



The Institute of
Chartered Accountants
of Pakistan

e Technical Update

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IASB Update

Annual Improvements Project 2009

The IASB has issued 'Improvements to IFRS's a collection of amendments to twelve International Financial Reporting Standards as part of its program of annual improvements to its standards. The IASB uses the annual improvements project to make necessary, but non-urgent, amendments to IFRSs that will not be included as part of another major project. The latest amendments were included in exposure drafts of proposed amendments to IFRSs published in October 2007, August 2008, and January 2009. Most of the amendments are effective for annual periods beginning on or after 1 January 2010, although entities are permitted to adopt them earlier. During its deliberations of comments received on the exposure draft of Proposed Improvements to IFRSs published in August 2008, the IASB decided to postpone reconsideration of two IAS 39 issues (relating to the fair value option and bifurcation of an embedded foreign currency derivative) until more analysis could be completed. Click for IASB Press Release (PDF 45k).

IASB Sets Out Timetable for IAS 39 Replacement and its Conclusions on FASB FSPs

The International Accounting Standards Board (IASB) has set out a detailed six-month timetable for publishing a proposal to replace its existing financial instruments standard, IAS 39 *Financial Instruments: Recognition and Measurement*. The IASB also announced the results of its 30-day accelerated consultation on the Staff Positions (FSPs) on fair value measurement and impairment published recently by the US Financial Accounting Standards Board (FASB).

The IASB's comprehensive project on financial instruments responds directly to and is consistent with the recommendations and timetable set out by the Group of 20 (G20) nations at their meeting. They called for standard-setters 'to reduce the complexity of accounting standards for financial instruments' and to address issues arising from the financial crisis, such as loan-loss provisioning. The IASB will work jointly with the FASB to pursue the objective of a globally accepted replacement of the requirements on accounting for financial instruments. In the meeting, the IASB has reviewed the FASB FSPs on fair value measurement and impairment. The IASB considered comments received from its consultation on the FSPs and advice received from the Financial Crisis Advisory Group (FCAG), the Standards Advisory Council (SAC), participants at the three joint IASB-FASB public round tables held in November and December 2008, and other interested parties. The IASB concluded the following:

Fair Value Measurement: The guidance on fair value measurement issued by the FASB is consistent with existing guidance on IFRSs, contained in the IASB's Expert Advisory Panel report, *Measuring and disclosing the fair value of financial instruments in markets that are no longer active*. Therefore, a level playing field exists in this area. To ensure ongoing consistency in the application of IFRSs and US GAAP, the IASB will include relevant guidance from the FSP in the IASB's exposure draft on fair value measurement, which will be published in May.

Impairment of Financial Assets: On the important question of impairment, the IASB agreed with the widespread view amongst commentators that the IASB should improve its impairment requirements. The IASB will take up the broad issue of impairment as part of its comprehensive and urgent review of IAS 39. The IASB believes that an immediate response to the recent FSP on impairment is unnecessary. The IASB will work with the FASB as part of its comprehensive project to ensure global consistency in impairment approaches.

IFAC Update

IFAC Releases 2009 Handbook of International Standards on Auditing and Quality Control

IFAC has released the 2009 *Handbook of International Standards on Auditing and Quality Control*. The handbook can be downloaded free of charge from the IFAC online bookstore at www.ifac.org/store

The handbook brings together all the International Standards on Auditing and the International Standard on Quality Control that have been redrafted by the International Auditing and Assurance Standards Board (IAASB) to improve their clarity. It also includes a Glossary of Terms and the *Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services*. These become effective on December 15, 2009. This handbook replaces Part II of the 2008 *Handbook of International Standards on Auditing, Assurance, and Ethics Pronouncements*.

Part I of the 2008 *Handbook of International Auditing, Assurance, and Ethics Pronouncements* will remain in effect during 2009. It contains pronouncements on auditing, review, other assurance, and related services issued by the IAASB as of January 1, 2008. It also includes the *IFAC Code of Ethics for Professional Accountants*, issued by the International Ethics Standards Board for Accountants. The pronouncements on auditing in Part I of the 2008 *Handbook of International Auditing, Assurance, and Ethics Pronouncements* will remain in effect up to December 14, 2009; thereafter, they will be replaced by those contained in the 2009 handbook.

IFAC's International Public Sector Accounting Standards Board Proposes New Guidance to Strengthen Financial Reporting by Governments

The International Public Sector Accounting Standards Board (IPSASB) of IFAC is expanding its guidance in two significant areas:

- accounting for intangible assets and
- entity combinations.

It has published two new exposure drafts (EDS)-ED 40, *Intangible Assets* and ED 41, *Entity Combinations from Exchange Transactions*, which propose important new guidance for professional accountants working in government and other public sector entities.

The issuance of the exposure drafts is part of the IPSASB's global convergence program that will substantially converge International Public Sector Accounting Standards (IPSASs) with International Financial Reporting Standards (IFRSs) approved in December 31, 2008. The project is scheduled for completion by December 31, 2009.

ED 40 proposes an IPSAS that converges with the International Accounting Standards Board's (IASB) International Accounting Standard 38, *Intangible Assets*. ED 40 also incorporates guidance on website costs set out in the Interpretation 32 of the IASB's Standing Interpretations Committee, entitled *Intangible Assets - Web Site Costs*. It also includes guidance on intangible heritage assets.

Because ED 41 addresses entity combinations that are similar in nature to those in the private sector, it is converged with the IASB's IFRS 3, *Business Combinations*. Entity combinations that arise from non-exchange transactions are being addressed in a separate public sector-specific project.

The exposure drafts are being issued concurrently because ED 40 addresses issues related to intangible assets acquired in an entity combination arising from an exchange transaction. Both exposure drafts contain limited changes from the relevant IFRS; these changes are mainly to ensure consistency with other IPSASs and to address specific public sector issues.

Comments on EDs 40 and 41 are requested by August 15, 2009. The EDs may be viewed at www.ifac.org/EDs.

International Public Sector Accounting Standards Board Moves closer to Global Convergence of Financial Reporting Standards

The International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) is proposing new financial reporting requirements to assist public sector entities in accounting for financial instruments, such as derivatives, bonds, and loans. These proposed requirements are contained in three newly released exposure drafts (EDs): ED 37, *Financial Instruments: Presentation*, ED 38, *Financial Instruments: Recognition and Measurement*, and ED 39, *Financial Instruments: Disclosures*.

The EDs propose IPSASs that converge with the International Accounting Standards Board's standards for financial instruments as at December 31, 2008, with limited changes, representing a significant step in the IPSASB's global convergence program, scheduled for completion by December 31, 2009. As part of this program, International Public Sector Accounting Standards will substantially converge with International Financial Reporting Standards approved at December 31, 2008, with limited changes to ensure consistency with other IPSASs, while addressing specific public sector issues.

Additional application guidance has been included in each ED on two key public sector issues. These are provision by government of financial guarantees that are given at zero cost or below market price and, secondly, concessionary loans (loans at below market interest rates). Governments have been using financial guarantees, such as guaranteeing bank deposits and low interest rate loans to support private sector businesses during the current economic crisis. Similar arrangements were also used prior to the crisis, often to achieve social objectives, such as to provide housing assistance.

Comments on EDs 37–39 are requested by July 31, 2009. The EDs may be viewed by going to www.ifac.org/EDs. Comments may be submitted by email to EDComments@ifac.org and stepheniefox@ifac.org.

IFAC'S International Public Sector Accounting Standards Board Launches Review of Cash Basis Reporting in Developing Countries

The International Public Sector Accounting Standards Board (IPSASB), an independent standard-setting board within the IFAC, has appointed a task force to review the IPSAS, Financial Reporting under the Cash Basis of Accounting. As part of the review process, it is asking those who have been involved in the adoption of the Cash Basis. IPSAS in developing economies or who have been exposed to the standard to complete a questionnaire on their experiences, or anticipated experiences, with respect to implementation issues.

The questionnaire, along with an invitation letter that more fully explains the review process, can be downloaded from the IPSASB website at www.ifac.org/PublicSector/Projects.php#InProgress.

SECP Update

- SECP has withdrawn the condition of submitting 'a certificate that no tax demand is outstanding against any company within the group' by companies intending to obtain "group relief" under the Group Companies Registration Regulations
- SECP Circular No.14 - Introduces a transparent procedure for closed end scheme to buy back its own certificates. It outlines the requirements for investment by closed end schemes in its own certificates and subsequent resale of such certificates
- SECP Circular No.13 - Outlines provisioning policy for non performing exposure of collective investment schemes - guidance for AMCs.
- SECP Circular No. 12 - Issues instructions to safeguard NBFCs against involvement in money laundering activities, terrorist fighting and other illegal trades
- Revives the Consultative Group on Capital Markets. The Group includes companies representatives of the Karachi Stock Exchange, National Clearing Company of Pakistan Limited, Banks, Mutual Funds, SECP and other capital market experts. The Group will act as an independent think tank for important policy decision in relation to the development of capital markets in Pakistan. The Group shall be reviewing International best practices and suggest measuring for the overall growth and development of capital markets particularly in the following areas:
 - New product development including alternative leverage products;
 - Debt capital markets;
 - Primary Market – New Listings;
 - Risk Management including revamping of existing regulatory regime of brokers;
 - Market monitoring and surveillance etc.
- SECP has decided to take legal action against the directors and chief executives of companies who have failed to file their statutory returns, as required under the Companies Ordinance, 1984. It has been noticed that a large number of companies are not filing the statutory returns in time. About 45 % of the companies, mostly comprising of private and non-listed companies, are non-filers of returns in 2008.

SBP Update

- BPRD Circular No. 7 - The minimum rate of return to be paid by recipient of financing facilities for meeting temporary liquidity shortage and SBP 3 day Repo facility against Government of Pakistan Market Treasury Bills and Federal/Pakistan Investment Bonds, has been reduced by 100 basis points i.e. from 15% to 14% p.a. with effect from 21st April 2009.
- Banking Sector Reform document issued which outlines a strategy for the next 10 years
- Long Term Financing Facility for Plant & Machinery – SBP will refinance up to 50% of the financing facilities to be provided by the banks/DFIs to the eligible borrowers of certain sub sectors of the spinning sector while the remaining 50% will be financed by the banks/DFIs from their own sources at lending rates of respective lending institutions
- SBP issues its Monetary Policy Statement - April to June 2009
- BSD Circular No. 7 - In view of the general global slowdown in growth and capital accumulation by financial institutions and representations from shareholders, the minimum paid up capital (free of losses) requirement for banks have been revised.
- BPRD Circular Letter No 12 - Amendment in Prudential Regulations G-1 regarding management notified vide BPRD Circular No. 3 dated April 23, 2007.
- BPRD Circular Letter No 14 - Amendment of Paragraph 5(vi) of Guidelines on Commercial Paper (CP) communicated vide BPD Circular No. 28 dated August 23, 2003 whereby banks/DFIs interested in investing in CP were required to obtain one time prior approval from SBP for commencing undertaking such civility.
- SMEFD Circular Letter No. 5 - SBP decided to withdraw the minimum cash margin requirement of 10% of the value of wheat stock on wheat financing for the private sector.
- SMEFD Circular No. 9 – Refinance of outstanding Long term loan for import/plant and machinery under Long term financing facility.

FBR Update

- Zero duty on 40 computer items mobile banking to be exempt from federal excise duty

ICAP News

ICAP Proposals for the Federal Budget 2009-2010

Institute has submitted the Proposals for the Federal Budget 2009-2010 to Federal Board of Revenue (FBR). These include proposals for Direct and Indirect Taxes and recommendations on Tax Policy and Administration Reforms for incorporation in the forthcoming Federal Budget.

The ICAP proposals for Federal Budget 2009-10 can be downloaded from the Institute's website <http://www.icap.org.pk/web/links/0/taxation.php>

Technical Advisory Committee Opinions

1. Consolidation as per Section 237 of the Companies Ordinance

Enquiry

One of our clients, an unlisted public limited company, has recently acquired a private limited liability Company as a Subsidiary. Section 237 of the Companies Ordinance, 1984 requires consolidation of the financial statements of the two entities. The client is reluctant for consolidation of the subsidiary accounts with the holding company.

We shall, therefore, be grateful if you kindly advise us on the applicability of Section 237 to the circumstances described above.

Committee's View

Your attention is drawn to the following paragraph of the Companies Ordinance 1984:

237. Consolidated financial statements. (1) There shall be attached to the financial statements of a holding company having a subsidiary or subsidiaries, at the end of the financial year at which the holding company's financial statements are made out, consolidated financial statements of the group presented as those of a single enterprise and such consolidated financial statements shall comply with the disclosure requirements of the Fourth schedule and International Accounting Standards notified under sub-section (3) of section 234.

It may be noted that in the above section the term 'holding company' has been used which includes all companies irrespective of status, based on which it appears that unlisted public company would also be required to prepare consolidated financial statements if it is a holding company.

2. Investment Property

Enquiry

We want a clarification regarding applicable accounting policy to measure value of Investment in property and relevant disclosure in accounts. Necessary details are as follow:

- We are a public limited company and ordinary business of the company is not to invest in property. Our Financial Statements are also being prepared on going concern basis.
- We have an investment in property which we were showing as current asset in accordance with requirements of Fair Value model of IAS-40 Investment in Property.
- Recently we have entered into an agreement to sell investment in property with a buyer, who will pay price within next one year.

Please clarify that whether we are required to reclassify this investment and show it in accordance with the measurement provisions i.e. Fair value or cost whichever is low of IFRS-5 Non-current assets held for sale or continue to disclose investment as per previous practice in accordance with Fair Value model of IAS-40 Investment in Property.

Committee's View

Please refer to the following paragraphs of IAS-40:

55. If an entity has previously measured an investment property at fair value, it shall continue to measure the property at fair value until disposal (or until the property becomes owner-occupied property or the entity begins to develop the property for subsequent sale in the ordinary course of business) even if comparable market transactions become less frequent or market prices become less readily available.

67. The disposal of an investment property may be achieved by sale or by entering into a finance lease. In determining the date of disposal for investment property, an entity applies the criteria in IAS 18 for recognising revenue from the sale of goods and considers the related guidance in the Appendix to IAS 18. IAS 17 applies to a disposal effected by entering into a finance lease and to a sale and leaseback.

You are requested to take guidance from the above paragraphs. As regards applicability of IFRS 5 referred to in your letter, the Committee feels that investment property is out of its scope.

Local News Brief

- Colonisation of Government Lands Amendment Bill 2009 allows the provincial government to take back thousands of acres of the lands given to government agencies or private owners since 1969, if the landowners did not pay for the land.

- Industrial units - restrictions on borrowing from banks removed

- CCP to charge Rs 0.1 million for advice on mergers
- Amendment made in the Competition (Merger Control) Regulations, 2007 by the Competition Commission of Pakistan

- Government has agreed to cut the flour millers' loans interest rate

- Ministry of Finance issued revised schedule to the Anti Money Laundering Ordinance 2007

- ADB will sign a Trade Finance Facilitate Programme with 11 Pakistani banks, which is aimed at bolstering trade and improving the Pakistan economy. The banks will receive \$1 billion

World News Brief

Modernised Accounting Law Adopted in Germany

The German Parliament has passed the *Act to Modernise Accounting Law*. A goal of the legislation is to reduce the financial reporting burden on German companies. The accounting requirements under the Act are described as an alternative to International Financial Reporting Standards for small and medium-sized companies that do not participate in capital markets.

UK FRC Encourages SEC to Allow IFRSs

The United Kingdom Financial Reporting Council (FRC), the UK's independent financial reporting regulator, has responded to the US Securities and Exchange Commission (SEC) on its proposed roadmap on the use of IFRS by US companies. The FRC encourages the SEC to permit US issuers who can demonstrate their competence in IFRS to be able to adopt IFRS in place of US Generally Accepted Accounting Principles (GAAP). The FRC also encourages the SEC to clarify that US companies that do adopt IFRS will not be at risk of being required to return to US GAAP at a later date if the SEC decides not to mandate IFRS for all US companies. The FRC's response also encourages the IASB and the US FASB to continue to work together but notes that the focus should be on achieving improvements in financial reporting, whether under US GAAP or IFRS, rather than convergence of IFRS and US GAAP as a goal in itself.

A Quarter of Firms Unlikely to Last the Year, Auditors Say

Almost a quarter of the annual reports to be filed with the Securities and Exchange Commission for 2008 will include auditors' negative "going concern" opinions, the research firm Audit Analytics estimates based on reports already filed as of late March.

Praise, Criticism Greet Updated Financial Statements

The proposed overhaul of financial statements developed jointly by the Financial Accounting Standards Board and the International Accounting Standards Board has been met with a mix of criticism and praise. Banks and other businesses that might one day be required to prepare the financial statements were particularly unhappy about the new approach, while those who use financial statements to make investment decisions generally liked them.

World Congress of Accountants

The 18th World Congress of Accountants will be held from November 8-11, 2010 in Kuala Lumpur, Malaysia. Professional accountants, international regulators, standard setters, government officials, corporate leaders, and the leadership of the international accountancy profession may attend.