The Institute of
Chartered Accountants
of Pakistan

# e Technical Update

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## IASB Update

### Exposure Draft on Financial instruments: Amortised Cost and Impairment

***Comment Deadline: 30 June 2010***

The IASB has published an exposure draft on amortised cost measurement and impairment of financial instruments.

The objective of this exposure draft is to establish principles for the measurement at *amortised cost* of *financial assets* and *financial liabilities* that will present useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of future cash flows.

This exposure draft was prompted by a number of factors which include users views that IAS 39 is too complex and does not accommodate changes in reporting factors such as the global recession. It proposes requirements for how to include credit loss expectations in the amortised cost measurement of financial assets. The proposed requirements would use more forward looking information than the incurred loss model. They would also result in early recognition of credit losses because they avoid the delay resulting from the “loss event” threshold of the incurred loss model.

The principles in this exposure draft complement the principles for recognising, classifying, measuring, presenting and providing disclosures about financial assets and financial liabilities in IAS 32 *Financial Instruments: Presentation*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*.

Both IFRSs and US generally accepted accounting principles (GAAP) currently use an incurred loss model for the impairment of financial assets. An incurred loss model assumes that all loans will be repaid until evidence to the contrary (known as a loss or trigger event) is identified. Only at that point is the impaired loan (or portfolio of loans) written down to a lower value.

Under the proposals expected losses are recognised throughout the life of the loan (or other financial asset measured at amortised cost), and not just after a loss event has been identified. This would avoid the front-loading of interest revenue that occurs today before a loss event is identified, and would better reflect the lending decision. Therefore, under the proposals, a provision against credit losses would be built up over the life of the financial asset. Extensive disclosure requirements would provide investors with an understanding of the loss estimates that an entity judges necessary.

The exposure draft can be downloaded at **www.iasb.org**

## IASB completes first phase of financial instruments accounting reform

The IASB has issued a new IFRS 9 on the classification and measurement of financial assets. Publication of the IFRS represents the completion of the first part of a three-part project to replace IAS 39 *Financial Instruments: Recognition and Measurement* with a new standard—IFRS 9 *Financial Instruments.* Proposals addressing the second part, the impairment methodology for financial assets were published for public comment at the beginning of November, while proposals on the third part, on hedge accounting, continue to be developed.

The new standard enhances the ability of investors and other users of financial information to understand the accounting of financial assets and reduces complexity – an objective endorsed by the Group of 20 leaders (G20) and other stakeholders internationally. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in IAS 39. Thus IFRS 9 improves comparability and makes financial statements easier to understand for investors and other users.

The effective date for mandatory adoption of IFRS 9 *Financial Instruments* is 1 January 2013. Early adoption is permitted for 2009 year-end financial statements. IFRS 9 is available at **www.iasb.org** for *e*IFRS subscribers.

## IASB simplifies requirements for disclosure of related party transactions

The IASB has issued a revised version of IAS 24 *Related Party Disclosures* which simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. The revised standard is effective for annual periods beginning on or after 1 January 2011, with earlier application permitted.

IAS 24 requires entities to disclose in their financial statements information about transactions with related parties. In broad terms, two parties are related to each other if one party controls, or significantly influences, the other party.

The IASB has revised IAS 24 in response to concerns that the previous disclosure requirements and the definition of a 'related party' were too complex and difficult to apply in practice, especially in environments where government control is pervasive. The revised standard addresses these concerns by:

**Providing a partial exemption for government related entities**
Until now, if a government controlled, or significantly influenced, an entity, the entity was required to disclose information about all transactions with other entities controlled, or significantly influenced by the same government. The revised standard still requires disclosures that are important to users of financial statements but eliminates requirements to disclose information that is costly to gather and of less value to users. It achieves this balance by requiring disclosure about these transactions only if they are individually or collectively significant.

**Providing a revised definition of a related party**
The IASB has simplified the definition and removed inconsistencies.

### FASB, IASB will work more intensely to reach common set of standards

The leaders of the FASB and the IASB announced at an IFRS conference in October that they will begin meeting monthly to try to speed up their efforts to develop a common set of accounting standards by their target date of 2011.

## IFAC Update

### IAASB Issues Consultation Paper: Auditing Complex Financial Instruments

***Comment Deadline: 15 January 2010***

This consultation paper seeks views on a number of matters that require consideration in relation to the IAASB's plans to develop guidance relating to auditing complex financial instruments by revising its extent International Auditing Practice Statement (IAPS) 1012, *Auditing Derivative Financial Instruments*. It incorporates recent work of the UK's Auditing Practice Board on the same topic, and asks specific questions about how that guidance might be adapted or supplemented for application in the international context.

The paper also recognizes the strong demand from auditors and preparers for further guidance on auditing complex financial instruments, e.g in situations of illiquid markets, which currently pose the greatest challenges for them.

The consultation paper can be downloaded at **www.ifac.org**

### IAASB Issues Consultation Paper: Assurance on a Greenhouse Gas Statement (GHG)

***Comment Deadline: 19 February 2010***

This Consultation Paper seeks views from practitioners and other stakeholders in relation to the IAASB's project to develop the International Standard on Assurance Engagements (ISAE), *Auditing a Greenhouse Gas Statement*.

The Consultation Paper asks a series of questions addressing such matters as: the form of assurance report that users would find most useful; the nature and extent of requirements; how a standard should best integrate with regulatory requirements; and technical aspects of applying the assurance process to GHG emissions. The IAASB intends to use the feedback from the consultation to develop an exposure draft of a proposed new assurance standard on GHG statements for release in 2010.

The consultation paper can be downloaded at **www.ifac.org**

### IFAC Forum in Beijing Addresses Needs and Solutions for Small and Medium Practices and their SME Clients

Beijing hosted the forum for discussing the impact of the global recession on SMPs and their clients. Over 200 delegates from more than 40 countries gathered in Beijing for the fourth annual IFAC SMP Forum (**www.ifac.org/smp/index.php#Resources**) of the IFAC and SMP Committee Representatives re-iterated the importance of SMPs especially for the smaller businesses as the latter value the more personalized service as they seek advice on issues facing them.

The event was deemed a success in a unique way as many ideas were exchanged between the representatives, with impressive results showing insights on ways for IFAC and the international profession to respond to issues being faced by SMPs and SMEs, both in China and globally.

## IFAC Releases New Tool that Gauges ISA Adoption

According to the newly released online chart from the IFAC, adoption of ISAs is well underway. Compiled from information gathered by the IFAC Member Body Compliance Program, the chart indicates that ISAs as issued by the International Auditing and Assurance Standards Board (IAASB) have been adopted or otherwise used as the basis of national standards in 126 jurisdictions around the world.

Adoption of international standards is the first step of a continuous process, following which successful implementation is vital to ensure professionals understand and apply the standards appropriately. IFAC member organizations are required to use their best endeavors to lead or actively support that process within their countries. They communicate this commitment through their Compliance Action Plans that describe the current status of adoption and their planned activities to progress implementation.

In line with the ongoing nature of the adoption process, the chart and notes, gathered from the Compliance Program and a variety of other sources, will be periodically updated as new information is received.

## IAASB Staff Practice Alert Helps Auditors Plan More Effective Use of External Confirmations

External confirmation procedures can be a compelling tool in obtaining relevant and reliable evidence for audits of financial statements. Recent experience, however, highlights the need for auditors to pay particular attention to circumstances that may affect the planned use of confirmations, including the risk of fraud and the adequacy of evidence.

To raise awareness of potential issues and to help auditors use external confirmation procedures more effectively, the IAASB has released a new audit practice alert. Titled **'Emerging Practice Issues Regarding the Use of External Confirmations in an Audit of Financial Statements'**, the alert highlights areas within the ISAs that are particularly relevant when deciding to request external confirmations, designing and carrying out confirmation procedures, and evaluating responses received. The alert also raises awareness of potential issues that may surface from the increasing use of technology in the confirmation process and the use of restrictive language by respondents.

## ICAP Update

- IEASB of IFAC has issued the "IFAC Ethics Education Toolkit" which can be downloaded on the ICAP website at: **http://www.icap.org.pk/web/links/0/standards.php**

## Technical Advisory Committee Opinion

### 1. DESK TOP REVALUATION

**(a) Case in Point:**

It has been found, though in exceptional cases, that surplus / deficit based on desktop revaluations are taken in the financial statements. Recently, a large listed company preferred to go for desktop revaluation of its major properties (land and buildings only), through the firm of professional valuers. Clarification was sought from the company and the reply was that in 2008 there was a sharp decline in the market value of land and buildings, therefore, in order to incorporate the decline in market value, the major land and buildings were revalued (this time only desktop revaluation).

**(b) Technical Opinion sought**

The Institute of Chartered Accountants of Pakistan (the Institute) was approached to seek a technical opinion as to:

(i) Whether desktop revaluations are specifically allowed in terms of IAS-16 (Property, Plant and Equipment);
(ii) In what case and in what form, method, manner or procedure the desktop revaluation may be conducted;
(iii) How the desktop revaluations of land and buildings could be different from the generally accepted revaluations on market based evidence by appraisal;
(iv) Role of the auditors of the company with regard to such desktop revaluations;

### COMMITTEE'S VIEWS

IAS 16 requires the revaluation to be done with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Following paragraphs of IAS-16 further clarifies the objective of valuation. Further, IAS 16 also adds that such frequent revaluations are unnecessary for items of property, plant and equipment with only insignificant changes in fair value. Instead, it may be necessary to revalue the item only every three or five years.

Relevant paragraphs of IAS 16 are reproduced below:

31 After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

34 The frequency of revaluations depends upon the changes in fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required. Some items of property, plant and equipment experience significant and volatile changes in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant and equipment with only insignificant changes in fair value. Instead, it may be necessary to revalue the item only every three or five years.

We understand that the concept of 'Desktop Revaluation' emanates from Annexure IV (R-11) of the Prudential Regulations which defines 'Desktop Evaluation' as "an Interim Brief Review of Full-scope Evaluation, so that any significant change in the factors, on which the full-scope valuation was based, is accounted for and brought to the notice of the lending bank / DFI."

The valuation process, for the purpose of provisioning, prescribed under Annexure IV (R-11) of Prudential Regulations includes conducting a 'Full-scope Valuation' of the securities and collateral in the first year and then followed by 'Desktop Valuations' in the second and third year. Full scope valuation shall be valid for three years from the date of last valuation.

Based on above, the Committee is of the view that IAS 16 does not prescribe any particular method (Full Scope / Desktop). It is management responsibility to report the appropriateness of Company Assets at fair value, based on its judgment.

## 2. PRESENTATION / DISCLOSURE REQUIREMENTS (INVESTEMENTS - HELD TO MATURITY)

Quoted below is the extract of the facts of the company for your reference:

**QUOTE**

**2.0 Presentation/Disclosure requirements (Investments – Held to Maturities)**

*During previous years company purchased – 'Sukuk Bonds' (SB) for Rs.80.650 million, having face value of Rs.75.00 million. Company recognized and recorded 'Intangible Asset' for Rs.5.650 million (premium paid over and above face value and treated as transaction cost) to be amortized over 6.8 years, the maturity period of SB. Investments were disclosed in the financial statements at face value. As per auditors, no active market existed for the investments so fair market-value of the same could not be determined. As per accounting policy, interest income upon SBs was recognized by applying prevailing / applicable base rate plus points.*

Accounting policy for investments was not disclosed in the financial statements. Auditor responded that in future due care would be taken for accounting policy disclosure.

Investments classified as 'Held-to-maturity' were not disclosed in accordance with requirements of IAS-39.

**Recommendation**

When a financial asset or financial liability is recognized initially, an entity shall measure it at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial

asset or financial liability (IAS 39, Para 43). Held to maturity investments should be measured at amortized cost, using the effective interest method. In this case, company recognized interest income upon the investments using applicable base rate plus points, the same rate could be applied to calculate the amortized cost of the investments.

**UNQUOTE**

***Statistics of the case:***
*Sukuk Bonds (SBs) purchased for Rs. 25.0 million*
*Number of bonds (Rs. 25.0 million / 100) = 250,000 bonds*
*Face value: Rs. 100*
*Purchased at premium Rs.2 per bond Rs. 2.0 million in total*
*Date of purchase: July 1, 2006*
*Date of maturity: June 30, 2012*
*Rate of profit: 6 months KIBOR plus 35 basis points payable semi annually.*
*Year end is June 30, 2009*
*Sukuk Bonds are traded in a secondary market through brokers, like money market the way treasury bills are traded.*

***In the financial statements:***

- *SBs has been disclosed as held to maturity investment at Rs. 25.0 million;*
- *Premium has been capitalized to intangible assets at Rs. 2.0 million and is being amortized to date in the financial statements equally on a systematic basis over the period of maturity;*
- *Interest income being received bi-annually is taken to profit and loss account on simple accrual basis.*

*Please advice the treatment of above-mentioned case as per IAS 39 **especially when KIBOR is rapidly changing. Amount of interest varies each time at the time of payment of profit**.*

**COMMITTEE'S VIEWS**

Please refer to para 46(b) of IAS 39 *Financial Instruments: Recognition and Measurement* requires *held to maturity* investments to be measured after initial recognition, at the amortised cost using the effective interest method.

Please see the following definitions relating to recognition and measurement as provided in IAS 39:

The *amortised cost of a financial asset or financial liability* is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

The *effective interest method* is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount

of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see IAS 18 *Revenue*), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

For changing interest rate as referred to in the enquiry, guidance may be taken from the following paragraphs of IAS-39:

BC35 For consistency with the estimated cash flows approach, the Board decided to clarify that the effective interest rate is calculated over the expected life of the instrument or, when applicable, a shorter period. A shorter period is used when the variable (eg interest rates) to which the fee, transaction costs, discount or premium relates is repriced to market rates before the expected maturity of the instrument. In such a case, the appropriate amortisation period is the period to the next such repricing date. (Underlining is ours)

AG7 For floating rate financial assets and floating rate financial liabilities, periodic re-estimation of cash flows to reflect movements in market rates of interest alters the effective interest rate. If a floating rate financial asset or floating rate financial liability is recognised initially at an amount equal to the principal receivable or payable on maturity, re-estimating the future interest payments normally has no significant effect on the carrying amount of the asset or liability.

AG8 If an entity revises its estimates of payments or receipts, the entity shall adjust the carrying amount of the financial asset or financial liability (or group of financial instruments) to reflect actual and revised estimated cash flows. The entity recalculates the carrying amount by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate. The adjustment is recognised as income or expense in profit or loss.

**Floating interest rate** is defined as an interest rate that, instead of being a fixed percentage, is stated as an amount above or below another rate, such as the prime rate. The interest rate moves up or down in relation to the rate of the controlling index.

The Committee would like to draw your attention to the measurement of amortised cost by using effective interest rate which should include the Premium amount. Therefore as mentioned in the enquiry, amortization of the same separately is not correct.

## SECP Update

- SRO 793(I)/2009 – Amendment to Sixth Schedule of Companies Ordinance, after Item XII, Item XIII shall state a non refundable fee of Rs. 200,000 for an application to the Commission seeking approval to issue securities outside of Pakistan and item XIV shall state a non refundable fee of Rs. 100,000 for an application to the Commission seeking approval to offer employees a stock option scheme.

- Circular No 32/2009 – Reinsurance/Retakaful Treaty Arrangements 2010. All the insurers/ takaful operators are advised to submit the prescribed features/details of their respective reinsurance/retakaful treaty arrangements, as per the requirements contained in Rule 15 (1) of the Securities and Exchange Commission (Insurance) Rules, 2002 (SEC Rules), by the date specified in Section 41(2) of the Insurance Ordinance, 2000 (Ordinance).

- Circular No 33/2009 – Guidance on the sharing of costs of Insurance Ombudsman's Secretariat by Insurance/Takaful Companies. In this circular SECP has determined the formula for the purpose of sharing the cost of the Insurance Ombudsman's Secretariat.

- Circular No 34 – All brokers registered with SECP under the Brokers and Agents Registration Rules 2001 and/or Commodity Exchange and Futures Contracts Rules 2005 to nominate a "Compliance Officer" from amongst its employees who shall be responsible to ensure effective implementation and compliance with regulatory framework.

- Circular No 35 – Outlines mandatory certification requirements for sales agents of Assets Management Companies (AMCs)/ Pension Fund Manager (PFMs)

- SECP has approved the Margin Financing (MF) System as proposed by the Consultative Group on Capital Market

## SBP Update

- FE Circular No 6 – To facilitate home remittances by overseas Pakistanis, the Government will reimburse marketing expenses associated with the promotion of remittance schemes. The reimbursement amount will depend on the amount of remittances mobilized by an overseas entity

- BSD Circular No 10 – Amendments in Prudential Regulations – Provisioning for Loans and Advances

- MFD Circular Letter No 1 – Amendment in Prudential Regulation No 27 for submission of quarterly returns through Data Acquisition Gateway Portal

- Banking Companies (Amendment) Bill 2009 – aims at giving sweeping enforcement powers to the SBP for protecting the interests of the depositors as well as saving banking companies from possible risks.

- The proposed Anti Money Laundering Bill 2009 seeks the inclusion of financing of terrorism in the list of offences in the revised legislation to be enacted by Parliament

- New payment mechanism which allows five commercial banks to transfer remittances into the beneficiaries account the same day

- SMEFD Circular No 15 – Revision of Financing Rates under the Export Finance Scheme. Rate of refinance for the month of November and onwards will be 7%.

- SMEFD Circular No 16 – Long Term Financing Facility/Re-fixation of rates of service charges of Participating Financial Institutions (PFIs)
- SMEFD Circular No 17 – Outlines the refinancing facility for modernization of SMEs – Rice Husking Mills

- SMEFD Circular No 18 – Agri Loan Refinancing and Guarantee Scheme for war affected areas of NWPF and FATA. SBP shall share 50% of the bonafied losses of banks against the loans funded under the scheme.

- SMEFD Circular No 19 - Instructions contained in SMEFD Circular No. 03 dated 30-10-2009 have been withdrawn with immediate effect. Now banks are free to extend financing facilities to the private sector for procurement of wheat keeping in view their lending policies, business consideration, risk profile of the borrowers and compliance with SBP regulations.

## Local News Brief

- KSE/N-5709 – New sectors classification scheme, based on Industry Classification Benchmark, introduced for all KSE listed companies

- Islamic Chambers of Commerce and Industry – Intra Islamic Trade to be increased from current 16 per cent to 20 per cent by the year 2015

- The European Union has decided to develop direct links with Pakistan's textile manufacturers to discuss the possibility of extending the coveted "Generalised System of Preference" (GSP) plus other incentives.

- The National Clearing Company of Pakistan Limited (NCCPL) announced that trades executed by broker clearing members on behalf of their Institutional Clients or non broker clearing members for November Deliverable Future Contract will be auto initiated in National Clearing and Settlement System on daily basis effective from 26 October 2009

- KSE/N – 5776 – Trading in Debt Market Securities through KSE Bond Automated Trading system (BATS). Members may now apply to participate in the trading of debt market securities

- Government is drafting Corporate Restructuring Act for the revival of "sick" industrial units and the establishment of a 'Resolution Trust Corporation' based on public - private partnership to settle financial disputes

- KSE/N-5879 – Revised list of Margin Eligible Securities. It will be effective from November 02, 2009.

- KSE/N-5917 – Notice for Invitation of Bids/Membership Rights of KSE

- Pakistan and Turkey sign a Memorandum of Understanding to exempt businessmen of the two countries from the visa requirement

- KSE/N-6279 – NCCPL Regulations – Outlines the risk management system of the company for debt market clearing members

- KSE/N – 6338 – From 2 November 2009 all off market transactions in listed TFCs including their over the counter transactions must be reported/underlined at KSE in a manner prescribed for off market transactions in the equity market

- KSE/N – 6359 – During the book closure period of listed TFCs, the trading in respective TFCs at KSE Bond Market shall remain suspended

- KSE/N – 6385 - SECP relaxes the requirement of one time initial contribution Rs250,000 for the Debt Market Protection Fund. The contribution is now split into two amounts, half contribution to be made after three months and half after six months.

- The Federal Board of Revenue (FBR) has issued a list of public / private sectors commercial banks to the field formations to ensure proper monitoring of deductions and verification of withholding tax under Income Tax Ordinance, 2001. The 'action plan of withholding taxes-2009' has made commercial banks withholding agents.( Business Recorder)

## World News Brief

- The fast-growing Islamic financial sector needs strong regulation to ensure it never faces the damage suffered by the global system as a result of the financial crisis, Malaysia's prime minister stated.

- **IASB and FASB increase convergence pace**
  The IASB and the FASB are working feverishly to harmonise their two accounting languages, with a view to form truly global accounting rules, if the US adopts the rules. Speaking to an audience of accountants in New York, IASB chairman Sir David Tweedie was confident he could meet the 2011 deadline, reaffirmed at the recent G20 meeting.

  The pair have significant hurdles to jump. They each are proposing different fair value standards – measurement rules which force companies to value assets at their market value. The rule was blamed for exaggerating the effects of the financial crisis as assets, especially financial instruments, lost close to all their value in stagnant markets. **http://www.accountancyage.com/**

- **Fair value standard will be released next month**
  IASB chairman, Sir David Tweedie, said he will release a new fair value accounting rule by November. In an address to a meeting of European Finance Ministers, which have in the past been critical of the IASB's response to the financial crisis, Tweedie has sought to ease concerns by announcing that he is on track to deliver a new fair value standard by the end of this year. FASB's proposal will see all assets measured at fair value. The IASB's mixed measurement model would see banks' loan books valued on an amortised cost basis.

  The two standard setters are trying to converge US and international accounting rules, in the hope that the US will eventually adopt the new rules. But the fair value standard

has now emerged as a significant obstacle, highlighted by Tweedie who said he simply did have the time to co-ordinate efforts with FASB in the revision of fair value, in the wake of the financial crisis. **http://www.accountancyage.com/accountancyage/news/2251580/fair-value-standard-released**

- **FASB chairman warns about Europe's meddling in accounting rules**
  Robert Herz, chairman of the Financial Accounting Standards Board (FASB), says pressure from Europe on the International Accounting Standards Board could derail adoption of global accounting rules by the U.S. Accountancy Age (London)

- **FEE supports adoption of IFRS 9 in Europe**
  FEE (the Federation of European Accountants) has sent a letter to the European Commission calling on the EC and others to support endorsement of IFRS 9 Financial Instruments for use in Europe.

- **IASB, FASB exclude certain leases from new accounting rule**
  Decisions by the FASB and the IASB may exclude certain types of leases from a new accounting standard. However, it is too early to know how much of an effect the changes will have. Ultimately, current lease proposals would have a significant effect on companies' balance sheets.

- **Forensic accountants to take prominent role in fraud cases**
  Forensic accounting is expected come into the spotlight as a series of fraud cases go to trial. Teams of forensic accountants will be working for the prosecution and the defense in the cases, including that of Allen Stanford, who is accused of running an $8.5 billion Ponzi scheme.

- **Establishment of a Not-For-Profit Advisory Committee**
  The FASB announced the establishment of the Not-for-Profit Advisory Committee (NAC). The NAC is intended to serve as a standing resource for the FASB in obtaining input from the not-for-profit sector on existing guidance, current and proposed technical agenda projects, and longer-term issues affecting those organizations. Initially, the NAC will have 12-15 members from the not-for-profit sector.

- **IASB seeks experts on expected cash flows**
  The IASB is forming an expert advisory panel (EAP) to advise the Board on the issues relating to application of the Expected Cash Flow approach (ECF) in measuring impairment of assets.

- **Review of narrative reporting in the UK**
  The United Kingdom Accounting Standards Board (ASB) has published **Rising to the Challenge**, the report of its review of the narrative reporting of 50 UK listed companies in 2008 and 2009. The review focused on:

  - how companies are complying with the enhanced business review content requirements from the Companies Act 2006 ;
  - effective communication and presentation of the required content; and
  - areas that are leading to clutter in narrative reporting.

  The review found that most companies are providing a good standard of information in their financial reviews, the description of objectives and strategies, and the provision of

financial key performance indicators (KPIs). However, there are significant opportunities for improvement in the reporting of principal risks, trends and factors, contractual and other arrangements, and non-financial KPIs

- **CESR finds noncompliance with IFRS disclosures**
  The Committee of European Securities Regulators (CESR) has analysed the 2008 financial statements of 96 European listed banks and insurers, including 22 companies from the FTSE Eurotop 100 index, to assess compliance with the disclosure requirements of IFRS 7 *Financial Instruments: Disclosures*. CESR found that "in some areas a significant proportion of European financial companies failed to comply with mandatory disclosure requirements relating to financial instruments". Examples of noncompliance included disclosures about the use of valuation techniques and about relationships with Special Purpose Entities (SPEs). CESR's analysis is reported in a CESR Statement titled *Application of Disclosure Requirements Related to Financial Instruments in the 2008 Financial Statements*. CESR's statement notes that "CESR would have expected a higher level of compliance with mandatory requirements, particularly in light of the market conditions that existed during the second half of 2008 and the beginning of 2009

  - **Moving to the IFRS for SMEs in Ireland**
    Since 2005, listed groups in Ireland have been required to prepare their consolidated financial statements using IFRSs. Almost all other groups have a choice. They can use IFRSs, Irish GAAP as developed by the Accounting Standards Board (ASB), and if they are small they have a further option of using the Financial Reporting Standard for Smaller Entities (FRSSE). But from 2012, the options are expected to change. Irish GAAP is expected to be replaced with the IFRS for Small and Medium-sized Entities.

    **The entities directly affected by these plans include:**

    - Companies which are listed and have not adopted IFRS in their individual financial statements
    - Subsidiaries in listed groups that have not adopted IFRS throughout the group
    - All public limited companies that are not publicly accountable
    - All private groups and companies

    Where consolidated accounts are prepared using IFRS, company law allows a choice of using Irish GAAP or IFRS for the company's individual financial statements. Research shows that many listed companies still use Irish GAAP in their parent company only accounts and thus use Irish GAAP for their Irish subsidiaries. Many others use IFRS for the parent company only accounts but continue to use Irish GAAP for subsidiaries.