outdated or redundant sections;
- Updated sections so as to reflect the Board's experience; and
- Improved clarity.

The revised Framework is targeted to meet the needs of IFAC member bodies, but is also relevant to a wide range of accounting education stakeholders. These include accounting faculty at universities, employers of professional accountants, professional accountants, prospective professional accountants, and anyone interested in the work of the IAESB.

All interested stakeholders in accounting education can retrieve the Framework document from www.ifac.org/Guidance/EXD-Outstanding.php, and are invited to comment by the closing date of April 30, 2009.

IFAC Issues Web-Based Sustainability Framework

To help Professional Accountants in Business (PAIB) embrace the challenges of sustainability, IFAC's PAIB Committee has completed the IFAC Sustainability Framework, which was made available on the IFAC website in February.

The Framework is a web-based resource that can help PAIBs better understand and influence the way organizations integrate sustainability into the way they do business. It focuses on key challenges and considerations for professional accountants in business in a range of critical areas, including business strategy, performance management, and reporting, and enables interested viewers to access the areas of information that are most crucial to them. It also provides links to the most relevant and useful good practice guidelines and other resources.

The Framework builds on the following two IFAC 2006 information papers:

- Professional Accountants in Business - At the Heart of Sustainability?; and
- Why Sustainability Counts for Professional Accountants in Business.

These publications called for PAIBs to embrace the challenges presented by sustainability—covering a range of subjects from social issues, like labor-working conditions, to environmental challenges, like climate change. The Framework provides PAIBs with many of the resources they need to address these subjects.

IFAC's Sustainability Framework is accessible via the International Center for Professional Accountants in Business at www.ifac.org/PAIB

IAASB Staff Releases Practice Alert on Going Concern and Credit Crisis

The staff of the International Auditing and Assurance Standards Board (IAASB) has released a new practice alert on assessing the impact of the credit crisis on going concern assumptions. Titled *Audit Considerations in Respect of Going Concern in the Current Economic Environment*, the alert is designed to help auditors, management, and governance officials respond to the unique challenges posed by the crisis when evaluating an entity's ability to continue as a going concern.

The unexpected severity, speed, and evolving consequences of the credit crisis have made going concern assessments increasingly important, as well as more complex. Auditors and management must consider these effects and decide how they should be described in financial statements. To address these issues, the practice alert highlights areas within International Standard on Auditing (ISA) 570, *Going Concern*, as well as other ISAs, which are particularly relevant in the current economic environment.

The alert also provides additional guidance for auditors in evaluating management's use of the going concern assumption, and raises awareness of issues surrounding liquidity and credit risk that might create new uncertainties for entities, or exacerbate those already existing.

This new alert is the second issued by IAASB staff. The first, *Challenges in Auditing Fair Value Accounting Estimates in the Current Market Environment*, was released in October 2008 to help auditors address the challenges of auditing fair value accounting estimates.

Both alerts may be downloaded free-of-charge from the IFAC website at www.ifac.org

IFAC Survey Examines Public Sector Performance Measurement Structures

IFAC's Professional Accountants in Business (PAIB) Committee has conducted a survey on public sector performance measurement structures to investigate their similarities, differences, strengths, and weaknesses. The survey also studied how these structures help public sector entities meet their objectives.

The survey was conducted between March and May 2008, and received 250 responses from public sector organizations at all levels of government and from a variety of entities, including local councils, public utilities, and various ministries from around the world.

The results show that respondents are much more satisfied with performance measurement structures for public sector entities when these structures possess the following elements:

- A balanced combination of relevant financial and non-financial objectives, supported by specific key performance indicators (KPIs);
- Accrual accounting for the budgeting, the (legislative) appropriation, and the financial reporting processes;
- Capability for capturing, processing, and reporting useful information on both financial and non-financial developments;
- Independent external review of the figures to report on financial and non-financial performance;
- A formal structure for measuring and assessing risk, and developing strategies to control it; and
- A regular review to ensure that the performance measurement structure remains effective and efficient.

These elements enable professional accountants and others working in public sector entities to better plan, execute, and control their organizations' service delivery and achieve a higher level of accountability.

The PAIB Committee will follow-up on this survey with initiatives designed to stimulate further improvement in public sector performance measurement systems. Such steps will include an interview series with public sector and performance measurement experts and case studies. These efforts will culminate with an International Good Practice Guidance (IGPG) on evaluating and improving performance measurement structures in public sector entities.

The full report can be downloaded free-of-charge from the PAIB section of the IFAC online bookstore at www.ifac.org/Store

International Standards Crucial to Investors and Financial Stability

IFAC has published its *Third Annual Global Leadership Survey*. More than 110 presidents and chief executive officers from IFAC's member bodies, associates, and regional accountancy organisations participated in the survey. Those global leaders of the profession felt that the adoption, implementation, and enforcement of international financial standards is crucial to investor protection and financial stability. Here are a few excerpts relevant to international standards:

- Looking forward, respondents identified a number of areas they expect to be of growing interest to the accountancy profession, including addressing the needs of SMEs and the role of SMPs, progressing corporate social responsibility, including sustainability, transitioning to International Standards on Auditing (ISAs), and dealing with a changing regulatory landscape.
- Respondents believe that it is very important for IFAC to influence the way the world feels about the standards and practices used by the accountancy profession. In particular, nearly all respondents (98%) believe that it is 'Very important' or 'Important' for IFAC to

influence confidence in international standards, as well as their adoption, implementation, and enforcement (of IFAC-published standards and International Financial Reporting Standards [IFRSs]).

- In the coming three years, respondents believe that it will be important for IFAC to continue to influence the outcomes relating to international standards. The effective implementation of IFRS for SMEs, issued by the International Accounting Standards Board (IASB), was selected as an area where IFAC should increase its influence.

The Global Leadership Survey Report is available at <http://web.ifac.org/publications/ifac-policy-position-papers-reports-and-comment-letters/reports-1>

ICAP Update

Technical Advisory Committee Opinions

1. WPPF & WWF on Reversal of Mark-up of Previous Years

The ABC limited has incurred losses for last five years and in the current year the company earned profit. During the current year, the bank - which has given long term loan to the ABC limited, has re-scheduled the overdue long term and also reduce the rate of mark-up, due to which the ABC limited has reversal of accrual of mark-up expenses of last four years. The effect of reversal of accrued mark-up taken in the current year profit as prior years adjustment.

Opinion is required whether the WPPF & WWF will be calculated on the profit taking into effect of reversal of mark-up of previous years or not.

COMMITTEE'S VIEWS

It shall be appreciated that the Committee does not have the legal expertise and it does not, therefore, deal with contentious legal aspects; the Committee assists the members only in the interpretation of accounting /

auditing standards and statutory provisions dealing with these matters.

The Committee is of the view that though the issue under reference appears to be a legal matter, however, it would like to give its opinion on the query raised by you as follows:-

The Committee wish to draw your attention towards section 2(d) of the Companies Profits (Workers' Participation) Act which defines profits as:

“Profits in relation to a company means such of the net profits as defined in Section 87C of the Companies Act, 1913 as are attributable in its business, trade undertakings or other operations in Pakistan.”

Section 87C(3) of the Companies Act 1913 (the Repealed Act) defines Net Profits' as under:

“For the purposes of this section ‘net profits’ means the profits of the company calculated after allowing for all the usual working charges, interest on loans and advances, repairs and outgoing, depreciation, bounties or subsidies received from any Government or from a public body, profits by way of premium on shares sold, profits on sale proceeds of forfeited shares, or profits from the sale of the whole or part of the undertaking of the company but without any deduction in respect of income-tax or super-tax, or any other tax or duty on income or revenue or for expenditure by way of interest on debentures or otherwise on capital account or on account of any sum which may be set aside in each year out of the profits for reserve or any other special fund.”

In the opinion of the Committee, considering the definition of profit stated above, especially the underlined portion, it appears that only profits from the ordinary activities of the company should be considered in computing the share of the workers. The Committee feels inclined to hold the view that effect of reversal of mark-up of previous

years due to re-scheduling of the overdue of long term loans and reduction of the rate of mark-up is relevant to the business operations of the company and the same should be construed as part of the profits of the company for all intents and purposes.

Accordingly, in the opinion of the Committee, provision for WPPF and WWF should have been made.

DISCALIMER

The opinion is based on the facts and circumstances provided by the enquirer. The opinion may change if the facts and the circumstances change. An opinion may also change due to subsequent developments in law, pronouncements made by the Institute and other relevant changes. The Institute and the Technical Advisory Committee will have no liability in connection with such opinion and this opinion is not a legal advice.

SECP Update

- **Amendments in the SECP (Insurance) Rules, 2002**

Draft amendments in the Securities and Exchange Commission (Insurance) Rules, 2002, which are proposed to be made by the Securities and Exchange Commission of Pakistan, after the approval of the Policy Board, has been published, as required by sub-section (2) of section 167 of the said Ordinance, for information of all persons likely to be affected thereby and the objections and suggestions thereon, if any, received within 30 days from the date of this publication will be taken into consideration. (SRO 145(I)/2010 dated March 1, 2010.)

- **Regulations for Investment in Associated Companies and Associated Undertakings**

SECP has decided to issue Companies (Investment in Associated Companies and Associated Undertakings) Regulations to facilitate companies interested in making investment in their associated companies.

The SECP has examined the proposed regulations and it was resolved that the draft (Investment in Associated Companies and Associated Undertakings) Regulations 2009 was approved for publication in the official Gazette for seeking public opinion.

- **Licence to Pension Funds Issued**

Licences issued to five pension fund managers up to December 31, 2009 for setting up and managing the fund more efficiently.

Up to December 2009, the SECP licensed five pension fund managers. Out of these, four managers have launched the funds. Presently, seven such funds, including four Shariah-compliant and three conventional, are operating in the market for investment. The SECP has compiled a comparative list of returns generated by sub-funds of all seven pension funds over the past six months along with data since their inception.

- **Board meeting through tele/video conferencing**

SECP vide its Circular No. 6/2010 dated February 24, 2010 has allowed the directors of listed and unlisted companies, whether in Pakistan or abroad, to participate in the Board of Directors' meetings through tele/video conferencing. Further it has also done away with recording considering that it involves undue expenditure.

- **SECP give powers of adjudication to the Enforcement Department**

SECP is likely to give powers of adjudication to the Enforcement Department of the commission to act against public unlisted and private companies, which failed in filing their annual audited accounts with the registrars of the commission.

The proposal would further strengthen the working of SECP and improve enforcement in the field formations. Particularly, it would substantially improve compliance level of public unlisted and private companies to timely file their annual audited accounts.

The Enforcement Department of the SECP would monitor and examine the companies' accounts.

Section 242 of the Companies Ordinance, 1984 provides private companies having paid up capital of Rs 7.5 million and above shall be required to file their annual audited accounts with the Registrar of Companies. There are nearly 8700 public unlisted and private companies which fall within this category and in spite of the statutory requirement, 75% of such companies have failed to file their annual accounts with the SECP registrar.

It was also proposed that related powers of the Commission under the Companies Ordinance, 1984 be delegated to the officers of the Enforcement Department. Furthermore, additional charge of a post of Registrar be assigned to Director (Enforcement) enabling him to exercise the powers of Registrar under section 242 of the Companies Ordinance in the cases of said companies.

SECP has considered the proposal in light of the justification provided by the Enforcement Department and it was resolved that specific powers of the Commission under the Companies Ordinance, 1984 to adjudicate the cases of companies registered in terms of the provisions of section 42, public unlisted and private companies having paid up capital of Rs 200 million and above should be delegated to the officers of the Enforcement Department.

The Enforcement Department would revise the draft notification in light of the aforementioned direction/ approval of the Commission, get the notification vetted from the Law Division and to arrange its publication in the official Gazette. (R 16-2-2010)

FBR Update

- **LTU Karachi and Bankers discuss options for issuing Excise Invoices to registered clients**

A meeting was held with the representatives of banks, financial institutions and corporate taxpayers on 9th March, 2010 in order to

discuss issues arising in connection with the levy of 16% Federal Excise Duty (FED) on services provided by banking and non-banking financial companies. From 1st July, 2009, the rate of FED on banking services has been enhanced from 10% to 16%, and it was converted to VAT mode. Thus, banks and financial institutions were allowed to adjust the FED and Sales Tax paid on their purchases of goods or services against their output tax liabilities. Likewise, registered clients of banks and financial companies also became entitled to adjust the amount of FED paid to banks or financial companies. However, to make such adjustment, registered persons need invoices issued by the banking companies, which is causing some problems. Presently banks are only issuing certificates on the specific request of their corporate clients, and these are not legally tax invoices. To bring this practice in line with the legal requirement, suggestions were taken from the stakeholders.

- **Additional duties and penalties exempted**

In exercise of the powers conferred by sub-section (1) of section 12A of the Central Excises Act, 1944 (I of 1944), the Federal Government is pleased to exempt whole of the amount of additional duties and penalties payable by a registered person located in Agencies of Bajaur, Mohmand, Khyber, Orakzai, Kurram, North Waziristan and South Waziristan against whom an amount of central excise duty is outstanding on account of any audit observation, audit report, show cause notice or any adjudication order or who has failed to pay any amount of central excise duty or claimed inadmissible refund or drawback due to any reason, subject to the condition that the outstanding principal amount of central excise duty is paid by or before the 30th June, 2010.

Provided that exemption of additional duties and penalties under this notification shall not be applicable to cement, sugar, beverages and cigarette sectors. (S.R.O. 161(I)/2010 dated March 10, 2010)

SBP Update

- **Shareholding of Chairman or President / Managing Director / Chief Executive, Directly or Indirectly in the Banking Company**

In terms of powers conferred under Section 14(3) of the Banking Companies Ordinance, 1962, it has been decided that every Chairman, Managing Director or Chief Executive Officer (by whatever name called) of a banking company shall furnish to the State Bank of Pakistan through the banking company returns on yearly basis containing full particulars of the extent and value of his holding of shares, whether directly or indirectly, in the banking company and of any change in the extent of such holding or any variation in the rights attaching thereto as per attached Annexure-I within 15 days of the close of each calendar year.

The first such return shall be furnished containing details of shareholding as on December 31, 2009 within 15 days of issue of this Circular. Misreporting or delay in submission of information shall attract penal action under the provisions of Banking Companies Ordinance, 1962 (BPRD Circular No. 04 dated March 04, 2010)

Local News Brief

- **SA Passes Public-Private Partnership Act**

Sindh Assembly unanimously passed the Sindh Public-Private Partnership Act, 2010 on Thursday to mobilise private sector resources for financing, construction, maintenance and operation of infrastructure projects in the province.

The areas identified for public-private partnership included canals and dams, education, health, housing, information technology, land reclamation, power generation including coal-based electricity, roads - provincial highways, district roads, bridges and bypasses - sewerage and drainage, solid waste management, sports and recreational infrastructure, public

gardens and parks, trade fairs and cultural centres, urban transport including mass transit and bus terminals, water supply - sanitation, treatment and distribution plants - wholesale markets, warehouses, slaughter houses and cold storages, tourism, and resort development. (Times 19-2-2010)

- **Government and KSE Reach Accord on CGT**

The government has decided to impose Capital Gain Tax on purchase of securities, to be charged on two types of holdings at the rate of 7.5 percent and 10 percent, with effect from July 1, 2010. It was decided at a meeting on Monday that the CGT will be charged on two types of holdings, at the initial rate of 10 percent for first two years, where the holding period is less than six months and @7.5 percent where the holding period exceeds six months but is less than 12 months. (R 23-2-2010)

World News Brief

- The Financial Reporting Faculty of the Institute of Chartered Accountants in England and Wales (ICAEW) has published 'Developments in New Reporting Models'. This report argues that business reporting has to change to reflect changes in business, in information technology, and in users' needs. This is a perpetual process. Therefore, the debate on the future of business reporting therefore needs to be reframed - not as a stark choice between an old model and a new one - but in terms of the need for continuing evolutionary improvements. Full report can be downloaded at <http://www.iasplus.com/uk/0912newreportingmodels.pdf>