THE PAKISTAN
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Magazine of The Institute of Chartered Accountants of Pakistan

Governance, Transparency, Disclosure
The Holy Alliance

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Editor's Letter

Governance, Transparency, Disclosure

Among many other things, the current global financial crisis has highlighted governance issues in areas, such as board practices, implementation of risk-management, remuneration process and the exercise of shareholder rights, where failures in corporate governance occurred. This crisis has also highlighted the importance of qualified board oversight and robust risk management which is not limited to financial institutions. Furthermore, it has highlighted the fact that accounting standards and regulatory requirements have to be sufficiently enforced.

One such critical area relating to accounting standards concerns fair value of assets. The use by different banks of very different valuations for the same asset contributed to reduced market integrity. Now, banks reporting according to US GAAP are using the FASB's classification on how assets have been valued. The IASB is strengthening its standards to achieve better disclosures about valuations. The International Auditing and Assurance Standards Board (IAASB) is also considering the lessons learned from the market meltdown and, where necessary, it will enhance the guidance for audits of valuations of complex or illiquid financial products and related disclosures.

High quality accounting and disclosure is an absolute essential for maintaining market integrity. It also provides the much needed comparability that helps investors, big and small, to make well-informed capital allocation decisions. Each company should prepare its financial statements on a consistent basis, so that investors can analyze performance across time periods. Also, reporting by different companies should be comparable. In this regard, I am proud of the fact that the Best Corporate Report Awards organized by your Institute for the last eight years, have come a long way in improving the quality of annual reports of listed entities.

A very important condition is that the professional standards which provide the benchmark for comparability and transparency must be of “high quality” and must provide for full disclosure --- financial and non-financial. The disclosure must also provide for fair, timely and cost effective access by users. Transparency requires that companies must report compliance with code of corporate governance and, where needed, give reasons for variation. Conversely, evidence of good corporate governance leads to increased shareholder value.

It is now evident that global capital markets will insist upon clear and relevant financial information. In a highly competitive, volatile global market we need unwavering commitment to high standards, constant improvement, and fast adaptation to an ever changing business environment. The only way forward is that we must begin to look at disclosure as more than just a compliance task, and at governance as more than just a hindrance.

Abdul Rahim Suriya

President's Page

Governance, Transparency, Disclosure

The importance of corporate governance disclosure for developing and transitional economies is manifold because it improves their ability to attract investment capital by building investor confidence through accurate and timely disclosure. In this regard one of the prime objectives of the United Nations Committee on Trade and Development (UNCTAD) has been to identify and promote good practices in corporate governance disclosure.

UNCTAD's Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) publishes Guidance on Good Practices in Corporate Governance Disclosure which has become a benchmark for good governance practices. I strongly encourage all companies and their auditors to refer to this important guidance. This year ICAP is collaborating with UNCTAD on corporate governance disclosure practices in Pakistani listed companies by examining the reporting practices, and compliance with disclosure rules, of companies on the KSE30 Index. This report will be presented in the 26th Session of ISAR being held in October 2009.

Big investment decisions are made based on reliable, high quality financial reporting which contains investor useful information and disclosure.

In this time of fluctuating markets and uncertain economic trends, transparency and disclosure have taken on even greater meaning. In the current volatile economic climate, in addition to the adequate disclosures on company's performance and financial position, the disclosures relating to company's strategy, future plans, significant risks, governance and internal control framework etc. will also be closely monitored by investors. Equally important is that financial reporting should be consistent with the information presented to boards of directors and audit committees. While management has a key role to ensure adequacy and completeness of such disclosures, auditors' (internal and external) role is mainly to ensure the reliability of underlying financial reporting and disclosure.

The Institute of Chartered Accountants of Pakistan has been playing a vital and leadership role in enhancing corporate governance, disclosure and transparency of the Corporate Sector in Pakistan. Some of the major achievements of the Institute in this context include:

- Adoption and Enforcement of International Financial Reporting Standards (IFRS) and Internal Standards on Auditing (ISAs);
- Drafting and enforcement of the Code of Corporate Governance;
- Establishing an effective quality assurance system through an independent Quality Assurance Board;
- Advising the Securities and Exchange Commission of Pakistan and the State Bank of Pakistan on adoption and enforcement of matters of financial reporting, and relevant laws and regulations;
- Establishment of the Pakistan Institute of Corporate Governance (PICG); and
- Developing a soft Code of Good Governance for family owned entities in partnership with CIPE and PICG.

It is my conviction that ICAP's role for continued improvements in governance, accountability and disclosure is crucial, not only for the corporate entities, but also for public sector and not for profit organizations. The Council, various Committees and the Executive of the Institute have made enormous contribution to the above initiatives that have brought about substantial improvement in governance, transparency and disclosure in Pakistan. In order to maintain this leadership role in the areas of governance and high quality financial reporting, I am confident that these areas will remain as highest priority on the agenda of the Council and the Institute.

Syed Asad Ali Shah

Join the **DISCOURSE**

This issue's topic is:
Asia's Export Dependence

Should Asian economies stop pursuing export-led growth strategies of the past and start boosting domestic demand?

Nobel prize-winning economist Paul Krugman recently declared that, "China should produce things for itself instead of acquiring sterile claims on the US."

As export-dependent Asian countries reel from the global economic downturn, is it time for these countries to reorient their economies to boost domestic demand instead of pandering to the US consumer who is no longer the buyer of last resort?

Comments

With reference to the topic for the month, I would like to say that generally too much dependence on exports and particularly for the Asian economies during economic melt down is a too risky approach.

The first Para for discourse ends with a ? but has an inbuilt word of advice to stop thinking of thriving on exports and benefiting from globalization.

In the second Para words of wisdom for China from an economist (a noble man) is actually trying to protect U.S demands (Market) from encroachment. This is protectionism.

I agree with the gist of third Para that in crises everybody-every country-every sector has its own house to be taken care of, first and looking towards others as buyer/lender of last resort, proves disappointing.

What to talk of Asian economies, there came a voice from the strongest person in US in the month of March/April 2009 "To buy American provisions is patriotic". There came another voice from British P.M "this is protectionism".

These are hard facts and the Asian economies and all other small economies should keep these facts in mind in hey days, as well as during the phase of recession.

Rafi Hyder
Karachi

In my opinion when everything outside is failed then a nation must try to do soul searching and identify the capabilities they hold. This applies to every thing from economics to medicine and I agree with a certain diversion with the discourse that we as a nation should develop more wider base of domestic use and consumption where economy of scale can be achieved. But in most of the Asian economies it is not an easy task since we need to revamp everything to achieve such self sufficiency. Corruption, lack of education, social behaviour, legitimate and ethical practices, are much required virtues to have a sense of confidence in our own capabilities. Therefore, we must try to achieve this but till such time, we need foreign assistance in form of export of services and goods.

Salman Hameed
Karachi

Members are requested to send in their comments with their name, town and membership number, via email in care of asad.shahzad@icap.org.pk with the word 'DISCOURSE' in the subject heading.

Responses will be edited for purpose of clarity and space.

Governance, Transparency, Disclosure
The Holy Alliance

Nasim Beg FCA

I believe that it is best to practice what one preaches and I have consequently been committed to practicing good governance. The company I run commenced its operations as an Asset Management Company in March 2002, when two Open-end Mutual Funds were launched simultaneously. Being one of the pioneers of the Mutual Fund Industry in the private sector in Pakistan (there was one other), we were determined to follow international best practices in conducting our business with good governance, total transparency and full disclosure - the holy alliance . At times, our business was adversely affected due to one or the other competitor's non-adherence to such principles but we were not deterred by such setbacks in the firm belief that only such practices would pay in the long run.

Ever since, we have earned the reputation of always 'doing the right thing', building investor confidence, and resulting in the market putting a distinct premium on our staff for their expertise and ethics.

I would like to itemize below such practices and concepts, some of which were being followed only by us, while some, in the meantime, have been incorporated in the law for all to follow.

3-Year Change of Auditors

Right from the beginning, according to our self-imposed rule, the Auditors of ourselves (AMC), as well as each of the Funds being managed by us, were changed every three years. This has been made mandatory for all by an amendment in the relevant law a couple of years ago. What should be noted is that though the Funds were launched in the year 2002, preparatory work started two years earlier and this change in auditors was decided upon before 'Enron" had happened and the world woke up to this need.

Dissemination of Information

We pioneered the practice of sending to each and every one of our Unit-holders a Monthly Fund Manager's Report, giving a synopsis of the activities in the Equity and Money markets and how our Funds fared during the preceding month. I am happy to say that this practice was gradually adopted by others (some, initially, purely copying our format) and has now become the market norm.

Furthermore: Statements of Account at every activity; NAVs on client's cell-phone; highly informative website giving Weekly Market Reviews, Daily Performance Sheets (comparative performance of ALL Mutual Funds), Daily Fact Sheets (performance of our Income/Money Market Funds as well as targeted returns) and much more.

Investment Committee

Since inception, decisions for all investments, on behalf of the Funds being managed by us, are taken by an Investment Committee instead of an individual Fund Manager. This has now been made mandatory for all by a relevant insertion in the law.

Regular and Consistent NAV Announcements

Due to the importance of this, we have, since inception, calculated and published the NAVs of our Funds on a daily basis. This was not being done by others in 2002 and has, since, become mandatory under law.

Forward Pricing

Since inception, the Unit Prices of all our Equity Funds are on forward pricing basis. In 2002, this was not the case for some of the other Mutual Funds then in existence. Forward Pricing avoids arbitrage against the Fund (i.e. one investor benefiting at the cost of others) and it is now the norm, not only for Equity Funds but for most Income Funds also. More recently it has been made mandatory by the Regulator.

Cut-off Timings and Time-stamping

We have always enforced this concept stringently, to pre-empt any client taking unfair advantage of the Unit Prices to the detriment of the other Unit-holders. This not only became an issue in the US a few years ago but has also been made mandatory for all by a relevant directive from SECP.

Employees' Trading

In order to obviate any conflict of interest, our employees, their spouse(s) or children are not allowed to trade in shares except for shares of our Group companies (our funds did not as a policy invest in Group companies though the law now allows it). An employee's trade orders must be placed through our main Dealer and executed through one designated Broker only, so as to ensure that there is no front running.

Advertising Policy

We have consciously tried to follow internationally accepted norms for Mutual Funds advertising by ensuring that our ads are not misleading in any way, particularly avoiding to advertise our Funds' returns for short, selective periods or giving anticipated future returns, etc. This policy is now followed by the industry association.

Daily Compliance Audit

Since March, 2002, we have a *self-imposed* daily compliance audit, by external Auditors, of our flagship Funds, The scope of the Audit is to determine, on a daily basis, whether the Funds' business has been conducted in accordance with the law, the Fund's Constitutive Documents and any policy directives issued by our Board of Directors. The compliance audit report is issued directly to the trustees of the funds and the auditors are not even allowed to discuss the draft with our staff. We get to look at it after it has been issued.

The practices stated above are only some of the ones unique to our contributions to The Holy Alliance. We have not included those practices of good governance, satisfactory transparency and adequate disclosure that are already mandated by law and being followed by all. It is of utmost necessity that all stakeholders adhere truly, in letter and spirit, to The Holy Alliance for the common good of the Mutual Fund Industry.

One thing that I can state with confidence is that it is the "holy alliance" that has held us in good stead and helped us retain customer confidence even during a major upheaval in the markets.

Corporate Enterprise:

The Interrelationships of Governance, Transparency and Disclosure

Muntazar Bashir Ahmed FCA

This paper provides an illustration of the relationships between the components of governance by applying the same framework as an earlier PAIB research study, on case studies of Pakistani listed companies. There is no attempt to conclude or pass judgement on either effective or ineffective handling of a managerial situation by the respective companies on whom case studies were developed.

The Professional Accountants in Business Committee (PAIB) of the International Federation of Accountants Committee (IFAC) was asked by the IFCA Board in October 2002 to explore the emerging concept of enterprise governance. A particular focus of the project was to consider why corporate governance often failed in companies and, more importantly, what must be done to ensure that things went right.

Introduction

The report of the PAIB project defined enterprise governance as " the set of responsibilities and practices exercised by the board and executive management with the goal of providing strategic direction, ensuring that objectives are achieved, ascertaining that risks are managed appropriately and the organization's resources are used responsibly".

Enterprise governance constitutes the entire accountability framework of the organization. There are two dimensions of enterprise governance- conformance and performance, that need to be in balance.

Conformance is also called 'corporate governance'. It covers issues such as board structures and roles and executive remuneration. It has had significant coverage in recent years following the various corporate scandals and there will continue to be developments in this area.

Performance dimension focuses on strategy and value creation. This focus is on helping the board to make strategic decisions; understand the risks and key drivers of performance; and indentify its key points of decision making.

The conformance aspect has established oversight mechanisms for the board to use and these mechanisms are reviewed and reported on annually by the external auditors. However the performance dimension does not lend itself to a regime of standards and audit. Instead a range of best practice tools and techniques that can be applied are required.

Case studies

In order to test the framework and to explore what goes right or wrong in companies the PAIB project chose to develop a number of international short case studies. Each case study was based on published sources and focused on corporate governance practices and strategic issues such as process of strategy development and resulting choice of strategy.

Principal findings

There were four key corporate governance issues that underpinned both success and failure. These were:

1. Culture and tone at the top
2. The chief executive
3. The board of directors
4. Internal controls

Similarly there were four key strategic issues underlying success and failure

1. Choice and clarity of strategy
2. Strategy execution
3. Ability to respond to fast market changes
4. Ability to undertake success ful mergers and acquisitions

Case studies of companies in Pakistan

The attached tables show the outcome of the analysis using the PAIB framework, when applied to the three case studies relating to corporate governance that have been written on Pakistani companies by the author. The case studies have been refereed by at least two professors of the Richard Ivey Business School, The University of Western Ontario and are published by Ivey Publications who have the sole copyright. These cases can be obtained from Ivey Publishing Canada and are based on published materials on the following companies:

1. Crescent Standard Investment Bank Limited- Governance fail ure (CSIBL)
2. Callmate Telips (A) – Choice of accounting policy(CTTL)
3. Callmate Telips (B) – Orix Investment Bank Pakistan Limited – Callmate Risk Uncovered (OIBPL)

The tables attached contain the analysis in a summarized form of the findings in the three cases within the framework of Enterprise Governance. The various aspects of each case are specific to the circumstances but they all fit the model very well.

What went wrong

This overriding question is addressed below by examining the regimen of governance, transparency and disclosure in each case. The Table 1 shows a number of factors and their relevance to governance of the company. The same set of factors is used to in Table 2 to see the affect under a corporate governance strategic framework of decisions. There was interesting commonality in the factors that contributed to the fate of each of the companies.

Transparency

There is a saying is that "Transparency is assurance"

The saying perhaps reflects the central point of transparency, whether it is related to the transparency of financial statements or the transparency of business operations. Transparency does not just deal with the publication of numbers, facts and figures -- indeed, all of these things can be used to obfuscate, unless they are accompanied by genuine transparency. In other words transparency is the ability to conduct business in a clear and accountable way, especially associated with the human part of the business. Transparency is one of those things that Quality Assurance programs try to engender, but so many corporations completely miss the mark, because they do not understand the fundamental goal.

When we apply the above definition, then the conditions prevailing in CSIBL were clearly to obfuscate: the regulators investigation report mentioned that there were a number of different sets of accounting records, kept at different locations and that numerous transactions violated various laws. The Chairman of the Board of directors in a statement to the newspaper had said that the Board was unaware of all the violations and the misrepresentation that had been unearthed by the investigators. The fact that the Board was kept in the dark by the management does not absolve the directors of their responsibility but reflects on their inability to have transparent records within the organization in order to protect not only the interests of shareholders but also that of the creditors, especially in a financial institution.

In the case of CTTL the board was extremely aggressive not only in managing the business but seemed always to be keeping a close watch of the company share price. The company was a hugely profitable company in an expanding telecommunications market but yet it failed to develop as the ordinary share holder would expect from a seemingly successful company. But it was not transparent in its dealings with the regulators nor with its auditors and at one stage its share trading was suspended.

Governance

The concept of governance is a simple one, defined in the 1999 OECD Principles of Corporate Governance as: 'the system by which business corporations are directed and controlled.' The 'holy trinity' of good corporate governance has long been seen as:

1. shareholder rights,
2. transparency and
3. Board accountability.

While corporate governance is overtly concerned with board structure, executive compensation and shareholder reporting, the underlying assumption is that it is the board that is responsible for managing the business and controlling the risks.

The OECD principles of corporate governance state that the governance framework should promote transparent and efficient markets, beconsistent with the rule of law and clearly articulate the division of responsibility among different regulators.

As we can see that the three words' governance, transparency and disclosure are intertwined and each one of them has to be discussed together with the others.

Each of the three companies had a code of corporate governance as required by the regulations and the compliance with the code had been reviewed and an opinion given by the statutory auditors. Yet in the case of CTTL the control of the directors over the majority of voting shareholders made it simple to call an extraordinary meeting and remove the audit firm they did not agree with. In two cases in which the firms continued to function the opinions of the auditors as to the compliance with the code of corporate governance were clean. Yet in one case the directors were found guilty of dealing and manipulating their company share price and in the other case a serious weakness in risk management controls had eroded the company equity that it had to seek new capital or close down.

Disclosure

There are various meanings but the most relevant is that disclosure is the fundamental principle of accounting under which all material facts (whose non-disclosure may render a financial statement misleading) must be disclosed. The full disclosure principle states that any and all information that affects the full understanding of a company's financial statements must be included with the financial statements. Some items may not affect the ledger accounts directly. These would be included in the form of accompanying notes. Examples of such items are outstanding lawsuits, tax disputes, and company takeovers while in some cases the company may have to opt for self disclosure in an effort to be transparent. Self-disclosure is not simply providing information to another person. Instead, scholars define self-disclosure as sharing information with others that they would not normally know or discover. Self-disclosure involves risk and vulnerability on the part of the person sharing the information.

Annual reports of listed companies by and large follow the regulations so it is not that compliance is missing but that the selection of information omitted is often serious i.e. there is lack of self disclosure. As an example in one case study the company delayed making public a huge loss by six months and even after all the troubles that befell that company the board of directors remained unchanged. The defaulting customer of OIBPL had almost its entire board of directors subject to an arrest warrant after being convicted by the High Court of manipulating CTTL share price. This company was very popular among traders on the stock market and was a widely publicized case but the auditors also did not seem to notice what for them should have been a material post balance sheet event, their report was clean. In hindsight these appear to fall into lack of disclosure. My view is that, as the three factors being examined are linked, perhaps if one is violated then all three will necessarily be violated. This is borne out by the brief reviews of the three company case studies.

Tables summarizing the results of the three cases:

EXHIBIT

Table 1 — What went wrong - Corporate Governance Issues

Parameters Identified	Ethics / Culture at the Top	CEO	Board of Directors	Internal Control / Compliance / Risk Management	Aggressive Earnings Managements
CRESCENT STANDARD INVESTMENT BANK LIMITED	XXX	XXX	X	X	-
CALLMATE TELIPS TELECOM LIMITED	XX	XXX	XXX	X	XXX
ORIX INVESTMENT BANK PAKISTAN LIMITED	X	X	XXX	XXX	XX

Table 2 — What went wrong - Business Governance - Strategic Factors

Parameters Identified	Choice / Clairity of Strategy	Strategy Execution	Market Conditions	Abrupt Changes	Mergers and Acquisitions
CRESCENT STANDARD INVESTMENT BANK LIMITED	X	XX	-	-	XXX
CALLMATE TELIPS TELECOM LIMITED	XXX	X	XXX	XXX	-
ORIX INVESTMENT BANK PAKISTAN LIMITED	XX	XXX	XX	X	X

Legend:

X this issue had minor significance in the case study
X X this had moderate significance
X X X the issue was of major significance

National Finance Commission (NFC) Award

S. M. Shabbar Zaidi FCA

NFC - DISCUSSION & DIALOGUE

- National Finance Commission [NFC] a constitutional body, under Article 160 of the Constitution, inter alia advises the President of Pakistan on the matter of 'distribution' of tax revenues between the Federation and the Provinces and amongst the Provinces.

- That distribution formula is termed as the National Finance Commission (NFC) Award.

- This is a primary economic issue which has been politicized to a large extent. This confusion and lack of consensus has seriously effected the growth and correct policy framework for the collection of tax revenues.

TWO SIDES OF THE PICTURE

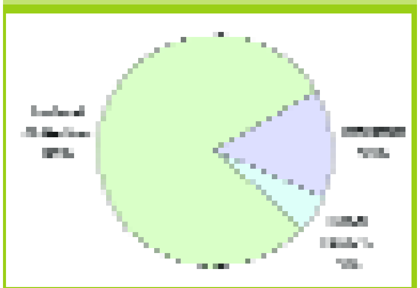
Revenue Collection and Distribution

- In principle, NFC is restricted to distribution of revenue. However, in order to understand the issue properly specially in Pakistan's context, where there is a debate on the manner of collection of revenues, the determination of the body [Federation or the Province] that should collect tax has direct bearing on the distribution.

- In all constitutions there is always a division for the revenues to be collected by the Federal or the Provincial or local governments as the case may be. In our Constitution there is transition as well as confusion on this matter. This relates to the right to tax VAT [Sales Tax and Excise Duty]. The concurrent list that was supposed to be amended after 10 years of the Constitution still remains the same. The issue is to understand the matter in a pragmatic and practical sense.

REVENUE

TOTAL COLLECTION



Major Collection Sources

Income Tax on Income
Sales Tax on Goods
Federal Excise Duty
Customs

Revenue

- The issue with regard to revenues is the fundamental question of devolution of sales tax on goods to Federation [as conceived originally by the Constitution] or transferring the sales tax on services to the Federation also. These are two exactly opposite approaches. A debate and practical discussion is required.

- Generally on account of this reason there is no VAT in those countries which operate as Federations like the USA. VAT essentially requires a central tax. Even India is facing serious problems on this account. We are practically better of.

CAN WE DISTURB THE PRESENT TAX COLLECTION SYSTEM?

- Whether rightly or wrongly we have developed a sales tax system totally based on the system that can only work where the tax is a Federal tax. It is a major revenue earner.

- Notwithstanding the capacities of the Provincial governments, is there any possibility of a vibrant VAT on provincial basis?

- This primary question is a very crucial point and it becomes all the more relevant when services are yet to be brought in the net.

NFC IS NOT TABOO

- In the past, primary financial aspects have been overshadowed by politicization.

- Very few Pakistanis know the real subject and the underlying issues.

- Even in academic circles, it is taken to be taboo and is considered to be an issue that can not be resolved amicably. The reality is otherwise.

DISTRIBUTION

The distribution system works as under:

	%
Total Revenues of the Federal Government	100.00
Less: Non-divisible Pool	49.50
Divisible Pool	50.50

Direct Transfers

- Excise Royalty on Gas and Crude Oil
- Duty and Gas Development Surcharge
- Net Hydal Profit

Subvention Allocation -Grant-in-aid

Balance allocation on the basis of population [say 45]

DISTRIBUTION

- Out of total revenue only 50.50 per cent is 'Net Divisible Pool'. The balance 49.50 per cent is 'Non Divisible'.
- Direct transfers are specific collections and distributions to specific Provinces, e.g. royalty on gas and crude oil.
- Remaining amount is being distributed in the Ratio of Population as per latest census.

MAIN ISSUES - DISTRIBUTION SIDE

Size of Non-Divisible Pool - Federation versus Provinces

Criterion for Distribution of Divisible Pool - Population

- The primary issue with NFC, now is determination of 'Divisible Pool' and its restriction to 50 percent of total taxes collected.
- In earlier periods such 'Divisible Pool' was up to 80 per cent.
- In order to understand it fully, we would have to understand the issue of utilization of funds by the respective governments. If Federation is to restrict itself to defense and foreign affairs then there are serious issues with regard to 50:50 ratio.

NON - DIVISIBLE SUM

Size and Utilization

- So, our basic issue is to determine distribution mechanism rather than disturbing the current collection system. In other words, even in the forthcoming future bulk of revenues would be collected under the Federal Taxes.
- This also leads to the issue of 'Encroachment' where Federation, in addition to its existing constitutional rights (like sales tax on goods) taxes for what is actually taxable by Provinces. This at times is not in line with the Constitutional Provisions where the Federation has the right to tax consumption tax on goods only. The past case is 'Octroi' and the present case is 'Sales Tax on services' and 'CVT on immovable properties'.
- The second question is that such 'Encroachment', if good for the country, should be curtailed or not. The other issue is capacity and capability of the Provincial Government.

DEVOLUTION

Utilization

- On the distribution side, at the moment, the system is tilted towards Centralism and not Federalism.

- If 50 per cent of tax collection is retained by the Federation then this raises the issues of:

  - Utilization and the priorities of the Federal Government;
  - Size of the Federation; and
  - Financial Dependence of the Provinces.

- We are in a strange 'trap' where there is a Central Government like UK with a Federation like USA. This unique model needs to be tailored not destroyed. We can tailor it.

- The first answer is to study the fixation of 50 per cent CAP for the divisible pool.

- In the past, and even at present, in certain manner like children (Provinces) the parent (Federation) provides incentive for collection by the Provinces by way of matching grants. The concept is clear, however, there is a need to convince the Provinces to generate their own revenues.

- In this aspect we are in another trap. If the Provinces' share is increased and the divisible pool is extended then so much money is available with the Provinces that they do not have incentive to collect more. We have to look for the way that Provinces are incentive wise to collect more. At the moment, their resources are meager and their argument for stagnation (though not correct) is encroachments, etc. There is a need for a technical, not political, solution for the trap. Matching grant is a good idea.

- Provincial resources generation can only be achieved if it works in coordination with the Federal system. Provincial and Federal Tax Systems have to be 'complementary' as both are working on same people and same assets.

CRITERION FOR DISTRIBUTION BETWEEN THE PROVINCES

Balanced Distribution Criterion

- At present the sole criterion is population. This does not exist anywhere in the world.

- There are arguments, for and against, that the sole criterion of 'population', as per an old census, should not be used for allocating the 'divisible pool' between the provinces.
- The criteria other than population that can be incorporated are:

  - Place of Collection
  - Area of Province
  - Level of Development etc.

RESOURCES GENERATION

- Local Level

- In Pakistan, one of the main features leading to abuse of taxation system is lack of apparent utilization. The solution lies in 'Devolution' in the real sense. This leads us to the question of:

	% of Total Collection
Federal	97.5%
Provincial	2.5%
Local almost	0%
	100%

- Sense of ownership can only arise if local revenue generation is improved. This is a technical and academic, not a political issue. This does not mean that generation at Federal level be disturbed.

WAY FORWARD AND SUGGESTIONS

- Independent National Finance Commission including professionals like in India;

- Cut down in non-divisible pool;

- Review of the functions of the Federation;

- Compulsory review after every five years;

- Establishment of Provincial Boards of Revenue;

- Representation of Provincial Boards of Revenue in the Policy Board of Federal Board of Revenue; and

- Distribution between provinces to be on weighted average taking into account:

  - Population
  - Place of collection
  - Area of the province
  - Level of development

Investment Analysis of the Financial Markets

A New Dimension

M. Saood Hashim ACA

Traditionally investment analysis of the financial markets has been focused around fundamental analysis. To many among us, fundamental and investment analysis are two names for the same thing. Though in the developed world, in addition to fundamental analysis, technical analysis has taken roots as an alternative method of analysis, it is still in its infancy in Pakistan. Although my focus is towards technical analysis, it would be convenient to start with a refresher on fundamental approach.

Fundamental Analysis

Being professional accountants, most of us would find nothing new in *Investment Analysis.* When some one asks us our advice on the methodology to analyze a particular market based investment (e.g. some listed company) we respond as follows:

First of all we will analyze the general economic conditions;

secondly, we will evaluate the specific industry environment in which the intended company operates; and

finally we will assess the company itself with particular emphasis on the financial health and projections.

Fairly straightforward. This is what is commonly referred to as *Fundamental Analysis.*

Fundamental analysis looks at the underlying (or intrinsic) value of a company and compares it to the current market price. If the intrinsic value is greater then the price can reasonably be expected to increase and vice versa.

Technical Analysis

Technical analysis is a method of evaluating securities, by analyzing historic prices and volume trends (which are plotted on charts). Technical analysts are not concerned with the security's intrinsic value; instead they look for the market's response to the forces of supply and demand.

The Rationale behind Technical Analysis

Technical approach to investment analysis is based on the following three premises:

(i) Market Discounts Everything

Based on this premise any information - be it economical, political, psychological or otherwise - that can influence the price is already reflected in the price. Accordingly it follows that the study of price action is all that is relevant. The technician sees the price movement as a result of some (known and/or unknown) changes in fundamentals. In a way he is indirectly studying the fundamentals. However, he does not concern himself directly with the fundamentals since they are already reflected in the price and knowing about the specific fundamentals is an unnecessary step in the forecasting process.

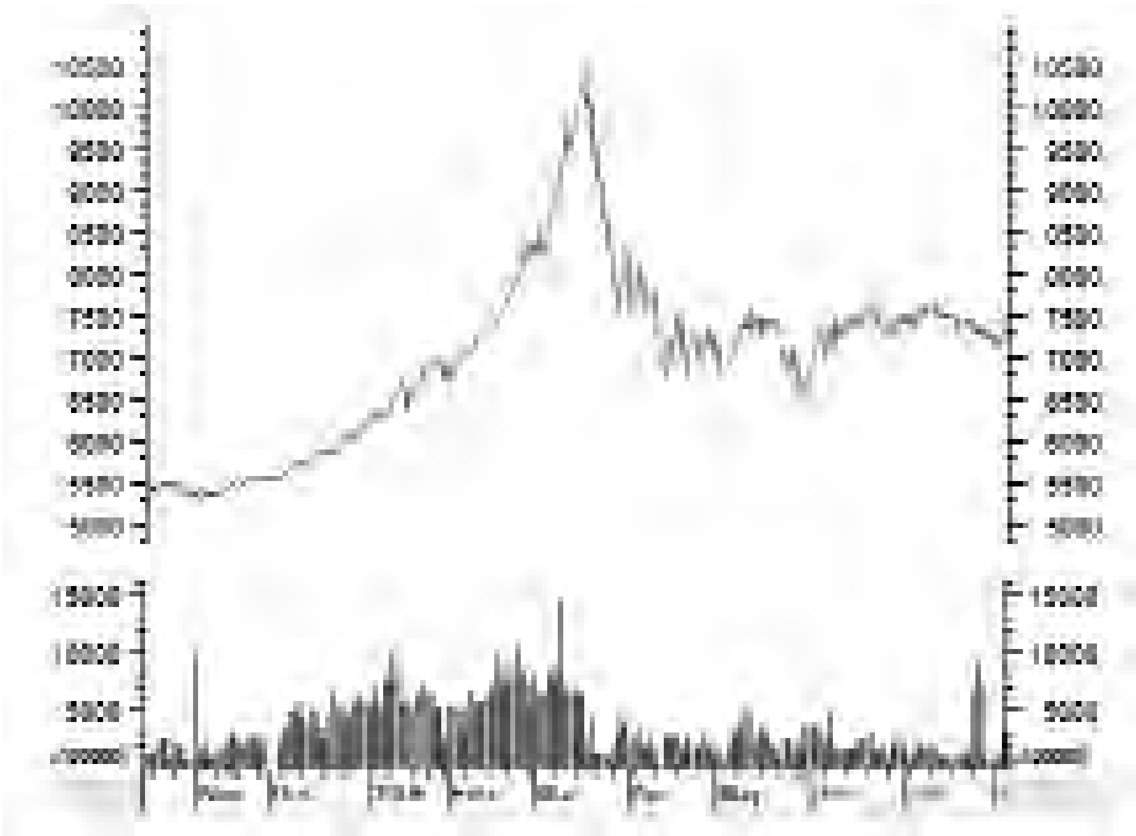


Figure 1 - Daily KSE-100 index bar chart showing the index values and volume. The chart perfectly demonstrates that the market moves in trends. From November 2004 to March 2005 you can see a very strong up trend, and from March 2005 to May 2005 a visible down trend.

(ii) Prices Move in Trends

The sole purpose of charting is to identify trends in the early stages of their development and then trade those trends. Without the validity of this assumption, a substantial part of technical analysis would become worthless.

(iii) History Repeats Itself

Much of the study of market action has to do with the study of human psychology. Chart patterns (refer to the addendum), for example, reflect certain pictures that appear on charts. They reveal the bullish or bearish psychology of the market. They are based on the study of human psychology, which tends to remain unchanged and accordingly it is safe to expect that the historical results will be repeated.

Technical Analysis Tools

Justice can not be done if I try to cover the discussions regarding the many technical analysis tools in use. Complete books have been written and can be written on just one of such tools. However, for the benefit of the reader I have briefly touched upon some of the basic tools of technical analysis in the addendum.

Fundamental versus Technical Analysis

While technical analysis focuses on market action, fundamental analysis examines all the relevant factors affecting the price of the security.

Although both these approaches attempt to resolve the same problem of determining the direction the price is likely to move in, they approach the problem from different angles. *The fundamental analyst studies the cause of market movement, while the technical analyst studies the effect.* The technical analyst believes that the effect is all that is to be studied and the reasons or the causes are unnecessary. However, the fundamental analyst always has to know why.

The Balanced Approach

Often fundamental analysis says something which is 180 degrees off the true trend of the market. Frequently we encounter securities heading south when these analyses forecast a northward direction and at other times we come across securities rising when these analyses predict a collapse.

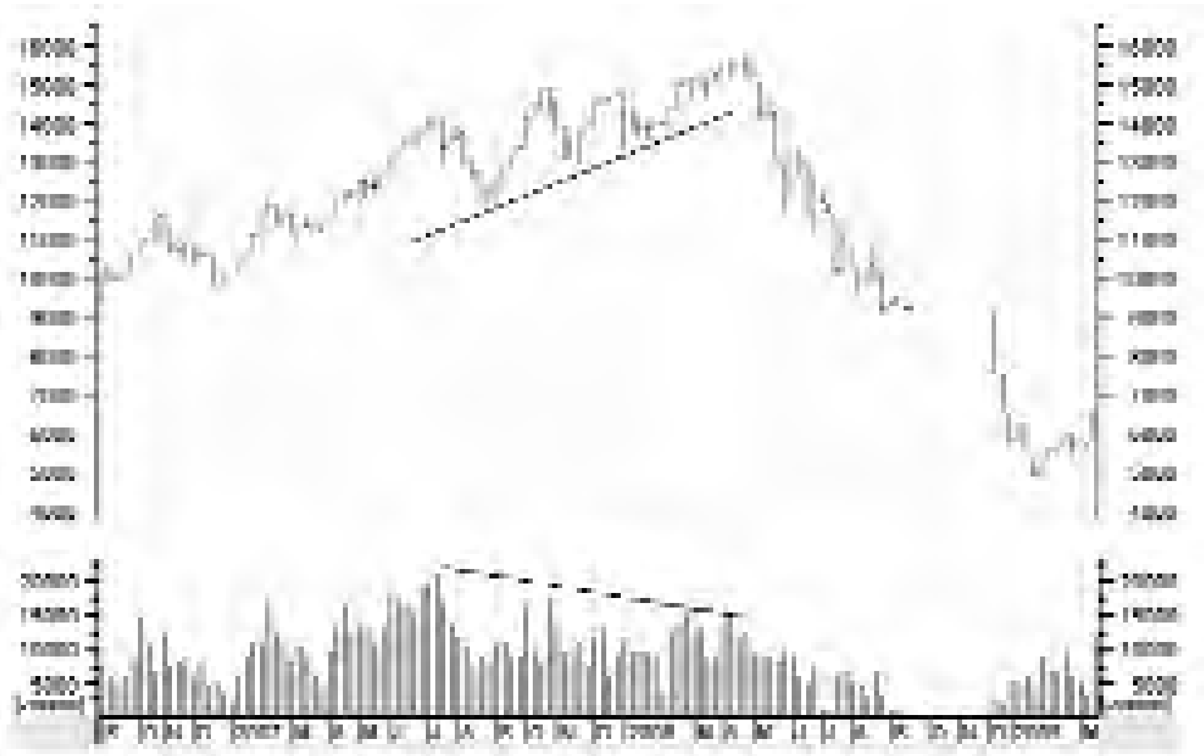


Figure 2 - Weekly KSE-100 index bar chart showing index values and volume. At the recent index high of over 15,500, all the fundamentals were pointing towards a big bull run. However, it actually ended in a major collapse. After the collapse, fundamental news poured which confirmed the bearish spell. However, one technical indicator was pointing towards an imminent danger. The weekly index values were rising, but the weekly volumes were drying up suggesting that the force to drive the market upwards was losing strength. (See figure 4 also).

The answer to this lies in timing the market. To be successful in the market a high percentage of the time, you must know what direction the general market and the intended security are heading and then go in that direction.

In a trending market, generally the fundamental and technical approaches are confirming each other. It is at the beginning of important market moves that they are usually in conflict since the fundamentals do not seem to explain the price movement. Usually they come back into sync at some point later.

One explanation for this apparent discrepancy is explained by technical analysts who view that market price leads the fundamentals or conventional wisdom of the moment.

Technical analysts believe that fundamental information generally available is already impounded in the price and the prices are now reacting to the generally unknown fundamentals. See figure 2. (Also see figure 4 in the addendum).

If investment decisions were solely based on fundamental analysis, you could frequently encounter the 180 degrees problem. Adopting technical analysis on the other hand will enable you to pick much of the move early on. Smart investors (including institutions) will be taking positions in securities (due to knowledge of some generally unknown fundamental) when the general public is closing their positions. This move by the smart investors could be picked up quite early by employing technical analysis methods.

Some enthusiastic technical analysts go to the extent of labeling fundamental analysis as nothing but opinions (often based on personal bias and emotions) on future expected values which may differ from one analyst to another. Though this may be true to an extent, it would be too harsh to completely discard the conventional wisdom of fundamental analysis. Fundamental analysis has stood the test of time and its acceptance in the financial circles speaks for itself.

Through fundamental analysis we can form an opinion on the intrinsic value of a security and if we figure out that its market price is significantly below its intrinsic value we can enlist it as a potential candidate for investment. Technical analysis can then be employed to find the right time to commit money to this candidate.

Employing fundamental analysis in addition to technical analysis gives the added advantage of having an exit target price (the intrinsic value) and having an idea of the potential return on the investment. This return can then be compared with the risk involved and if the risk-return balance is tilted towards the return side of the equation, funds can be committed subject to the timing affirmation from the technical analysis.

Conclusion

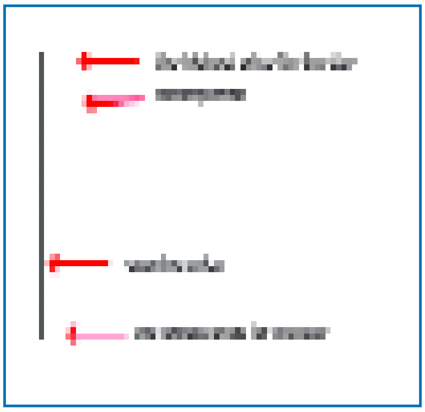
It would be enough to conclude that technical and fundamental analyses are complimentary where fundamental analysis is used to select **what** to buy and technical analysis is used to determine **when** to buy.

Addendum to Investment Analysis of the Financial Markets - A New Dimension

Charts

Technical analysis is almost entirely based on the analysis of price and volume. The price and volume are plotted on various types of charts including line, bar, candlestick charts and many more.

The bar chart plots the opening, high, low and the closing prices for the day (or week, month, hour, minute etc.). Each bar on the chart is plotted in the following manner:



Volume is plotted as a histogram at the bottom of the chart. An example of a bar chart with a volume histogram can be viewed in Figure 1 and Figure 2.

Patterns

Based on the premise that history repeats itself, certain patterns have been seen to appear frequently on charts and after their appearance they end up most likely in a similar fashion as they have been ending historically. Some of the patterns include double top, head and shoulders top, double bottom, head and shoulder bottom and many more.

Head and shoulders top is a chart formation that rises to a peak and then declines, then again rises above the former peak and again declines, and then once again rises but does not cross above the second peak and again declines. The first and third peaks are shoulders, and the second peak forms the head. The low made in each case becomes the base, also referred to as the neck line. When the neck line is violated the third time, this pattern is said to be complete and signals the start of a bearish move.

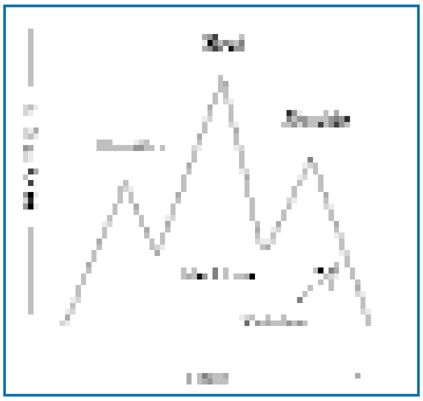


Figure 3 - Example of a head and shoulders top

Indicators and Moving Averages

An indicator is a mathematical calculation that can be applied to a security's price and/or volume fields. The result is a value that is used to anticipate future changes in prices. There are countless indicators being used currently. One such indicator is a moving average.

A "simple" moving average is calculated by adding the security's prices for the most recent "n" time periods and then dividing by "n." For example, adding the closing prices of a security for most recent 20 days and then dividing by 20. The result is the security's average price over the last 20 days. This calculation is done for each period in the chart and then plotted on the same chart as the price. A simple technical trading system would be to buy when the security's price rises above its moving average and sell when the price falls below its moving average.

Other famous indicators are Relative Strength Index and Moving Average Convergence Divergence.

Support and Resistance

Support levels indicate the price where the majority of investors believe that prices will move higher and for that reason jump in to buy, and resistance levels indicate the price at which a majority of investors feel prices will move lower and hence rush to sell,

It is quite possible that these support and resistance levels are broken. However, quite frequently it is seen that a rising security halts at its resistance level after which it may or may not move on to a higher level. Similarly a falling security halts at its support level and then may or may not move downwards.

There are various methods for arriving at potential support and resistance levels. One of the best ways is to expect support and resistance at previous lows and highs.

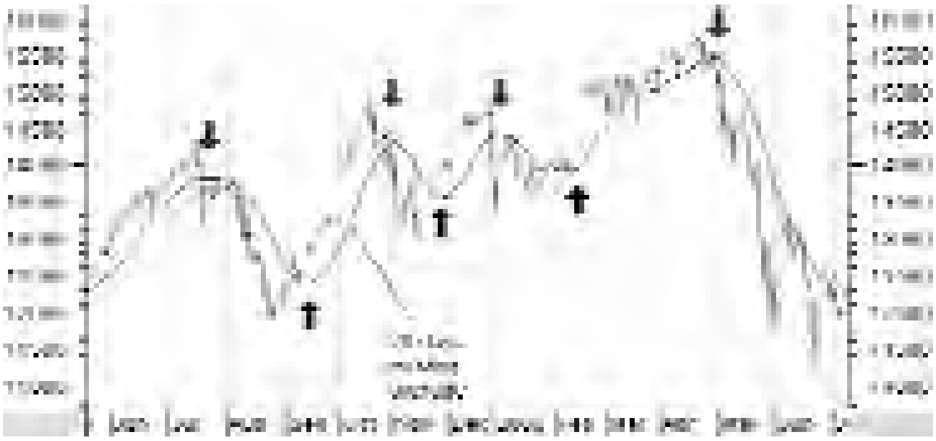


Figure 4 -KSE-100 index bar chart showing daily index values. Notice how effective the 20 days moving average has been in identifying entry and exit points. Also observe the accurate prediction of the May 2008 collapse (See figure 2 also)

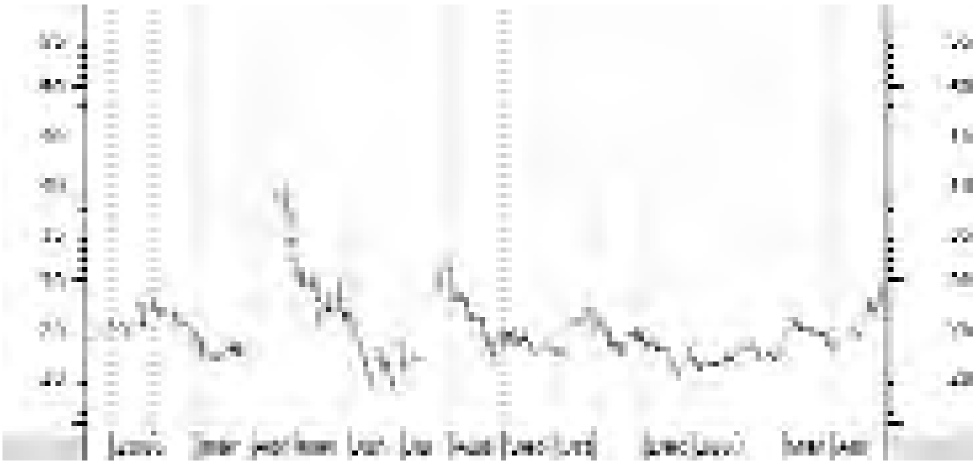


Figure 5 - Azgard Nine Limited (ANL) bar chart showing the daily prices. Notice how effective is the support.near the 20-21 level (the previous low).

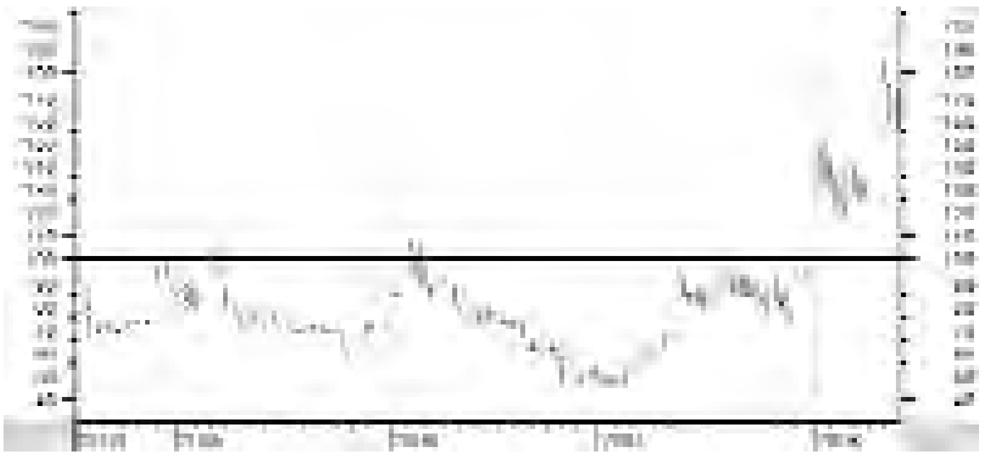


Figure 6 - Dawood Lawrencepur Limited (DLL) bar chart showing the weekly prices. Once again notice how effective is the resistance near the 100-105 level (the previous high). Also notice that at the end of 2007, the price did stop for a while before breaking past the 100 levels.

M. Saood Hashim is a member of the Institute and has been closely following market activity at the Karachi Stock Exchange since 2000. His main focus has been towards technical analysis.

IFRS Versus US GAAP: Key Differences

Mandatory transition to IFRS will translate in to more opportunities for ICAP members in the US and other countries as IFRS becomes the profession's common language

Syed Athar Hussain Zaidi FCA
and Saima Batool

IFRS is a comprehensive, globally accepted set of accounting standards using a principles-based approach with a greater emphasis on interpretation and application of those principles, aiming at best reflecting the financial reality of transactions. It is a less extensive compendium of literature than US GAAP with limited industry guidance and less detailed application guidance.

In November 2008, the US Securities and Exchange Commission (SEC) released a proposed roadmap outlining milestones that, if achieved by 2011, could lead to the mandatory transition to International Financial Reporting Standards (IFRS) starting in fiscal years ending on or after December 31, 2014. It also outlines additional criteria that would allow certain other issuers to elect to use IFRS as early as 2009. The roadmap follows previous action by the SEC in December 2007, when they amended rules to allow foreign private issuers to file financial statements under IFRS without reconciliation to United States Generally Accepted Accounting Principles (US GAAP).

A large number of countries either permit the use of IFRS or require strict reporting under IFRS for their listed companies. More than 40 percent of the Global Fortune 500 use IFRS. Stock exchanges in the 85 countries that require IFRS comprise 35 percent of the global market capitalization, compared to 25 percent of the global market capitalization held by US exchanges.

The European Union (EU) requirement for member countries to use IFRS began in 2005 and several major countries have plans to adopt or converge to IFRS in the near future, including Brazil by 2010 and Canada, India, Japan, and South Korea by 2011. A recent survey of over 200 finance professionals showed that given a choice, 42 percent would consider adopting IFRS before 2014.

There are over 200 key differences between the two standards IFRS and the US GAAP. Examples of pervasive differences are the lack of 'bright-line' rules under IFRS, such as when accounting for leases, and IFRS revenue recognition guidance being significantly less extensive than US GAAP, which can pose many challenges as revenue recognition is the number one financial statement fraud risk.

The time is now for companies, and also for professionals that serve them, to understand the impact of IFRS.

The Impact of IFRS

The transition to IFRS in the US will have wide-reaching consequences for corporate clients and accounting professionals. Continued interaction at various stages of transition, implementation, and subsequent monitoring will be essential to ensure a successful outcome. This could be particularly critical given the pervasive impact across companies, including finance and accounting processes, controls, internal reporting, tax structures, treasury management, compensation arrangements and contracting, among others. Several areas of professional practice may be impacted as follows:

- Corporate legal professionals and accountants who serve management and boards should already be involved in IFRS discussions or plan on doing so in the near future. Strong documentation, policies, procedures, and protocols will be necessary to ensure consistent and uniform application of IFRS across organizations to reduce the risk of litigation based upon the application of principles, and use of management's judgments and estimates.

- Professionals involved in drafting contracts with accounting provisions will need to consider the impact of IFRS on earn-outs, credit agreements, purchase agreements, sales contracts, and bonus plans, among others, as the key drivers of these, such as reported profits, may differ under IFRS compared to US GAAP.

- Contracts drafted to support specific accounting results for leases, derivatives, and securitizations will have to be carefully analyzed, as the requirements will change.

- Additionally, contracts with existing US GAAP or local GAAP provisions, such as debt covenants or income-sharing arrangements, would need to be recalculated if they included

profit before interest, taxes, depreciation and amortization or other earnings-based calculation.

- Moreover, volatility of earnings as a result of greater fair value reporting under IFRS could trigger "material adverse change" provisions in contracts.

- Finally, contracts with "frozen GAAP" provisions, where financial statements are required to be prepared applying the same GAAP used at the time the initial agreement was entered into, would need to be assessed if transitioning from one accounting method to another in order to avoid maintaining two sets of books and records.

- Accountants involved in mergers and acquisitions may witness an increase in cross-border transactions or an increasing number of deals where IFRS is the predominant prescribed accounting method. In addition, the structure of business transactions may be impacted by the difference in classification of debt versus equity under IFRS.

- White-collar defences and corporate investigation and anti-fraud professionals may see a shift in cases to IFRS-based regulatory proceedings or disputes. The level of documentation to support management's judgments and estimates employed to support their reasoning may be key in these cases.

- Accountants and malpractice professionals will need to prepare themselves for the change in the way audits are performed under IFRS and the requisite new auditing methodologies and processes. Tax lawyers and accountants will need to work with their clients to strategize and reorganize tax structures that may be significantly impacted by IFRS.

- It should, however, be noted that IFRS requires a much greater exercise of judgment, supported by contemporaneous analysis and documentation than US GAAP. IFRS totals approximately 2,330 pages. If you printed out both sets of standards - the IFRS and the US GAAP, the IFRS stack would rise to just above your ankles while the US GAAP stack would be several feet over your head. Having reported the latest facts both about IFRS and US GAAP, we feel a challenge lies before ICAP to help its members tap in to more opportunities by seeking full recognition of their qualification in the west, particularly in the United States of America, as the US GAAP would remain of academic significance only.

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More iTax Revenue

Abdul Wahid FCA

Budget is annual regular item for the first week of June every year. Decades ago when the government financial year was closed in March, the budget used to be announced in the end of February or early March. Before the budget, stocks of productions are stored and held by the dealers, in expectation of rise in price, due to more tax, sales tax, custom duty, excise duty, etc.

Government wants more revenue to strengthen its defense, law and order, health, education, development projects and to meet the rising cost of living. Only very few tax payers are wholeheartedly tax payers. Every tax evader has a different way, trick of trade and scheme of avoiding tax. No strict formula can be framed out. It requires experience, common sense, familiarity with tax evasion, honesty to the government and loyalty to the country, which is very rare.

In the following lines, we shall take up the proposals for increasing government revenue. Every subject discussed here is a complete topic in itself, sufficient for seminars for days,

books, arguments, discussions and still no consensus. No doubt, every tax payer has a question as to what he is getting for the payment of income tax, when they also see several rich men getting lots of income, free of tax or with little tax, like agriculture landlords.

1. Withholding tax on telephone:
Up to last two years withholding tax on electricity was adjustable and refundable but last year it was restricted to only few. Similarly, if withholding tax on telephone is also made non adjustable / refundable this year, sufficient more revenue can also be expected.

2. Withholding tax is almost a compulsory deduction at different rates for various items. In practice it is not strictly followed. Considering it to be a burden on the seller, the rates are increased or withholding tax is not deducted. Provision in the law should be made that if a withholding tax is not deducted, it shall be payable by the company or payer responsible for enforcing WHT.

3. 6% on professional services:
Only two years ago, it was introduced. Prior to it all the professionals were paying tax according to their incomes. The plea for fixing 6% was that income from professionals is much more relative to the tax collection on it. No doubt, the argument appears quite convincing but no one considered the hardships to professionals with low incomes and extra savings to the professionals with big incomes and lesser income tax, now @ 6% only. Instead of introducing compulsory 6% tax on professional incomes, Federal Board of Revenue (FBR) should have taken up detailed inquiry, investigation and audit into the cases of lower- or non-payment of tax. At the most, this 6% limit should have been made minimum tax rate without any upper limit.

4. Adjustable withholding tax on domestic air tickets and air conditioned railway sleepers may also be considered.

5. Salaried *Assessee*:
They are the largest group of assessees. Salaried persons are claimed and so considered the most pitiable taxpayers. It is said that they have no chance of evading taxes. They are given lenient treatment, avoidances and relief in many fields. Actually speaking, drafting of the Finance Ordinance, Budget, Amendments and issue of SROs are all handled at all the stages by the assesses of this category. Following aspects would bring up some short comings:-

(a) Not all, but few especially good government servants have part time jobs, generally as an employee but sometimes as consultants or advisors. They are classified here as good because to meet their expenses, they prefer to work extra. There is no way to get both their salaries brought together for tax calculation.

(b) In a salary circle, if there are cases in many thousands it is humanly impossible for an officer and his three or four staff members to keep their record intact to say nothing of reading and checking these in about 278 days of the year.

(c) If not all, at least one third of the salaried assesses would be having other sources of income such as part time jobs, bank profit, dividend, property income, agricultural income, share in other business etc. For the last few years, salary certificate from the employer is considered to be sufficient as return. The new salary income tax return form, if modified to include other sources of income can cover this shortcoming.

(d) For NGOs and other organizations supported and financed from foreign countries, a little vigilance will show that most of the foreign workers are working free and do not get any remuneration here. They live here alone or even with families. They pay for food, clothing and rent. Actually, most of them are paid in their home countries out of which they take out their expenditure. These are shown as honorary workers, which is not the fact. They may not be taxed in their home country or financing country as under the double taxation agreements they are working here.

(e) Bank statement is not a compulsory part of anyone's return but **if once only** it is made compulsory for the salaried persons then lots of other financial activities shall come to light.

6. More Tax Payers

Suggestions:

(a) On electricity and telephone bills there is space for CNIC and NTN but generally these are not filled in correctly. It should be made mandatory for these companies to fill up NTN numbers.

(b) Rates of all sorts of income should be same including property income, prizes on bonds, dividend, bank profits etc.

(c) Differential treatment for lottery, import, export, farming etc. should be at same rate with similar exemption.

(d) For schools, colleges and educational institutions charging high fees, say, more than Rs.1,000 per child per month, must also provide CNIC/NTN of the father or guardian.

(e) Similar, to electricity, telephone, WHT be charged on gas bills above an amount that may be fixed.

Interest Rate Swaps

This article analyzes the peculiarities of one of the most important derivative products Interest Rate Swaps (IRS) . Effort has been made to analyze both the structural and valuation intricacies of the product.

Waqas Farooq ACA

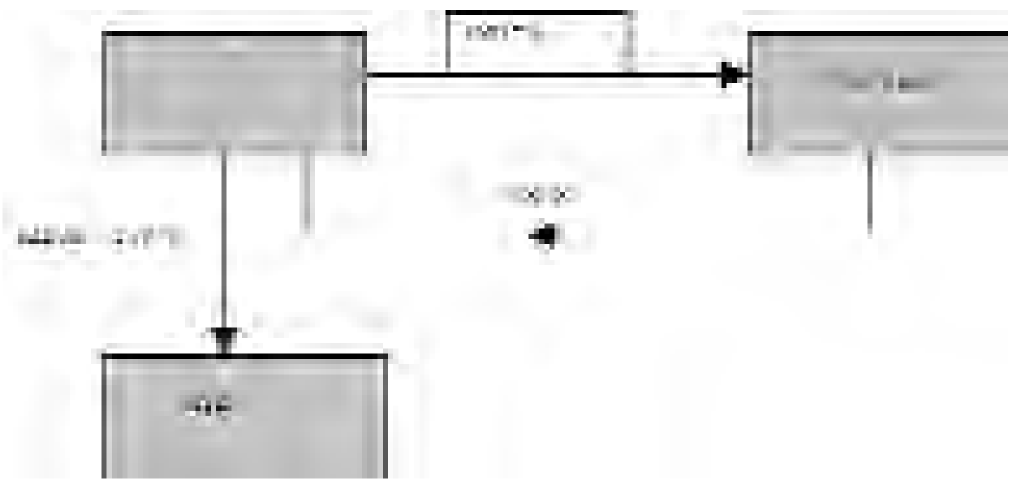
Introduction

An interest rate swap is a contract between two counterparties to exchange periodically interest payments (fixed for floating and floating for fixed). The payments are in the same currency (other than in cross currency interest rate swaps in which payments in different currencies are exchanged) and are calculated on a notional principal amount (this amount is called notional as this is used only for the computation of interest payments and is not exchanged between counterparties). As per the contract, on each payment date (also referred to as reset date/settlement date) during the swap period, the cash payments based on difference in fixed and floating rates are exchanged by the parties from one another. The party incurring a negative interest rate differential for that leg pays the other counterparty (this is called net cash settlement/netting).

Example

On 30 June 2007, Party A ("A") takes Rs. 50 million long term loan facility from XYZ Bank ("XYZ") at 6 months KIBOR (Karachi Inter-Bank Offer Rate) plus 2% spread with the maturity of 4 years. A is concerned about rising trend of KIBOR and it simultaneously initiated an IRS on 30 June 2007 with ABC Bank ("the Bank"). As per the terms of the IRS, A agrees for a period of 4 years to pay ABC Bank interest at 7% per annum (with semi-annual payments) on Rs. 50 million (notional principal) in return for receiving interest on Rs. 50 million at 6 month KIBOR, payments to be made semi-annually.
The first payment would be exchanged on 31 December 2007 (i.e. 6 months after 30 June 2007). A would pay the Bank Rs. 1.75 million, this is the interest on the Rs. 50 million principal for 6 months at 7% per annum, and the Bank would pay A interest on Rs. 50 million principal at the 6 month KIBOR rate prevailing on 30 June 2007. Suppose that 6 month KIBOR on 30 June 2007 is 6.2%, the Bank would pay Rs. 1.55 million (Rs. 50m x 6.2% x _). In net settlement case, A would pay the Bank Rs. 0.2 million (Rs. 1.75m - Rs. 1.55m).

In total there are 8 exchanges of payment on the swap. The fixed payments to be made by A are always Rs. 1.75 million. The floating rate payments on a payment date are computed using the 6 month KIBOR rate prevailing six months before the payment date. If KIBOR is greater than 7% ABC Bank will pay the difference between KIBOR and 7% to A, and if KIBOR is less than 7% party A will pay the difference to ABC Bank.



Reasons for entering into IRS

After understanding the basic concept the question arises as to why one should enter into IRS. One of the primary reasons for entering into the swap arrangement is reducing interest cost (hedging interest rate position). One way in which interest rate position can be hedged through IRS is by fixing the interest cost. As we have seen in the above example Party A has fixed its interest cost at 9% p.a (7% fix rate under IRS and 2% spread over KIBOR as specified in the loan agreement with XYZ Bank). No matter what the KIBOR 6 month would be A would be paying 9% interest per annum. This will benefit A in case KIBOR increases more than 9%.

Apart from above IRS are also used for speculative trading purposes and availing the opportunity of credit quality arbitrage in the different credit markets.

IRS Market

As per the data of the Bank for International Settlements IRS accounts for the largest proportion of the Over the Counter derivatives market.

	Notional Amounts Outstanding (In billion of US Dollars)				
	Jun 2008	Dec 2007	Jun 2007	Dec 2006	Jun 2006
IRS Contracts	458,304	393,138	347,312	291,582	262,526
Total derivative contracts	683,725	595,341	516,407	414,845	370,178
Share of IRS	67%	66%	67%	70%	71%

Source: Bank for International Settlement website

Financial derivative business made its way to Pakistan in 2003. Before the promulgation of Financial Derivatives Business Regulations (FDBR) in 2004 by State Bank of Pakistan (SBP), banks were required to obtain specific transactional approval from SBP. Under FDBR banks are allowed to undertake derivative business provided they meet the eligibility criteria as specified in the regulations and obtain Authorized Derivatives Dealer (ADD) or Non Market Maker Financial Institution (NMI) status from SBP. FDBR contains the regulatory framework for derivatives business and specific requirements for permissible derivative products.

The permitted types of transactions include G7 Foreign Currency Options, PKR Forward Rate Agreements (FRA) and PKR Interest Rate Swaps (IRS). However, banks/DFIs can undertake any other type of transaction with SBP's prior approval.

Statistics of Financial Derivatives Market in Pakistan:

	Notional Amounts Outstanding (In billion of PKR)			
	Dec 2008	Sep 2008	June 2008	Mar 2008
IRS	105	109	99	96
FX Options	38	80	88	183
Cross Currency Swap	146	157	174	172
Forward Rate Agreement	2	7	3	-

Source: State Bank of Pakistan website

Valuation of IRS

After discussing the basic structure of IRS and its market information both globally and in Pakistan we divert our attention to the more complex area that is the valuation of IRS.

Below is a summary of the principles which are generally adopted in the mark to market of IRS. The principles are based on the international theories and practices which may not be applicable completely to the Pakistani environment where the derivative market is still at the infancy stage. The principles mentioned below are then aligned to the Pakistan environment. The valuation model discussed below is one of the many synthetic models that can be used to value IRS.

The revaluation of an IRS involves calculating the net present value of the future cash flows under the swap arrangement discounted at appropriate rates of interest. IRS involves a stream of interest rate cash flow receipts and a separate stream of interest rate cash flow payments. These two streams are generally revalued separately and the results combined to determine the overall market value of the swap. ***Bond pricing method*** with the derivation of ***zero curves*** is used commonly to revalue the IRS. This can be a complex process and there are a variety of practices used.

Under the bond pricing method two legs of the IRS (i.e. fixed and floating legs) are considered as the fixed and floating leg bond issued / purchased according to the positions held in the swap transaction. The party having long position in the fixed leg and short position in the floating leg (i.e. receiving fixed rate from the counter party) will be assumed to have purchased a fixed rate bond and issued a floating rate bond. The party which is long in floating leg and short in fixed leg (i.e. receiving floating rate from the counterparty) will be assumed to have purchased a floating rate bond and issued fixed rate bond. In case of above example Party A is considered to have purchased a floating rate bond from the Bank and issued a fixed rate bond to the Bank. Vice versa is the position of the Bank.

Net present value of the IRS is computed as follow:

- The value of the fixed leg is computed by discounting the fixed leg cash flows, in the above example Rs. 1.75 million every six months and Rs. 50 million notional at maturity, using the appropriate discount rate which is commonly the rate on zero curve of the relevant maturity.

- There is no need to value the floating leg on the premise and common logic that floating rate bonds (floaters) are always traded at the par value because there is no difference in the market interest rate and coupon rate on the floater. Floaters are traded at above or below par value only in following cases:

  - Between two reset dates where the coupon rate is determined and market interest rates are changed between the reset dates; and

  - There is a change in the market sentiment regarding the credit spread of the issuer.

The difference between the value of fixed and floating leg is the value of the swap. It should also be noted that the notional principle amounts included in the fixed and floating leg revaluation offset each other as the notional principal is deducted in one leg and added on the other.

Zero coupon bonds are the type of bond that is issued below par value (i.e. at discount) and redeemed at the par value on maturity. There is no intermediate coupon payments on the zero coupon bonds. In case of Pakistan, Treasury Bills issued by SBP are the best example of zero-coupon bonds.

The zero rate is the rate of interest earned on an investment that starts today and lasts for n number of years. All the interest and principal is realized at the end of n years and there are no intermediate payments.

Many of the interest rates we observe directly in the market are not pure zero rates. Consider a 5 year Pakistan Investment Bond (PIB) that provides 8 % coupon. The price (yield) on this PIB does not exactly determine the 5 year zero rate because some of the return on the bond is realized in the form of coupons prior to the end of year five.

The question arises as to why use the zero coupon rate and not the market yields on the bonds having various maturities? In other words, why there is a need to plot a zero coupon curve and why we cannot use the yield curve? There is a conceptual difference between the yield of 5 year PIB making intermediate coupon payments and the zero coupon bond of the same maturity. The yield on the five year PIB represents the IRR (weighted average yield commonly termed as yield to maturity) of the instrument and assumes that all the cash flows of the bonds during its tenor have the same level of risk including reinvestment risk. This is the reason why all the cash flows are discounted at the same yield to arrive at the market price. On the other hand zero coupon rates take into account the differing level of risk associated with the cash flows in the different maturity band i.e. it recognizes that a cash flow in year 1 is not worth the same as an equal flow in year 2 solely because of the time value of money but also because of the relative risk (most important being the reinvestment risk) associated with each flow. It is also to be noted that the zero coupon method also automatically accounts for the reinvestment risk by using different discount rates for different maturity bands.

Internationally, zero coupon rates for different maturities are determined using following variables / quoted interest rates:

- Treasury spot rates (quoted yields on securities issued by the government)

- Interest rate futures

- Swap rates (internationally quoted by the investment banks to make the swap markets)

In the context of Pakistan only treasury rates are available i.e. the rates on the treasury bills and PIBs issued by SBP, the yields on the same represents the market sentiments on the interest rates in the economy. So any model for the valuation of derivatives must derive the discount rates using yields on treasury securities.

Complexity arises as to how the zero rates should be computed? Zero rates can be computed from the prices of the instruments traded in the marketi.e. T-bills and PIBs. Zero coupon rates upto the maturity period of 1 year are directly available from the secondary market in the form of yield on on-the-run treasury bills. For maturity period of more than one year zero-coupon rates are computed using ***Bootstrap Method***. Bootstrapping is a method for constructing a zero-coupon fixed income yield curve from the prices of a set of coupon bearing products by forward substitution. The most important assumption while using the bootstrapping method is that the prices of the coupon bearing instruments in the secondary market are determined using the arbitrage-free valuation model (i.e. each fixed income security is considered as a package of zero-coupon bond and accordingly its price cannot be determined using single yield) and not the traditional model in which single rate is used to discount all the cash flows of the security. Reconstitution and stripping of treasury securities in a developed market like USA ensures that arbitrage free valuation model is followed; to date this practice is not being followed in Pakistan. Following is the general methodology of bootstrapping:

- Define set of yielding products; these will generally be coupon bearing bonds like PIBs.
- Derive discount factors for all terms; these are the IRR of the above bonds. The IRR / yield are quoted on the Reuters / Bloomberg.
- Bootstrap the zero coupon curve step-by-step.

In the case of 6 months and 1 year securities where the coupon payments are zero (i.e. they are zero-coupon bonds); there is no need to bootstrap as the IRR on the same represents the zero-coupon rate of that maturity. In the case of other bonds which are making semi-annual coupon payments we need to derive the zero-coupon rate using the bootstrapping method. Below is the computation of zero coupon rate of 3.5053% for the bond with 1.5 years of maturity:

As the bond is trading at par annual yield is same as the coupon rate. Bond will pay interest of Rs. 1.75 every 6 months and principal of Rs. 100 will paid at the end of 1.5 years. As we have assumed that the price of Rs. 100 is determined using arbitrage free valuation model following formula will represent the bond price:

$100 = 1.75/(1+3.00/2)^{0.5} + 1.75/(1+3.3/2)^{1} + (100+1.75)/(1+X)^{1.5}$

Solving the above equation we will get the rate of 1.7527% (annualized 3.5053%). This is the rate that the market would apply to a 1.5 year zero coupon security.
The above approach can be followed to derive the zero-coupon rate for subsequent maturities. It is to be noted that the zero-coupon rates derived above can only be used to value the default free cash flows because they are derived from the securities issued by the SBP and these securities are considered risk-free (i.e. no credit and liquidity risk). This indicates that the rates derived above cannot be used directly to value the IRS and adjustments need to be made to the above rates for credit and liquidity risks. There are various approaches to make the said adjustments. The method generally used in Pakistan is to take the historical spread between the yield on government securities (commonly referred to as the PKRV rates) and KIBOR.

Now its time to apply the valuation methodology discussed above to our example of Party A and ABC Bank IRS. The valuation date is 31 December 2007 and there are 7 interest payments to be exchanged in the future.

Mr. Waqas Farooq is an Associate member of ICAP and currently working with Ernst & Young Bahrain in its Assurance and Advisory Business Services (Financial Sector).

Example of Valuation of IRS

The following example sets out the calculations of the “zero-coupon” discount factors.

Market Price (in Rs.)	Time to Maturity (in years)	Annualized yield to maturity (%)	Zero Coupon Rate (%)
100	0.5	3.00	3.00
100	1	3.30	3.30
‘100	1.5	3.50	3.5053
100	2	3.90	3.9164
100	2.5	4.40	4.4376
100	3	4.70	4.7520
100	3.5	4.90	4.9622
100	4	5.00	5.0650

Date	Period to Next Cash flows (Years)	Fixed rate Cash flows	Zero Coupon Rate (%) *	Discount Factor	Present Value
[A]	[B] = A - 31 Dec 2007	[C] = (50,000,000* 7%*1/2)	[D]**	E] = 1/(1+D/100)^B	[F] = C * E
30-Jun-08	0.5	1,750,000	3.00	0.985329	1,724,326
31-Dec-08	1	1,750,000	3.30	0.968054	1,694,095
30-Jun-09	1.5	1,750,000	3.5053	0.949634	1,661,859
31-Dec-09	2	1,750,000	3.9164	0.926044	1,620,578
30-Jun-10	2.5	1,750,000	4.4376	0.897135	1,569,986
31-Dec-10	3	1,750,000	4.7520	0.869988	1,522,478
30-June-2011	3.5	1,750,000	4.9622	0.844082	1,477,144
30-June-2011	3.5	50,000,000	4.9622	0.844082	42,204,112
				Value of Fixed Leg	53,474,578
				Value of Floating Leg **	50,000,000
				Value of Swap	3,474,578

The swap has positive fair value of Rs. 3,474,578 to ABC Bank and negative fair value of the same amount to Party A.

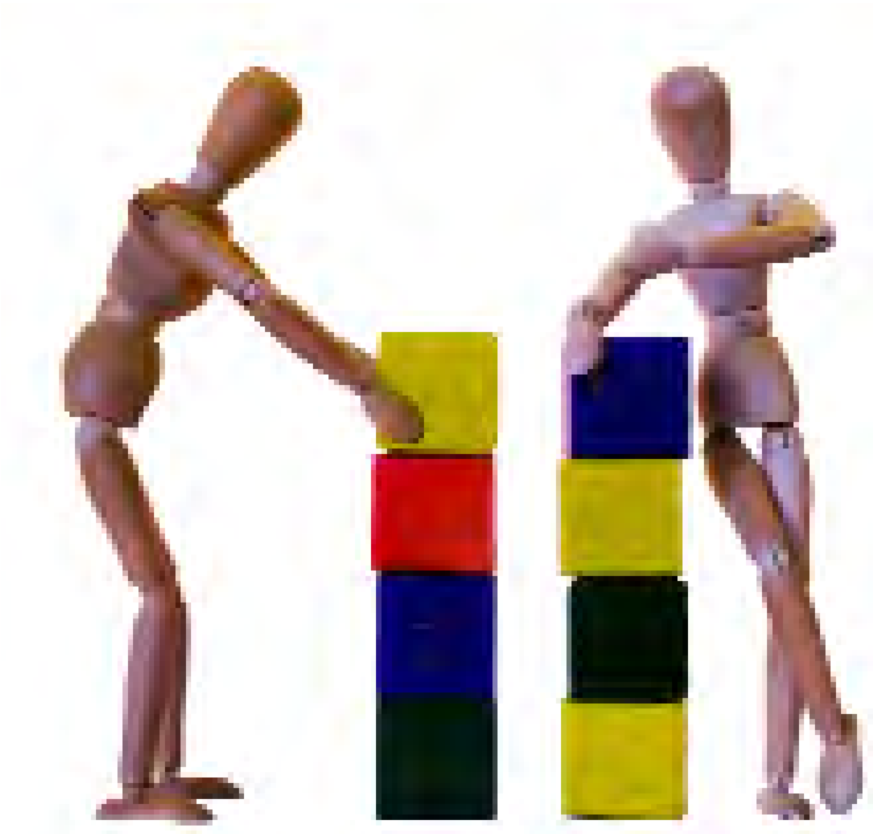
* In the above valuation example zero-coupon rates are not adjusted for credit and liquidity risks.
** At any reset date value of the floating leg is always equal to the notional amount.

Accountants' Role in Controlling Corruption and Fraud

Saira Shamsie ACA

Corruption and it s Impact

Corruption has pervaded all sectors of our society. It may be more prevalent or more obvious in some countries than others. But in today's business environment, the implications of corruption at a local level reach far beyond national boundaries. Corruption has become a major global concern.



The impact of corruption on our society cannot be overstated. It increases the risks and costs of business, damages investor confidence, hampers economic development, and reduces country credit ratings. It brings the integrity of professions and of business into question. It deprives government and regulators of credibility and weakens the forces of law and order. In such a scenario, public morale inevitably suffers and social hardship - particularly in developing and emerging economies - can be the inevitable result.

Malaysia is the first Asian country to implement legislation to protect whistleblowers. The legislation is aimed at protecting directors, management and auditors of public listed companies who report breaches.

What is corruption? Bribery, fraud, illegal payments, money laundering, smuggling - all these come to mind as obvious examples. But corruption does not always involve money: it can present itself in the guise of special favors or influence. In today's complex and rapidly changing environment, the potential variations of corruption are as many as there are criminal minds to devise them. An all-purpose rulebook is inconceivable: the fight against corruption must take the broadest possible approach if it is to have real impact.

Accountants' role as whistle blowers

Ultimate responsibility for discouraging and preventing corruption, whether within the business world or in the public sector, rests with management. By introducing proper systems of corporate governance and "setting the tone at the top," management can significantly reduce the opportunities for malpractice.

But accountants have a key role in society's efforts to reduce corruption. First, as professionals with a duty to protect the public interest, they are bound by rigorous codes of professional and personal ethics calling for the highest levels of integrity and objectivity. Second, their key strategic positions within an enterprise or organisation - whether in an internal position or as an external auditor or adviser - mean that they very often have access to highly privileged and confidential information.

National and international standards of practice already alert members of the accountancy profession, whether or not in public practice, to the possibility of fraud or other irregularities and require them to report any such findings to internal management. But what should the accountant do if management fails to take appropriate action to remedy the situation? In theory, the accountant could take matters further by reporting the misdeed to external authorities. But is it fair to expect the accountant to expose himself or herself to the potential repercussions of such action: job insecurity or loss, professional victimisation, personal danger, threats to family or other third parties? Until such time as appropriate legal infrastructures have been put in place to protect the "whistle-blower" and to raise expectations of responsible action by other professions or sectors of society, is it realistic or reasonable to place this burden on members of the accountancy profession?

The way forward

The International Federation of Accountants (IFAC) urges accountancy bodies worldwide to unite with various professions, the business community, governments, regulators and other organisations to eliminate corruption. Further, Accountants are urged to develop relationships with legislative and regulatory authorities, the legal profession and other groups interested in improving the framework for good governance, transparency and accountability.

The accounting profession's individual role in curbing corrupt practices is emphasised by exercising 'professional skepticism' when establishing business relationships and in reviewing transactions between related parties. Further effort is required to strengthen audit committees role and function in line with international best practices.
The elimination of corruption is an ambitious target. Only with a dramatic increase in public awareness will it be possible to begin the fight.
Accountancy profession both at institutional and individual level needs to play its part in the campaign to create a culture in which corruption cannot survive.

The author is Manager of Directorate of Techinical Services, ICAP

Local Development

The Institute and Federal Board of Revenue have signed an MOU for development and implementation of "Tax Audit Framework" for conduct of tax audit by FBR through Chartered Accountants. This will ensure a fair, transparent and equitable tax administration which will enhance public confidence in the tax system and deter tax frauds.

Outsourcing of Tax Audits to Chartered Accountants

Farheen Mirza

History of Tax Audit by Chartered Accountant's Firms

Section 4A of the Income Tax Ordinance, 1979, inserted in 1996 provided for outsourcing of audit to private agencies. Vide Finance Act 1998 private agencies were substituted by firms of Chartered Accountants (CAs). Income Tax Ordinance, 2001 contained the concept of audit through CAs since its inception. Sub section (8) of section 177 of Income Tax Ordinance 2001 and section 32A of Sales Tax Act, 1990 provides for conduct of audit by CAs.

Background Facts and Circumstances

Accounting income of companies is audited annually by Chartered Accountants. Accounting income is adjusted as per the provisions of the Income Tax Ordinance, 2001 to arrive at taxable income. Relevant information is required to arrive at the taxable income and to verify the correctness of the taxable income. Under the current provisions of the tax laws (Income Tax Ordinance, 2001, Sales Tax Act, 2000 and Excise Duty Act 2005), there is a system of self assessment, that enables the tax payer to determine his own tax liability. Under this system, there is major reliance on the tax payer to file accurate and reliable tax return. However, with all the provisions in the tax laws the results are not very encouraging.

Prevalent Practices in Other Countries

In India there is a well laid down system of tax audit. Section 44AB of Indian Income tax Act provides for Audit by CAs in certain cases. In certain developing countries like Turkey, there is an independent body created by the government that performs tax audit.

Reasons to Develop Tax Audit Framework

The Institute of Chartered Accountants of Pakistan (ICAP) and the Federal Board of Revenue (FBR) desired that there should be a framework that would result in creating a more transparent assessment process and to develop and agree upon an objective of audit so that there is no 'disagreement' and 'disillusionment' for the results.

Main purpose behind outsourcing of tax audit through Chartered Accountants is to establish an objective and effective tax audit system that will create deterrence to mis-declarations in the tax returns filed by the tax payers. Such a system is expected to contribute in developing a culture of compliance with tax laws over time that will help in improving the tax collections as well as to improve the tax to GDP ratio. Tax audit by professionals are conducted to create an environment of 'deterrence' rather than collection of revenue in the short run. The real impact on collection is achievable in the long run.

The purpose of tax audit is to ensure that declarations made by the tax payers are accurate and reliable.

> FBR and ICAP have entered into a Memorandum of Understanding (MoU) for development and implementation of "Tax Audit Framework" for the conduct of tax audit by FBR through chartered accountants.
>
> Outsourcing of tax audit to chartered accountants firms clearly demonstrates the confidence of the Government of Pakistan/FBR in ICAP and the Chartered Accountancy (CA) profession.

Main objective of the tax audit is to create deterrence for under or incorrect declarations of income by the tax payers

Salient Features of the Tax Audit Framework

a. The tax auditor may be appointed at any time after the filing of tax returns;

b. There would be three sets of documents subject to tax audit namely, the income tax return, monthly sales tax cum federal excise duty returns and statement of additional information (collectively referred to as tax statements);

c. The FBR would have the sole discretion for selecting the companies and the auditors for conducting tax audit. ICAP would provide all information available with it relating to the chartered accountant firms, at the request of the FBR;

d. The auditor would issue an engagement letter to the FBR specifically setting out the nature, scope and timing of the tax audit engagement;

e. Statement of additional information would be prepared and submitted by the tax payer to the tax auditor duly signed by the Chief Executive Officer and Chief Financial Officer of the company. In the absence of either of them, signed by a director of the company, supporting the return of income filed. Such statement would effectively provide details relating to the line items in its balance sheet and profit and loss components. In view of the varied nature of businesses and sectors of economy, under this framework, separate models of statement of additional information have been developed to make these relevant for respective sectors. Such statement of additional information would serve to create a bridge between the accounting income and the taxable income and also between production and sales as reported in accounts and tax returns. The audit of these statements would provide a reasonable assurance regarding the fairness of the taxable income.

f. The auditor would issue tax audit report and give his opinion on the information required to arrive at the taxable income and sales tax and federal excise duty payable.

The tax audit report would be addressed to the FBR and include a clear expression of opinion on the fairness of the return of income, sales tax cum federal excise duty returns, and statement of additional information. The tax audit report would explicitly state:

i. whether or not the income tax return and sales tax cum federal excise duty returns are in agreement with the details provided in the statement of additional information;

ii. whether or not the statement of additional information contains information as required by the Tax Audit Framework applicable to the taxpayer; and

iii. whether or not the information contained in the statement of additional information is fairly stated in all material respects.

g. The auditor's responsibility would be to issue a report on the tax statements based on the results of audit procedures performed by him and using his professional judgment. The responsibility of final assessment of income and tax payable remains with the relevant tax officials of the FBR.

h. The relevant officer of tax department would issue the order either accepting or altering the tax return submitted by the taxpayer, and the tax auditor would not be responsible for the content of the order issued except to the extent of the audit report issued by him.

i. Selection of audit firm would be done by FBR without any direct or indirect involvement of ICAP. To ensure independence of the tax auditor, the statutory auditor or tax advisor of a company would not be appointed as Tax Auditor of that particular company. The decision of selection of auditor would lie with the FBR having regard to particular circumstances of each case.

j. A tax auditor appointed under this framework would not express an opinion on the amendments emanating from difference of opinion between the tax department and taxpayer on the tax treatment for any item as disclosed in the return of income. However, the auditor would provide information relating to facts of the matter to the Commissioner of Income Tax / Collector of Sales Tax & Federal Excise including a schedule explaining the history of the said matter in the past year(s).

k. The role of tax auditor would stand completed with the submission of final tax audit report. There will be no requirement for presence in person or furnishing any information during the course of adjudication / appeal and in any other subsequent proceeding.

Responsibility of the Management

Management is responsible for the preparation and fair presentation of these "Tax Statements" in accordance with the requirements of Income Tax Ordinance 2001, Sales Tax Act 1990 and Federal Excise Act 2005. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of tax statements that are fairly stated, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

"Tax Statement" will be prepared by the management from its books and records. The accounting principles will be the same as used in the preparation of financial statements and Statement of Additional Information in accordance with the requirements of Income Tax Ordinance 2001, Sales Tax Act 1990 and Federal Excise Act 2005.

It is essential to note that it is the primary responsibility of the taxpayer to prepare the information in such manner so that the tax auditor can verify the compliance thereof.

Responsibility of the Tax Auditor

Audit of Tax Statements would encompass examination of the return of income, sales tax cum federal excise duty returns and statement of additional information with the audited financial statements, books of account, related records and documents by performing such audit procedures as considered appropriate under the circumstances by the tax auditor in accordance with the Tax Audit Framework.

The auditor would issue report on such return of income / sales at the conclusion of the audit to the FBR and include a clear expression of opinion on the fairness of the return of income, sales tax cum federal excise duty returns and statement of additional information. Such auditor's report may form the basis for the Deputy Commissioner of Income Tax and Deputy Collector of Sales Tax & Federal Excise to frame tax assessment. After receiving the report of the auditors, respective tax officials would issue a notice to the taxpayer and finalize the assessment in accordance with the laid down procedure.

In designing the audit procedures, the tax auditor would consider the possible audit procedures (as considered appropriate by the auditor keeping in view the requirements of International Standards on Auditing, his knowledge of the business of that taxpayer), together with the specific instructions, if any, regarding any areas of examination that need special focus, specified by the FBR.

Amendment in Finance Act 2009 for Conduct of Tax Audit By Chartered Accountants

In Finance Act 2009, following amendment has been made in section 176 and 210 of Income Tax Ordinance 2001:

176 (c) The firm of chartered accountants, as appointed by the Board, to conduct audit under section 177, for any tax year, may with the prior approval of the Commissioner concerned, enter the business premises of a taxpayer, selected for audit, to obtain any information, require production of any record, on which the required information is stored and examine it within such premises; and such firm may if specifically delegated by the Commissioner, also exercise the powers as provided in sub-section (4).

210 (1B) The Commissioner may delegate the powers to a firm of chartered accountants appointed by the Board, to conduct the audit of persons selected for audit under section 177.

Signing of MoU for Development and Implementation of Tax Audit Framework

In order to achieve the above objectives, FBR and ICAP have entered into a Memorandum of Understanding (MoU) for development and implementation of "Tax Audit Framework" for the conduct of tax audit by FBR through chartered accountants. This framework is aimed at laying down necessary requirements and providing guidance to the firms of Chartered Accountants and the officials of the FBR with regard to the scope of work, the reports to be issued by the tax auditors and other relevant matters for effective and efficient conduct of such audits.

The MoU is effective from July 1, 2009 and FBR will determine in consultation with ICAP the date of implementation of Tax Audit Framework. The framework at this stage is for 'Company Cases' only.

Outsourcing of tax audit to chartered accountants firms clearly demonstrates the confidence of the Government of Pakistan/FBR in ICAP and the Chartered Accountancy (CA) profession. The proposed scheme of tax audit outsourcing through CAs will increase the responsibility as well as the quantum of work for our members in audit profession. Thus, this is a great opportunity for our audit firms and our members in practice should capture this opportunity with a great deal of responsibility and due care, which is expected of us in performing such functions. In order to ensure effective liaison and necessary quality controls, ICAP is also considering developing an oversight mechanism to monitor the effective implementation of tax audits carried out by our members.

ICAP has agreed to assist the Government and FBR's endeavors to build a strong tax base and culture of compliance for achieving sustained economic growth and macroeconomic stability. ICAP will also assist in all manner so that its members and firms participate and collaborate in conducting that function.

It is hoped that this process will help in establishing a robust system of tax audit that will help in achieving FBR's objectives of enhancing tax base, increasing tax revenue and improving tax to GDP ratio essential for sustained economic growth. For the profession it represents a contribution to the economy and a source of additional sustained revenue.

ICAP has circulated Tax Audit Framework to members for comments by email on June 23, 2009 and it is also available on ICAP website at: *http://www.icap.org.pk/web/links/0/taxation.php.*

Members are requested to study the same in detail before undertaking any tax audit and seek guidance from ICAP, wherever required.

The author is Assistant Manager of Directorate of Techinical Services, ICAP

Smart Tips for POWER USERS - Microsoft EXCEL Part-II

Zafar Badami FCA

Worksheets provide a sound and instinctive way to manage your data in Microsoft Excel. Many times, multiple worksheets are used to further separate data into categories such as sales or production.

Ability to work with data in multiple worksheets is a essential skill for Excel users. For example, you may required to enter the same data into many worksheets without retyping or copying the text into each one. Or, how can you easily sum the cell values across multiple worksheets? Or, how can you list the names of the worksheets in your workbook?

These five tips for Excel power users will help answer those questions and more.

Enter data in multiple worksheets at the same time

As an example, let's say you want to put the same title text into different worksheets. One way to do this is to type the text in one worksheet, and then copy and paste the text into the other worksheets. If you have several worksheets, this can be very tedious.

An easier way to do this is to use the CTRL key:

- Start Excel. A new, blank workbook appears.
- Press and hold the CTRL key, and then click Sheet1, Sheet2, and Sheet3.
- Click in cell A1 in Sheet1, and then type:

This data will appear in each sheet.

- Click Sheet2 and notice that the text you just typed in Sheet1 also appears in cell A1 of Sheet2. The text also appears in Sheet3.

Sum the value of a cell across multiple worksheets

Another common Excel task is to sum the value of a cell in multiple worksheets and then displaying the result in another cell. For example, you may want to sum the number of a particular product that customers have ordered over a period of time, such as by quarterly periods. If worksheets are formatted in the same way for each period, the total sales for the product always appears in the same cell in each worksheet.

Finding the sum in this situation is simple. You can use a formula:

- Start Excel. A new, blank work-book appears.
- In cell B3 in Sheet1, type **20.**
- In cell B3 in both Sheet2 and Sheet3, type **30.**
- In cell A1 in Sheet1, type the following formula: =SUM (Sheet1:Sheet3!B3)
- Press ENTER. Notice that cell A1 displays **80,** which is the total sum of the cells in the three worksheets.

Run the spelling checker on multiple worksheets simultaneously

You can check your spelling in multiple worksheets simultaneously:

- Start Excel. A new, blank work book appears.

- In cell A1 in Sheet1, type any text you want. Repeat this step for Sheet2 and for Sheet3.
- Press and hold the SHIFT key, and then click Sheet1, Sheet2, and Sheet3.
- On the **Tools** menu, click **Spelling.**

Spell checking is performed on each of the worksheets you selected.

List the names of worksheets

In some instances, it is useful to be able to determine and list the names of the worksheets in your Excel workbooks. For example, you might want to create an index to catalog the worksheets in your workbook. You could then store the results in a separate worksheet. That way, you can quickly find the location of a particular worksheet. Try it out:

- Start Excel. A new, blank work-book appears.
- Add a command button to the worksheet:
    - Select Sheet1.
    - On the **View** menu, point to **Toolbars** and then click **Control Toolbox.**
    - Click the **Command Button.**
    - Click somewhere on the worksheet to insert the command button, and then click and drag the borders of the command button to size it.
- Now, add Visual Basic code to the command button:
    - Right-click the command button, and then click **View Code** on the shortcut menu.
    - In the Microsoft Visual Basic® Editor, enter the following code between the Private Sub CommandButton1 statement and the End Sub statement:
    - Set NewSheet = Sheets. Add(Type:=xlWorksheet)
    - For i = 1 To Sheets.Count
    - NewSheet.Cells(i, 1) Value = Sheets(i).Name Nexti
- On the **File** menu, **Click Close and Return to Microsoft Excel.**
- On the **Control Toolbox**, click Exit Design Mode to quit design mode and enable the command button.
- Click the command button on Sheet1.

A new worksheet is created, listing the names of all the worksheets in the workbook.

Test to see which worksheets have been selected

You can select multiple worksheets by holding down the SHIFT key, and then clicking each worksheet name. Sometimes, you may want to know which worksheets have been selected so you can use that information for other purposes. For example, you may want to make calculations for just those worksheets that the user has selected. The following steps expand on the example demonstrated when we summed the value of cells across multiple worksheets.

- Start Excel. A new, blank workbook appears.
- Select Sheet1.
- On the **View** menu, point to **Toolbars** and then click **Control Toolbox.**
- Click the **Command Button**.
- Click somewhere on the worksheet to insert the command button, and then click and drag the borders of the command button to size it.
- Right-click the command button, and then click **View Code** on the shortcut menu.
- In the Visual Basic Editor, enter the following code between the Private Sub Command Button1 statement and the End Sub statement:
    - Dim Sht As Object
    - Dim arSheetNames() As String
    - Dim i As Integer
    - i = 0
    - For Each Sht In ActiveWindow.SelectedSheets
    - i = i + 1
    - ReDim Preserve arSheetNames(1 To i)
    - arSheetNames(i) = Sht.Name
    - Next Sht
    - startSheet = arSheetNames (LBound(arSheetNames))
    - endSheet = arSheetNames (UBound(arSheetNames))
    - Worksheets ("Sheet1").Range("A1") .Formula = "=SUM (" & startSheet & ":" & endSheet & "!B3)"
- On the **File** menu click **Close and Return to Microsoft Excel.**
- On the **Control Toolbox,** click **Exit Design Mode** to quit design mode and enable the command button.
- In cell B3 of Sheet1, type the value **20**.
- In cell B3 of Sheet2, type **30**, and then in cell B3 of Sheet3, type **40** Click Sheet1**.**
- Hold down the SHIFT key, and then click Sheet1 and Sheet2 to select just those worksheets.
- Click the command button on Sheet1 and notice that the value displayed in cell A1 is **50**. This is the sum of cell B3 for Sheet1 and Sheet2.
- Hold down the SHIFT key and click Sheet3 so that all three sheets are selected. Notice that the total in cell A1 is now **90**, which is the sum of cell B3 for all three worksheets.

The author is Director of Education and Training, ICAP.

ICAP
Elections 2009 in Pictures

The Day Begins

ICAP electoral staff at Facilitation Center

ICAP electoral staff with Election Committee Chairman Majeeduddin Khan

> We make a mistake assessing an election campaign as if we were judging a prize fight --- focusing only on the skills of the contestants and what is happening in the ring. An election more resembles the process at an art auction. To determine whether bidders will prefer a Rembrandt or a Picasso, you need to factor in the taste of the customers --- their beliefs, their values. Indeed, the value of a painting, or the quality of a candidate, lies in the eyes of the beholder.
>
> Alan Baron

Election Committee and Election Officers oversee final arrangements

ICAP IT staff responsible for conducting E-voting

ICAP ladies out in full force

Final Touches! Executive Director ICAP Moiz Ahmad in consultation with EC Chair

Candidates queue up to welcome voters

Great Voter Turnout

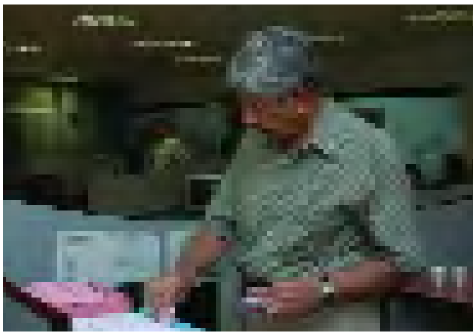
Female members were equally enthusiastic

A view of the gathering

ICAP Elections

President ICAP Syed Asad Ali Shah

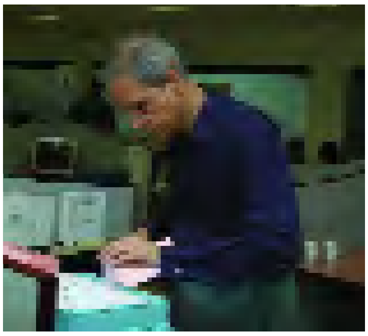
Executive Director ICAP Moiz Ahmad



Chairman Board of Studies Fazal Husain Saifee

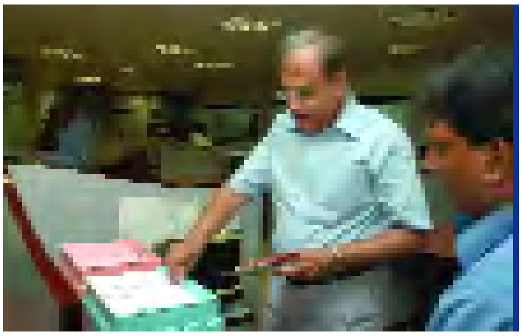
Council Member Ahmad Saeed

Council Member Abdul Rahim Suriya



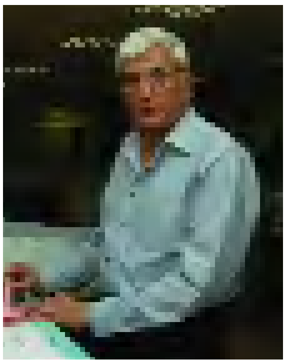
Ahmed D. Patel

Ebrahim S. H. Dahodwala

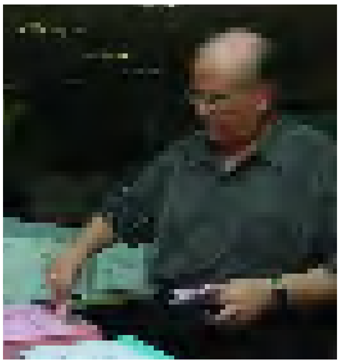


Najam I. Chaudhri

M. Afzal Munif



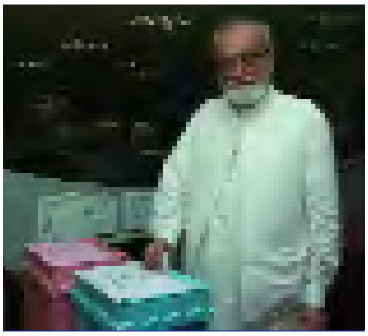
Pir Mohammed A.Kaliya



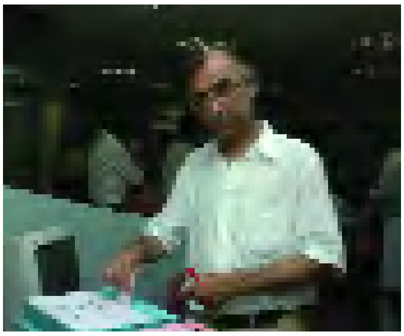
Masoud Ali Naqvi

A. Husain A. Basrai

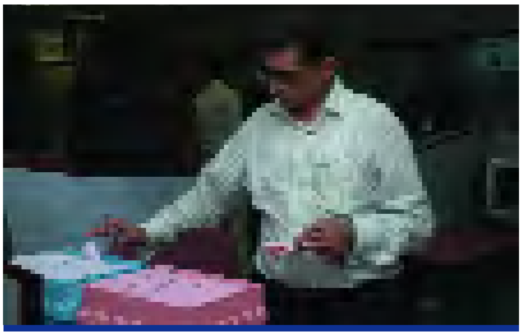
ICAP Elections



M.Yousuf Adil

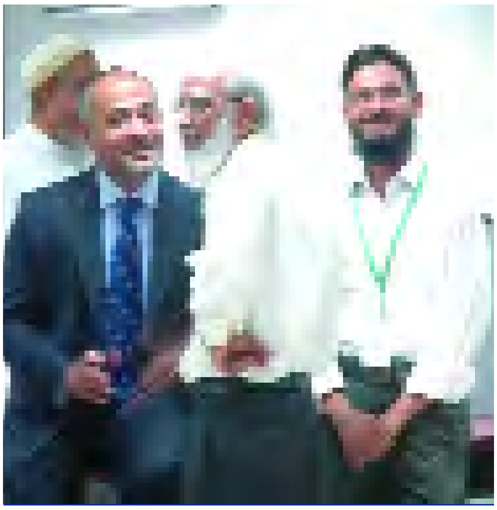


S.M.Shabbar Zaidi

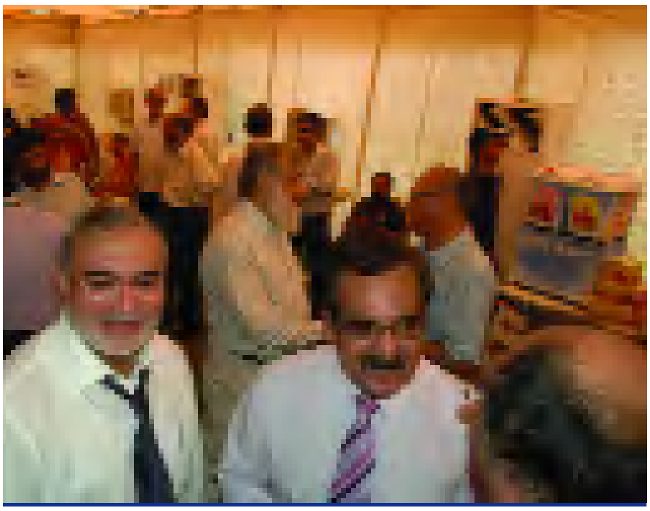


Zafar Iqbal Sobani

Shabbar Zaidi and Farrukh Junaidy share a light moment



All's well that ends well. Shoaib Ahmed Secretary ICAP heaves a sigh of relief



Shaikh Saqib Masood and Pervez Muslim

Syed Asad Ali Shah with M. Yousuf Adil

Best Corporate Report Awards 2008

The Joint Committee of the Institute of Chartered Accountants of Pakistan (ICAP) and Institute of Cost and Management Accountants of Pakistan (ICMAP) announced the final results for Best Corporate Report Awards 2008. The ceremony was held on June 15, 2009. Chief guest Syed Salim Raza, Governor, State Bank of Pakistan distributed the awards and certificates to the winning companies of seven sectors.

Syed Asad Ali Shah, President ICAP, Mr. Hasan Bilgrami, President ICMAP, Mr. Muhammad Rafi, Chairman of ICAP and ICMAP Joint Committee and Mr. Abdul Rahim Suriya, Chairman of Evaluation Committee expressed hope that regular presentation of Best Corporate Report Awards will go a long way in improving disclosures, quality and transparency of information in annual accounts.

Syed Salim Raza said that the Best Corporate Report Awards are promoting greater and more effective communication of financial and other information by companies to their stakeholders through the publication of timely, informative, factual and reader friendly annual reports. It also aims fostering a spirit of competitiveness amongst companies in striving for excellence in corporate reporting.

Syed Asad Ali Shah highlighted the importance of transparency in annual accounts. He said that the annual reports are the single most important source of information that the public relies upon in making sound investment decisions. Investors equate high quality annual reports as an integral part of high quality management and Corporate Governance and the purpose of Best Corporate Report Award is to recognize those companies who have provided most appropriate information in their annual reports that is useful to the investors.

RESULTS

All companies are grouped in following categories:-

i) Financial Sector
- a) Banks
- b) NBFC s

ii) Non-Financial Sector
- a) Engineering
- b) Fuel and Energy
- c) Chemical and Fertilizers
- d) Textile
- f) Miscellaneous

In each sector five best reports had been short-listed except for Textile Sector in which there was only one company received Certificate of Merit. The sector wise position of the Companies is as follows:

Engineering

1	Siemens (Pakistan) Engineering Co. Limited
2	Crescent Steel & Allied Products Limited
3	International Industries Limited
4	Hinopak Motors Limited
5	Atlas Honda Limited

Fuel & Energy

1	Pakistan Petroleum Limited
2	Pakistan Oilfleds Limited
3	Attock Petroleum Limited
4	Oil & Gas Development Company Limited
5	Attcock Refinery Limited

Chemical & Fertilizer

1	Fauji Fertilizer Company Limited
2	ICI Pakistan Limited
3	Glaxosmithkiln Pakistan Limited
4	Dawood Hercules Chemical Limited
5	Sanofi Avantis Pakistan Limited

Financial Sector - Banks

1	Askari Bank Limited
2	Allied Bank Limited
3	Faysal Bank Limited
4	Meezan Bank Limited
5	MCB Bank Limited

Financial Sector - NBFCs

1	IGI Insurance Limited
2	Atlas Insurance Limited
3	Arif Habib Securities Limited
4	Adamjee Insurance Company Limited
5	New Jubilee Insurance Company Limited

Miscellaneous Sector

1	Rafhan Maize Products Company Limited
2	Pakistan Tobacco Company Limited
3	Shakarganj Mills Limited
4	Security Papers Limited
5	KSB Pumps Company Limited

Textile Sector

1	Certificate of Merit was awarded to Kohinoor Mills Limited

Siemens (Pakistan) Engineering Company Limited got over all top position in the competition of the Best Corporate Report Awards 2008.

DEAD AID:
Why Africa is so much poorer after receiving billions of dollars in aid?

In a new book, controversial economist Dambisa Moyo argues that aid to African countries, whether from governments or celebrities, is doing more harm than good.

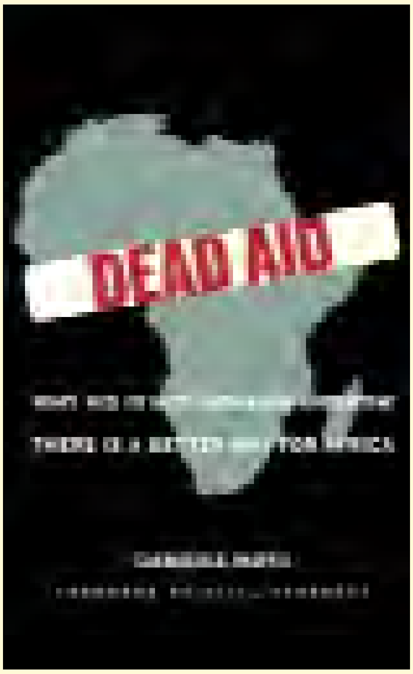
Dambisa Moyo, 40, a former investment banker, born in Zambia and educated at Harvard and Oxford, author of Dead Aid has been named one of TIME magazine's 100 Most Influential People in theWorld in 2009.

In *Dead Aid*, Dambisa Moyo confronts one of the most controversial issues of our time: that billions of dollars in aid sent from wealthy countries to developing African nations has helped to reduce poverty and accelerate growth. In the past fifty years, more than $1 trillion in development-related aid has been transferred from rich countries to Africa, but it has failed to lift millions of recipients out of poverty, hunger and illiteracy. In fact, poverty levels continue to escalate and growth rates have steadily declined.

Dead Aid describes the state of postwar development policy in Africa and contends that aid has made African governments unresponsive to the real needs of their people and indifferent to the private sector. It props up corrupt governments and, in the worst cases, it has abetted regimes that have destroyed some African countries. In the book, Moyo draws a sharp contrast between African countries that have rejected the aid route and prospered and others that have become aid-dependent and seen poverty increase.

Moyo has stated that her arguments are based on those made by pro-market economists like Peter Bauer and William Easterly. Bauer is best remembered for his opposition to the widely-held notion that the most effective manner to help developing countries advance is through state-controlled foreign aid. Like most modern supply-side economists, Bauer stressed the detrimental effects of high taxes on economic activity. Bauer also saw that government-directed investment would increase "inequality in the distribution of power." William Easterly is Professor of Economics at New York University, joint with Africa House, and Co-Director of NYU's Development Research Institute. In *The Elusive Quest for Growth* William Easterly analyzes the reasons why foreign aid to many third world countries has failed to produce sustainable growth. One main reason, according to him, is debt relief which calls for a more scrutinizing process.

Moyo's proposals have ignited criticism from economist and antipoverty crusader Jeffrey Sachs who argues that Moyo fails to establish any scientifically proven causal link between aid and Africa's problems and ignores the many studies showing development aid working, for example her proposal to phase out all government-to-government aid in five years, as well as her failure to acknowledge the progress achieved by aid efforts against malaria and HIV/AIDS in African countries. Moyo, on her part, has stated that her book does not target humanitarian aid to Africa.



Moyo has found allies in Rwandan President Paul Kagame and Senegali President Abdoulaye Wade who have expressed similar views on aid, with a particular focus on reducing protectionism and lowering trade barriers. Kagame also invited Moyo to Rwanda to discuss her thesis and bought copies of the book for his entire cabinet.

Moyo also lambasts celebrities like Oscar winning actress Angelina Jolie and U2 lead singer Bono for "perpetuating a negative stereotype of Africa". In an interview she has said, "I have never, ever, seen any celebrity stand up and say, "Guys, this continent has problems but you know what, look at these positive things that are happening. They have 15 stock markets."

Moyo's enthusiasm over a burgeoning market in Africa is not shared by the World Bank. In a guest article Walk, don't run (The Economist, July 11, 2009), Justin Lin, the chief economist at the World Bank argues that "efforts to create African stock markets have not yet borne much fruit." Excluding South Africa, the annual value of traded shares relative to GDP in Africa is below 5 percent.

In Moyo's defense, the Financial Times (May 23, 2009) noted, "There are plenty of Africans who disagree in whole or in part with what Ms Moyo says. But even they appear to find refreshing the presence of an articulate young African in a debate dominated for so long by aging western academics and rock stars."

Test Your Investment-Knowledge

What is an earnings surprise?

a) When a company's earnings are significantly above or below analyst expectations.

b) When a company decides to not report earnings for a quarter.

c) When company delivers its earnings at an unexpected time.

d) When a company amends and re-releases its previously reported earnings.

The correct Answer is:

a) When a company's earnings are significantly above or below analyst expectations

An earnings surprise occurs when a company's quarterly or annual report is above or below analysts' earnings estimates. Company earnings are watched closely by many analysts and investors. When a positive earnings surprise occurs, the company's share price will usually increase. When a negative earnings surprise occurs, the share price will often decline.

World In Focus

Recovery is Coming

The International Monetary Fund has said that the world economy is starting to pull out of recession though Olivier Blanchard, IMF chief economist, has cautioned that “it is likely to be a weak recovery”.

IMF is marking up its growth forecasts for next year and hinting that it might reduce its estimates for bank losses. However, investors signaled their doubts about the strength of any economic recovery by selling off commodities, notably oil and gold, and stocks.

The IMF now forecasts global growth of 2.5 per cent next year, up from 1.9 per cent in April, led by strong growth in China and India, a rebound in Japan and positive but sub-trend growth in the US. It upgraded its forecasts for Europe too, but still expects the eurozone to contract 0.3 per cent next year, with Germany declining 0.6 per cent.

The IMF did not update its estimates for losses facing banks. It urged further efforts to clean up the banking system, noting that “bank capitalization remains a concern, notably in Europe”.

Mr. Blanchard said governments should prepare for the possibility that further stimulus could be needed. “It may be that private demand is going to be very weak for longer than we anticipated. In that case the fiscal stimulus in some form will have to be continued.”

China’s Economic Growth Accelerates

Analysts expect China to be the first major country to emerge from the global slump. That could help pull the rest of the world out of recession as China buys more raw materials, industrial components and consumer goods from struggling economies of United States and Europe. Earlier this month, the IMF raised its forecast of China's growth in 2009 by one percentage point to 7.5 percent. The World Bank boosted its forecast last month from 6.5 percent to 7.2 percent. According to Goldman Sachs, compared with the previous quarter, China's second quarter growth accelerated to 16.5 percent on an annualized basis.

The Chinese government is trying to reduce reliance on exports by boosting domestic consumption by pumping money into the economy through a massive scheme to construct new airports and other public works.

World Bank Says Remittances are Crucial Link in Global Economy

While foreign investment to developing countries is drying up, remittances are expected to remain relatively stable. The World Bank predicts a 7 per cent fall in 2009, followed by a modest 3 per cent rise the year after. By 2010 remittances will broadly equal net private capital flows to developing countries.

While the biggest aggregate recipients of remittances are India, China and Mexico, countries like Honduras, Lebanon and Tajikistan which are most reliant on remittances tend to be poorer and more unstable. In contrast to previous G-8 gatherings which underlined the risk of remittances being used as cover for terrorist financing, this year's L'Aquila G-8 summit reiterated the aim of making them easier and cheaper by aiming to cut down administrative costs from 10 to 5 per cent in five years.

China Overtakes Japan to Become World’s No.2 Stock Market

China overtook Japan as the world's second largest stock market by value for the first time in 18 months after a $585 billion government stimulus package and record bank lending boosted share prices this year. The Shanghai Composite Index has gained 75 percent this year, the best performing major market against a 5.5 percent advance in the Nikkei 225 Stock Average. The United States has the biggest equities market worth $10.8 trillion.

According to data from Bloomberg, Chinese companies account for four of the ten largest companies by market value. Toyota Motor Corp., the top ranked Japanese company at No. 25 is worth about one-third the capitalization of PetroChina Co., the world's No.1. Japan's nagging deflation, an ageing population and enormous public debt have sapped strength from what was once the world's largest market by capitalization.

Books

Strengths - Based Leadership

Tom Rath and Barry Conchie

Nearly a decade ago, Gallup unveiled the results of a landmark 30-year research project that ignited a global conversation on the topic of strengths. More than 3 million people have since taken Gallup's StrengthsFinder assessment, which forms the core of several books on this topic, including the #1 international bestseller *StrengthsFinder 2.0.*

In recent years, while continuing to learn more about strengths, Gallup scientists have also been examining decades of data on the topic of leadership. They studied more than 1 million work teams, conducted more than 20,000 in-depth interviews with leaders, and even interviewed more than 10,000 followers around the world to ask exactly why they followed the most important leader in their life.

In *Strengths Based Leadership,* Tom Rath and Barry Conchie reveal the results of this research. Based on their discoveries, the book identifies three keys to being a more effective leader: **Knowing your strengths and investing in others' strengths, getting people with the right strengths on your team, and understanding and meeting the four basic needs of those who look to you for leadership.**

As you read *Strengths Based Leadership,* you'll hear firsthand accounts from some of the most successful organizational leaders in recent history, from the founder of Teach For America to the president of The Ritz-Carlton, as they discuss how their unique strengths have driven their success. Filled with novel research and actionable ideas, *Strengths Based Leadership* will give you a new road map for leading people toward a better future.

Available@ amazon.com
Price $15.89

The Return of Depression Economics and the Crisis of 2008

Paul Krugman

In 1999, in *The Return of Depression Economics,* Paul Krugman surveyed the economic crisis that had swept across Asia and Latin America, and pointed out that those crises were a warning for all of us. In the years that followed, as Wall Street boomed and financial wheeler-dealers made vast profits, the international crisis of the 1990s faded from memory. But now depression economics have made a comeback to America with the bursting of the great housing bubble of the mid-2000s. The US financial system has proved as vulnerable as those of developing countries, caught up in earlier crises.

In this updated edition of *The Return of Depression Economics,* Krugman shows how the failure of regulation to keep pace with an increasingly out-of-control financial system set the United States, and the world as a whole, up for the greatest financial crisis since the Great Depression of the1930s. He also lays out the steps that must be taken to contain the crisis, and turn around a world economy sliding into deep recession.

Available@ amazon.com
Price $16.47

Grown Up Digital: How the Net Generation is Changing Your World

Don Tapscott

The Net Generation Has Arrived. Are you ready for it?
Chances are you know a person between the ages of 11 and 30. You've seen them doing five things at once: texting friends, downloading music, uploading videos, watching a movie on a two-inch screen, and doing who-knows-what on Facebook or MySpace. They're the first generation to have literally grown up digital - and they're part of a global cultural phenomenon that's here to stay.

The bottom line is this: If you understand the Net Generation, you will understand the future. If you're a Baby Boomer or Gen-Xer: this is your field guide.

A fascinating inside look at the Net Generation, *Grown Up Digital* is inspired by a $4 million private research study. Don Tapscott surveyed more than 11,000 young people and instead of a bunch of spoiled "screenagers" with short attention spans and zero social skills, he discovered a remarkably bright community which has developed revolutionary new ways of thinking, interacting, working, and socializing.

Available@ amazon.com
Price $18.45

ReKindling the Future of Publishing

Amazon.com will now sell continuing education legal books from the Practising Law Institute (PLI) on its six inch portable electronic reader Kindle which features a built-in wireless network over the Sprint network in US.

Practising Law Institute (PLI), a nonprofit group in the US, that provides continuing education for lawyers is making its books available for sale on Amazon.com Inc.'s Kindle, underscoring the widening appeal of the digital reader.

The Kindle edition of *Copyright Law:* A Practitioner's Guide, by Bruce P. Keller and Jeffrey P. Cunard, is priced at $236, a 20% discount from the $295 print price. Amazon says its goal is to price books as low as possible for customers.

Traditionally, lawyers buy PLI books whose binders allow them to insert new material and discard the old. PLI customers typically receive annual supplements priced at $125. With the Kindle, users will be able to delete old versions of their texts and substitute new books. The digital editions are also searchable.

Many PLI titles are extensively footnoted, with the information often provided at the end of each chapter. The Kindle e-books treat the footnote numbers as 'links', enabling a reader to toggle* between text and footnote.

An average law textbook is easily over 1,000 pages and many are multivolume sets, so that's a lot of information, With Kindle it will be possible to carry an entire law library. According to PLI, 67 of its 90 titles are now available in the Kindle format.

"There are a lot of practical reasons to believe that the digital market may well be more profitable for publishers of legal, medical and educational texts," said Andrew Frank, a vice president at market-research firm Gartner Inc. "Since these texts are reference material, the ability to index them and set up bookmarks, which you can do easily with the Kindle, will save time and money for users."

** Switch between computer operations using the same key or command*

Amazon's Kindle 2 vs Sony PRS-505

The 2 main players of the e-reader market are Amazon's Kindle 2 and Sony Corp.'s Portable Reader System (PRS-505).

Originally released at a cost of $399.00, Kindle 2 has since dropped in price to around $359.00. Though Kindle works outside the US, you will need a US credit card and shipping address to buy e-books. If you are looking for a similar international reader, you might try the Sony PRS.

While Kindle is wireless, Sony relies on broadband connections to purchase and download content. But unlike Sony, Kindle 2 does not support PDF. Instead, Amazon offers its users to send their PDF documents to Amazon's automatic document conversion service which converts the file for free, but charges to send the converted documents back to your Kindle 2.

However, neither the Kindle 2 nor the Sony are cheap, and there's the added cost of content.

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