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ACCA Pakistan technical e-newsletter

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ABOUT ACCA

ACCA (the Association of Chartered Certified Accountants) is the largest and fastest-growing global professional accountancy body with 296,000 students and 115,000 members in 170 countries. We aim to offer the first choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

We support our students and members throughout their careers, providing services through a network of nearly 80 offices and centres. We have established more than 50 global accountancy partnerships, through which we deliver qualifications and a range of services which promote global standards, benefit the accountancy profession and enhance the value of accountants in the workplace. We work closely with more than 470 registered tuition providers and nearly 8,500 employers of accountants and finance professionals.

We use our expertise and experience to work with governments, donor agencies and professional bodies to develop the accountancy profession. We aim to achieve and promote the highest professional, ethical and governance standards and advance the public interest.

ACCA's reputation is grounded in over 100 years of providing accounting and finance qualifications. Our long traditions are complemented by modern thinking, backed by a diverse, global membership.

Augmenting ACCA's strong position in a worldwide market is ACCA's well-respected research programme, generating high-profile, high-quality, cutting-edge research with global focus, wide dissemination and strong emphasis on public policy influence and practical value.

ABOUT ACCA PAKISTAN

ACCA Pakistan is a not for profit organisation established under Section 42 of the Companies Ordinance and is committed to supporting over 20,000 students, affiliates and members in Pakistan and our objectives mirror ACCA's mission above.

Apart from providing support to ACCA students, affiliates and members, *ACCA Pakistan* is involved in projects like the ACCA-WWF Pakistan Environmental Reporting Awards (PERA). *ACCA Pakistan* is also working in the public interest by participating in consultative processes, conducting innovative research and informative capacity building workshops, orientations and seminars. *ACCA Pakistan* is working closely with SMEDA in developing the accounting, finance and taxation skills and knowledge of SME owners and managers.

Further information about *ACCA Pakistan* public interest projects is available on:

www.accaglobal.com/pakistan/publicinterest/

NATIONAL UPDATE

CORPORATISATION, DEMUTUALIZATION AND INTEGRATION OF STOCK EXCHANGES

The Federal Cabinet on 22 January 2008 approved the Ordinance for the corporatisation, demutualization and integration of Pakistan's three stock exchanges. Under this Ordinance, the country's three stock exchanges would be converted to profit entities owned by shareholders.

Local and foreign companies are currently not actively seeking listing on Pakistan's stock exchanges. Modest capital formation is taking place through bourses. Issuers lack confidence in the equity markets. They also generally do not see any value in listing. Growth in mutual funds has not led to a significant increase in the number of investors. Investors' base is small as less than one per cent of the country's population owns shares. The number of shareholders in listed companies has remained almost stagnant over the last several years.

The Corporatisation, demutualization and integration of stock exchanges ordinance aims to encourage local and foreign companies to list on the stock exchanges and also attract more sustained investment in the stock exchanges.

Ever since the approval of the Ordinance, the Islamabad Stock Exchange (ISE) has received an expression of interest from the New Zealand Stock Exchange for a strategic partnership on the demutualization of stock exchanges in Pakistan. ISE demutualization committee is of the view that it is an encouraging development.

The Securities and Exchange Commission of Pakistan is conducting awareness seminars of the Ordinance. In this context, in joint collaboration with the Karachi Stock Exchange a seminar was conducted on 15 February 2008, with a particular focus on merits of corporatisation, demutualization and integration, its

operational issues, future challenges and implications of demutualization ordinance.

For a brief commentary on the issue visit:
www.accaglobal.com/pakistan/publicinterest/TA/TU/

SECP PANEL OF AUDITORS

Even though the recent move by the Securities and Exchange Commission of Pakistan (SECP) to develop a Panel of Auditors out of members of the Institute of Chartered Accountants of Pakistan (ICAP) is being considered as a step towards enhancing the quality and transparency of the audit function; small and medium sized auditing firms have expressed their reservations about the categorisation of audit firms into "A", "B" and "C" categories.

The SECP which at present has no authority over the appointment of statutory auditors for SECP jurisdiction companies except where the companies fail to appoint auditors themselves has through a letter/circular of 8 January 2008 asked ICAP to invite ICAP member firms to submit applications for inclusion in the Panel of Auditors. This Panel of Auditors will be authorised to audit SECP jurisdiction companies.

The SECP move has received mixed reaction. Whereas some auditors have lauded SECP's initiative stating that it will facilitate transparency and quality of audit in Pakistan, a number of auditors have expressed reservations about this development stating that it was an attempt to eliminate small audit firms. The Lahore High Court has restrained the SECP from implementing its proposal to develop a panel of auditors out of the members of the ICAP. The SECP however has been allowed to carry out its plans in respect of insurance companies.

The SECP has already extended the date to 29 February 2008 for the submission of applications by audit firms.

For a brief commentary on the issue visit:
www.accaglobal.com/pakistan/publicinterest/TA/TU/

NEWS UPDATE

CONSULTANTS TO BE HIRED BY THE FEDERAL BOARD OF REVENUE (FBR) FOR TELECOM SECTOR

The FBR has asked for Expressions of Interest to hire consultants for the study of telecommunication sector. The study aims to investigate reasons due to which revenue collected in the fiscal year 2006-07 from the telecom sector was less than expected. The scope of the study would include research areas for example determination of actual amount of revenue collected, revenue mechanisms, components of input and output tax, source and point of entry and regional comparison of the telecom sector.

For more information visit www.fbr.gov.pk

NO WITHHOLDING TAX (WHT) ON ADDITIONAL SALES TAX FOR COMMERCIAL IMPORTERS

The FBR has directed customs authorities to exclude 2% additional Sales Tax while calculating withholding tax on imports made by commercial importers. This would mean including 15% Sales Tax on import value instead of 17% when calculating withholding tax on import product.

PIA SUKUK BONDS

PIA has appointed Standard Chartered Bank and Meezan Bank led consortium as lead managers for the issuance of its proposed global and local Sukuk bonds respectively.

Global bonds are aimed to raise \$250 million from the international market, whereas local bonds will raise PKR 13.7bn (\$225m) from the local market. Both the bonds will carry the same interest rate.

The proposed issue of Sukuk bonds is the part of restructuring plan for PIA, which intends to stabilise the state owned airline, which is currently facing an immense financial crisis.

INTERNATIONAL UPDATE

YAHOO TAKEOVER BID BY MICROSOFT

Yahoo! Inc. was incorporated in 1995. The Company, together with its consolidated subsidiaries is a global Internet brand and a trafficked internet destination worldwide. Yahoo serves more than 500 million people across the globe.

Due to the internet bubble burst, the company ran into problems in 2000 and 2001. Its share price collapsed, it laid off employees and replaced its Chief Executive Tim Koogle, with Terry S. Semel, a former Warner Brothers Executive. Mr. Semel tried to diversify the company into fee-based services and online commerce.

Yahoo was able to survive the problems faced in 2001 and 2002 due to massive advertising revenues that Yahoo was still able to generate. Google however was fast gaining popularity and cutting into Yahoo's advertising revenues. To add to Yahoo's problems, Microsoft also entered the arena. Yahoo started losing advertisement revenues to its competitors. In 2007, Yahoo's profits and forecasts dropped significantly. It was forced to cut jobs. Its share price fell. Investors were disappointed. Analysts' ratings were slashed.

At the beginning of 2008, Chief Executive Jerry Yang predicted a tough 2008 and declared that he had to cut down jobs by nearly 7%. In February 2008, the global internet brand "Yahoo" stood vulnerable to an unsolicited take over by Microsoft, when Microsoft made a \$42 billion takeover bid.

Yahoo officially rejected Microsoft's bid, saying that the bid substantially undervalued the business. Rather than sending a reply to a letter from the Microsoft Chief Executive, Yahoo issued a statement saying that it was a unanimous decision that the proposal was not in the best interests of Yahoo and its stockholders and that the board was continually evaluating all of its other strategic options.

Yahoo investors urged Microsoft Corp. to raise its \$42bn bid and also warned Yahoo that it had few options left, raising the pressure on them to seal a deal. Analysts expect Microsoft to raise its bid to at least \$35 a share, but some believe it could be persuaded to go as high as \$40 a share.

As Yahoo struggles, the world watches in anticipation whether Microsoft would be able to take over Yahoo.

U.S. RECESSION'S SOFT IMPACT ON CHINA

U.S has always been considered a giant in terms of the size of its economy. Western experts are of the view that recent fears of recession in the U.S. due to downfall in output during the last three months of 2007, lower consumer spending and lay-off of 17,000 jobs during January 2008 will adversely impact major economies all over the world, particularly China.

While assessing the extent of U.S recession's impact on the Chinese economy, analysts found out that there are minimal chances of a major impact as China's exports to U.S. contribute only 9% of its GDP with 7% of the workforce working in the allied industries. These figures suggest that China will not suffer due to slipping down of U.S into recession.

Further, the goods produced and exported by China to the U.S are cheaper as compared to local commodities being produced in the U.S. Chinese products are consumed heavily in a routine and it is very difficult to find a substitute.

Thus, it can be concluded that Chinese businessmen are not foreseeing a troubled Chinese economy as a consequence of a prospective recession in the U.S. Rather, Industrial tycoons in China would be foreseeing huge investments opportunities in the real estate of U.S. as did Mitsubishi Estate Company of Tokyo, which went on to buy huge stakes (51% holding for \$846 million) in Rockefeller Centre during the real estate binge during the 80s.

FTSE 350 COMPANIES GO SLOW ON WITH THE CODE OF CORPORATE GOVERNANCE

The sixth annual Grant Thornton Corporate Governance Review concluded that FTSE 350 companies are aiming for compliance with the UK Combined Code of Corporate Governance. 125 companies claimed full compliance but only 11 companies (less than 5 percent) fulfilled compliance and provided appropriate disclosure according to the UK's Combined Code. In 2006 the companies' ratio for complying with code was 34% which increased to 41% in 2007.

A "Survey of Corporate Governance Practices in Pakistan" was conducted by *ACCA Pakistan* as part of the IFC (International Finance Corporation) Pakistan Corporate Governance Programme.

The primary objectives of the survey were the following:

To allow all stakeholders to gain an understanding of the extent to which financial institutions and companies in Pakistan follow good corporate governance practices, in line with Pakistan's Code of Corporate Governance and internationally recognised best practice,

- ◆ To assist both the private and public sectors to close any gaps between best and current practice, by identifying areas for improvement.
- ◆ To provide the PICG (Pakistan Institute of Corporate Governance) and IFC's Pakistan Corporate Governance Project with a baseline on which to focus its corporate governance reform activities.

Some of the key findings of the survey related to awareness of and commitment to good corporate governance practices, compliance with the code of corporate governance, board practices, benefits of adopting corporate governance practices, control environment and processes, corporate governance improvements and documents and barriers to improving corporate governance practices.

The survey report is available at:
www.accaglobal.com/pakistan/publicinterest/TA/CG/.

ACCOUNTING AND AUDITING STANDARDS UPDATE

International Financial Reporting Interpretations Committee (IFRIC) Issues Draft Interpretations (D) on:

Accounting for customer contributions IFRIC D24

For details visit website link:
www.iasb.org/News/Press+Releases/IFRIC+publishes+proposed+guidance+on+accounting+for+customer+contributions.htm

Distributions of non-cash assets to owners IFRIC D23

For details visit website link:
www.iasb.org/News/Press+Releases/IFRIC+publishes+proposed+guidance+on+distributions+of+non-cash+assets+to+owners.htm

International Accounting Standards Board (IASB) issues amendment to improve financial reporting of particular financial instruments

For details visit website link:
www.iasb.org/News/Press+Releases/IASB+issues+amendments+to+improve+the+financial+reporting+of+particular+financial+instruments.htm

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