

The ACCA logo is a red square with the letters 'ACCA' in white, bold, sans-serif font.

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ACCA Pakistan technical e-newsletter

editorial advisory group

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Table of Contents

About ACCA	1
About ACCA Pakistan	1
National Update	2
News Update	4
International Update	6
Accounting and Auditing Standards Update	8

about ACCA

ACCA (the Association of Chartered Certified Accountants) is the largest and fastest-growing global professional accountancy body with 325,606 students and 122,426 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

pensions and tax planning

As the time to file tax returns approach, tax payers around the world explore tax planning mechanisms. The aim of tax planning is to minimise the tax liability as much as allowed by the law. This can be achieved in many different ways.

One of the ways to reduce tax liability is to invest in pension funds. Pension funds can be used as a tool for effective tax planning by taking advantage of the tax credits. Table 1 illustrates how pension funds can be used to reduce tax

Table 1 **Mr Umer Tax Plan 2007-08**

Mr Umer has:

Salary per annum	Rs 600,000
Contribution to pension fund per annum	Rs. 60,000 (10% of gross salary)
Tax Rate	6%

Mr Umer can avail tax credit is as follows:

$$\text{Tax Credit} = A \times B$$

where,

A is the applicable tax rate of the person for the tax year;

B is the lesser of:

- (a) the total contribution paid by the person in the year
- (b) 20% of the person's taxable income for the relevant tax year *
- (c) Rs 500,000

Therefore, the Tax Credit for Mr Umer will be:

$$6\% \times \text{Rs } 60,000 = \text{Rs } 3,600$$

Mr Umer can thus reduce his tax liability by Rs 3,600 for the year (2007-08) if he invests Rs 60,000 in pension funds.

* Provided that the person joining the pension fund at the age of forty-one years or above, during the first ten years (starting from 1 July 2006) shall be allowed additional contribution of 2% per annum for each year of age exceeding forty years. Provided further that the total contribution allowed to such person shall not exceed 50% of the total taxable income of the preceding year

Pension funds were introduced in Pakistan in January 2005 when the SECP (Securities and Exchange Commission of Pakistan) issued Voluntary Pension System (VPS) Rules 2005.

The SECP (Securities and Exchange Commission of Pakistan) has so far given licenses to four companies which are Atlas Asset Management Limited, JS Investments Limited, Meezan Bank Limited and Arif Habib Investment Management Limited to operate as Pension Fund Managers.

Table 2 outlines tax credit available for different amounts of contribution to a pension fund:

Table 2: Tax credits

(Amounts in PKR)

Contribution to pension fund in a Year	Tax Rate %	Tax Credit for the Year	Tax Liability	Reduced Tax Liability
30,000	0.75	225	2,250	2,025
42,000	3.50	1,470	14,700	13,230
54,000	4.50	2,430	24,300	21,870
84,000	7.50	6,300	63,000	56,700
108,000	11.50	11,880	118,800	106,920
144,000	12.50	18,000	180,000	162,000
180,000	15.00	27,000	270,000	243,000
210,000	16.00	33,600	336,000	302,400
240,000	16.00	38,400	384,000	345,600

It can be concluded from the above table that contribution to pension fund can reduce an individual's tax liability against the annual taxable income. Thus pension funds can facilitate tax planning.

news update

reduction in withholding tax on PIBs for foreign investors

Pakistan government in order to increase the demand for the government's debt securities has decided to decrease the tax charged from foreigners investing in Pakistan Investment bonds (PIB) from 30% to 10%. As a result of this change, international investors are supposed to pay 10% on the profit payments, which is exactly equal to the tax paid by the local investors. Bankers and analysts have opined that this tax cut would increase the yield on Pakistani debt instruments for foreign investors, and ultimately make Pakistan Investment Bonds (PIBs) a more lucrative investment option for them. As a result, Pakistani government is hoping to see its foreign reserves increase.

Pakistan Investment Bonds (PIBs) were launched by the government in December 2000. PIBs are the only long term debt securities issued by the government since the termination of Federal Investment Bonds (FIBs) in June 1998. PIBs usually have five tenors of 3, 5, 10, 15 and 20-years maturity. They are available for sale to individuals, institutions banks and other corporations

bank executives' salaries increased by 55%

According to a survey, the annual reports of 90% listed banks reveal that the salaries of bank executive have increased by 55% during 2007. The administrative expenditure (including salaries) increased by 27%. The bank executive salaries amounted to Rs11.203 billion.

Salaries of CEOs increased by 124%. The CEOs withdrew a total Rs1.075 billion in salaries.

issuance of sukuk bonds

In view of the tremendous growth witnessed in Islamic Banking during the recent past, the Government of Pakistan is planning to issue local currency Islamic bonds, or Sukuk. The Sukuk issue is expected to raise \$1.5bn from the local market. In 2005, Pakistan successfully launched \$600 million Sukuk bonds in the international market. This is the first time that the government is targeting local market for such an issue. The finance ministry is planning to launch the bonds in the third quarter of 2008.

The reason behind the local issue of sukuk bonds is that government is hesitant to issue bonds in US \$ or Euro due to growing concerns about the US economy and its possible impact on Europe.

FBR sets eyes at a target of rs 1 trillion revenue collections

As per the press release issued on 19 March 2008, FBR (Federal Board of Revenue) is set to meet the revenue collections target of Rs1 trillion by 30 June 2008. This positive development has come amidst the financial and political crisis that has surrounded Pakistan since December 2007. Although, the originally set target of Rs1.025 trillion is not expected to be met by FBR however, this is the first time that it is hoped that the psychological barrier of Rs1trillion will be crossed during 2007-08 tax revenue collections. The increase in POL (petrol, oil and lubricants) prices has contributed towards achieving the target as customs duty collection increased by 31% during July07-Feb08, as compared to the same period in the last fiscal year. Overall, oil and gas sector has contributed 35% more than the last years' revenue collection (2007-08: Rs24.6bn; 2006-07: Rs18.2bn).

NIB bank turnaround in financial results

On 27 February 2008, NIB Bank Limited communicated to the stock exchanges and the SECP (Securities and Exchange Commission of Pakistan) its stand alone results as well as consolidated results for the year ended 31 December 2007 which showed a consolidated profit after tax of Rs. 480.863 million. The Karachi Stock Exchange reacted positively to the positive profit announcement. The share price of the bank increased by Rs. 0.85 and 39 million shares of the bank were traded on 27 February - the largest shares turnover of the bank during February 2008.

Ten days later, NIB notified the stock exchanges and the SECP that as a result of a subsequent review of the consolidated results, certain 'errors involving the recording of income from certain subsidiaries and associates' have been identified resulting in conversion of the profit after tax of Rs. 480.863 million into a loss after tax of Rs.111.495 million.

The SECP has served a notice on the bank's management on 12 March 2008 seeking explanation for the misstatement. Even though SECP has received a clarification from NIB, it has still decided to conduct an in-depth investigation into the confusion created by the announcement of two different results in a span of ten days so as to ascertain the real facts and to prevent recurrence of such errors in the future.

Please visit
pakistan.accaglobal.com/pakistan/publicinterest/TA/TU/
for further details.

administrative changes at PIA

In a bid to recuperate the deteriorating fortunes of Pakistan's national carrier - Pakistan International Airlines (PIA), the government has decided to revert to

PIA's former system of management with mutually exclusive roles of the chairman and the managing director. Consequently Aslam R. Khan, a former PIA officer having extensive experience of aviation industry has been appointed as the managing director (MD) of PIA.

Zaffar A. Khan on 28 February 2008 resigned as Chairman of PIA due to differences over the choice for the managing director's post. He like his predecessors, Tariq Kirmani and Ahmad Saeed had been holding both the offices of the chairman and the managing director. Mr. Kamran Rasool, Federal Defence Secretary is the new Chairman of PIA.

Please visit
pakistan.accaglobal.com/pakistan/publicinterest/TA/TU/
for further details.

International news update

green stakeholders and sustainability reporting

According to Harvard Business Review companies should pay more attention to the environmental issues just as they are doing with other business activities, schemes and projects.

Companies should prepare strategies and have mechanism to explain their environmental activities, plans and targets.

Corporate Sustainability (CS) Reporting should be undertaken by organisations to voluntarily communicate information on environmental and other non-financial performance (social and economic) to their stakeholders. Sustainability reporting is recognised as an important approach for improving corporate sustainability performance. With the help of CS reporting the organisations can provide their environmental social and economic issues - over a specified period, usually a financial year.

This report can be published as a stand-alone document, on a company web site or incorporated into an annual report. The circulation of a corporate sustainability, environmental or health and safety report is seen as increasing transparency and accountability towards society.

ACCA has promoted greater transparency in the reporting of organisations' social and environmental impacts for over 15 years. ACCA is involved in reporting awards in more than 20 countries, including Europe, Africa and the Asia Pacific region.

ACCA Awards around the world reward companies for excellence in environmental, social and sustainability reporting. The aim of our Awards is to identify and

reward innovative attempts to communicate corporate performance, although we do not comment on performance itself. Our aim is to reward transparency.

In Pakistan, ACCA along with WWF has been conducting Pakistan Environmental Reporting Awards since 2001 to support and promote best practice in sustainability reporting in the country. These Awards are endorsed by the Ministry of Environment and IUCN Pakistan. The Awards are now in their 6th year and recognise organisations for their outstanding sustainability and environmental and social reporting.

For further information about these awards please visit: www.pakistan.accaglobal.com/pakistan/publicinterest/sustainability/

a single standard for the world?

This is an emerging topic in the accounting world as the US moves towards the international financial reporting standards (IFRS), and so towards dropping its own well-developed rules. This acceptance of the IFRS by U.S. would be no small achievement, making it certain that a single set of accounting standards would be followed around the world.

The increased use of the IFRS is partly due to the belief that the IASB's (International Accounting Standards Board) standards are enhanced by the geographically diverse views that are considered in developing those standards. Many companies view adopting the IFRS as an efficient and cost-effective way to access foreign capital markets. Global capital markets benefit from such standards because they facilitate financial statement comparisons, and investors have more confidence in accounting standards that have attained global acceptance. Issuers also benefit from the lower cost of capital that results from a reduced risk premium.

In December 2007, IFRS received the boost when the SEC (U.S. Securities and Exchange Commission), which is the primary overseer and regulator of the U.S. Securities markets, adopted rules to allow foreign private issuers to file financial statements prepared in accordance with the IFRS as issued by the IASB, without reconciliation to U.S. GAAP.

While the SEC was considering the above rules for foreign private issuers, it became apparent that if foreign private issuers were to be allowed to file financial statements prepared in accordance with the IFRS without reconciliation to U.S. GAAP, the question of whether domestic registrants should be allowed (or required) to report using the IFRS would come to the forefront. As a result, in August 2007 the SEC issued a concept release on allowing U.S. issuers to prepare financial statements in accordance with the IFRS.

Determining how ready U.S. market participants are for the move to the IFRS will be particularly challenging because of the lack of the IFRS knowledge in the United States. The IFRS is not widely taught at U.S. colleges and universities and is not covered on the CPA exam. A vast shift in educational requirements will need to occur and an adequate transition period will be required. If the U.S. capital markets are to embrace the IFRS in the near term, the SEC and the AICPA must encourage the development and deployment of necessary educational resources.

Another obstacle to the movement to the IFRS is that U.S. financial statement preparers and auditors are used to the bright lines and detailed rules inherent in U.S. GAAP, but not to the principles-based standards that make up the IFRS. Not only will these individuals have to learn to make the judgments necessary when applying the IFRS, but regulators will have to learn to accept reasonable auditor judgments made in good faith.

European Union countries managed the change in three years, from 2002, when it was announced, to 2005,

when the first financial statements in IFRS were required.

So far, the idea of the IFRS has won widespread approval in the US partly because discussions so far have taken place among insiders such as accountants and auditors who understand fully the issues and ramifications of the switch. But the success of such a radical change requires a wider commitment in business circles.

accounting and auditing standards update

joint standard by US and international accounting bodies

The international and U.S. standard setters have launched a joint project to develop a new standard for accounting for leases. This will drastically change the way leases are structured and reported around the world. A discussion paper will be issued during the later part of 2008 to seek comments.

Please visit

www.accaglobal.com/members/publications/accounting_business/archive/2006/october/2855020 for further information.

IASB opens discussion on proposals to increase transparency in the accounting for post-employment benefits

The International Accounting Standards Board (IASB) published for public comment a discussion paper on IAS 19 Employee Benefits. The paper sets out the IASB's preliminary views on how the accounting for some post-employment benefits, including pensions, could be improved.

Please visit

www.iasb.org/News/Press+Releases/IASB+opens+discussion+on+proposals+to+increase+transparency+in+the+accounting+for+post-employment+be.htm for further information.

IASB publishes a discussion paper as first step towards reducing complexity in reporting financial instruments

The International Accounting Standards Board (IASB) published for public comment a discussion paper Reducing Complexity in Reporting Financial Instruments. The existing requirements for the reporting of financial instruments are widely regarded as difficult to understand, interpret and apply and constituents have urged the IASB to develop standards that are principle-based and less complex. The document is the first stage in a project which aims to replace IAS 39 Financial Instruments: Recognition and Measurement.

Please visit

www.iasb.org/News/Press+Releases/IASB+publishes+a+discussion+paper+as+first+step+towards+reducing+complexity+in+reporting+financial+i.htm for further information

ASB issues amendment to FRS 20 'share-based payment - vesting conditions and cancellations'

The Accounting Standards Board (ASB) has issued an amendment to Financial Reporting Standard (FRS) 20 (IFRS 2) 'Share-based Payment Vesting Conditions and Cancellations'. The amendment clarifies the treatment of certain cancellations of options granted to employees, following similar amendments issued in January 2008 by the IASB.

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