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Natural Capital: The Finance Sector & Financial Reporting - Catalysing Action?

The Malaysian Accountant

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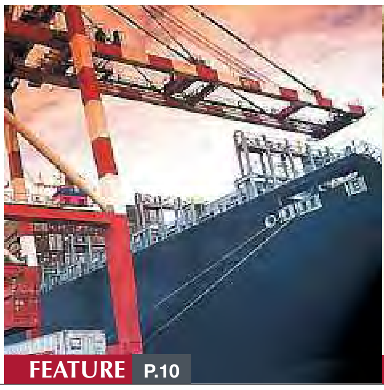
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In this issue, we discuss the topic, which is of interest to certain business sectors – the Malaysian tax updates in the last two quarters. Indeed, they have been a couple of interesting developments.

Interestingly, Malaysia's economy outperformed expectations and registered a strong growth of 7.2% in 2010, the highest since 2000, compared with a contraction of 1.7% in 2009. The growth is attributed to the recovery in the manufacturing and services sectors.

With the launch of the Economic Transformation Programme (ETP), a programme that is expected to transform Malaysia into a developed, high-income nation by 2020, Malaysia is expected to continue to perform well in 2011 subject to external global challenges.

From a Malaysian tax perspective, the last two quarters have seen the introduction of various gazette orders, public rulings, double tax agreements, administrative developments and so on. The article inside summarises the key tax developments arising during the last quarter of 2010 and first quarter of 2011.

With the extensive impact of recent global crisis, finance sector are beginning to realise the importance of sustainability. These finance sectors are now in line to be affected by the factors of sustainability, as well as intensifying social and environmental risks and impacts.

As such, more attention must be paid by financial institutions to sustainability programmes that are shaped and driven by factors such as corporate strategies, policies, goals and initiatives.

Also, financial reporting systems will play a major part in watching the sector's progress towards sustainable policy adoption. Financial institutions are going through major changes in relation to determining the current usefulness and future form of their business models. In the process, these significant and influential entities must pay more attention to sustainability reporting. For more understanding of the subject, read the article inside.

Institute members also need to take note of the 53rd Annual General Meeting (AGM) that will be held on June 18, 2011. An annual dinner will also be held on the day before the AGM. For more details on the AGM, read the announcement inside.

In the lifestyle section, read all about why employers should not underrate their employees and should in fact, appreciate, recognise and reward them for their loyalty.

There have been several interesting developments in Malaysia in the last two quarters. Malaysia's economy outperformed expectations and registered a strong growth of 7.2% in 2010, the highest since 2000, compared with a contraction of 1.7% in 2009. The growth is mainly attributable to the recovery in the manufacturing and services sectors. With the launch of the Economic Transformation Programme (ETP), a comprehensive programme that is expected to transform Malaysia into a developed, high-income nation by 2020, Malaysia is expected to continue to perform well in 2011 subject to external global challenges.

From a Malaysian tax perspective, the last two quarters have seen the introduction of various gazette orders, public rulings, double tax agreements, administrative developments and so on. The following summarises the key tax developments arising during the **last quarter of 2010** and **first quarter of 2011**.

Gazette Orders

Income Tax

Finance Act 2011

The Finance Act 2011 was gazetted on January 27, 2011 to enact the Budget 2011 proposals. It should be noted that there is a minor difference between the Finance Bill 2010 and the subsequent Finance Act 2011 in relation to personal reliefs.

Section 46(1)(c) of the Income Tax Act, 1967 (ITA) provides for personal tax relief of up to RM5,000 in respect of costs incurred on medical treatment, special needs or carer expenses expended for parents. The Finance Act 2011 provides for the following additional conditions that need to be satisfied before the tax relief is granted:

- "parents" are required to be individuals who are resident in Malaysia
- the medical treatment and care services must be provided in Malaysia
- the medical practitioners involved must be registered with the Malaysian Medical Council

Income Tax (Deduction for Premium for Export Credit Insurance Based on Takaful Concept) Rules 2010

A double deduction will be given in respect of premiums for export credit insurance based on the takaful concept with effect from the year of assessment (YA) 2011 onwards. It should be noted that the premium must be paid to a company approved by the Minister.

Income Tax (Exemption) (No. 2) Order 2010

For the years of assessment 2008 – 2010, resident companies have been exempted from the payment of income tax in respect of income derived from the sale of Certified Remission Reductions ("CERs") from Clean Development Mechanism ("CDM") projects approved by the Ministry of Natural Resources and Environment. The Order extends the exemption period for a further two year until the YA2012 (pursuant to the 2011 Budget proposals).

Income Tax (Exemption) Order 2011

A company incorporated and resident in Malaysia which is involved in the business of manufacturing motor vehicles, automobile components or parts for export sales is exempt from the payment of income tax in respect of income derived from export sales. The exemption period covers the YAs 2010 to 2014.

The amount of statutory income to be exempted is equal to:

a) 30% of the value of increased exports where the export sales of products of the company attain at least 30% of the value added: or
b) 50% of the value of increased exports where the export sales of products of the company attained at least 50% of the value added.

The incentive is not applicable to companies, which enjoy:

- any incentive under the Promotion of Investments Act 1986;
- an allowance under Schedule 7A and 7B of the ITA respectively;
- an exemption under Section 127(3)(b) or 127(3A) of the ITA; or
- a deduction under any rules made under Section 154 of the ITA including any rules that provide for a higher rate of capital allowances.

Stamp Duty

Stamp Duty (Remission) (No.2) Order 2010

This order provides a 50% remission on stamp duty chargeable in respect of any **loan agreement** executed to finance the purchase of one unit of residential property (i.e. a house, a condominium unit, an apartment or a flat unit built as a dwelling house) costing not more than RM350,000. The stamp duty remission applies where the loan agreement is entered into between a purchaser who is a Malaysian citizen (who must be named in the Sale and Purchase Agreement), and any of the following entities:

- a bank;
- a financial institution;
- an insurance company registered under the Insurance Act 1996;
- a co-operative society registered under the Co-operative Societies Act 1993; or
- an employer under an employee housing loan

It should be noted that the remission will only apply where:

(i) the Sale and Purchase Agreement is executed between January 1, 2011 and December 31, 2012 both days inclusive; and
(ii) the purchaser does not own any other residential property at the date of execution of that sale and purchase agreement.

The application for remission may only be made once and is also applicable to co-purchasers.

Stamp Duty (Remission) (No.3) Order 2010

This order provides for a 50% stamp duty remission on any **instrument of transfer** for the purchase of only one unit of residential property (i.e. a house, a condominium unit, an apartment or a flat unit built as a dwelling house) costing not more than RM350,000. The remission will only apply where the purchaser is an individual who is a Malaysian citizen, and provided that:

(i) the Sale and Purchase Agreement is executed between January 1, 2011 and December 31, 2012 both days inclusive; and
(ii) the purchaser does not own any other residential property at the date of execution of the sale and purchase agreement.

The application for remission may only be made once and is also applicable to co-purchasers.

Stamp Duty (Remission) (No.4) Order 2010

Service agreements executed on or after January 1, 2011 are subject to stamp duty at a rate of 0.1%. This applies in respect of service agreements in relation to the following:

a) service agreements entered into between a main service provider with a person <u>other than</u> a Ruler of a State or the Government of Malaysia ("GOM") or of any State or local authority awarding the undertaking; or
b) service agreements between a sub-provider of service (i.e. sub-contractor) with the main service provider where the main service provider has entered into an agreement or undertaking with a Ruler of a State or the GOM or any state of local authority.

Where the main service provider under (a) above or the sub-provider of the service under (b) above further executes an instrument of service agreement with another sub-provider of service and so on, the amount of stamp duty that is chargeable upon that instrument is RM50.

Stamp Duty (Exemption) (No. 2) Order 2011

This Order was gazetted on February 28, 2011 and provides that an instrument executed between a customer and a financier in accordance with the principles of Syariah as approved by the Shariah Advisory Council on Islamic Finance (established under the Central Bank of Malaysia Act 2009) for the purpose of renewing any Islamic revolving financing facility is exempt from stamp duty. It should be noted that the exemption will only apply the instrument for the existing Islamic revolving financing facility was duly stamped.

Stamp Duty (Remission) Order 2011

This Order was gazetted on February 28, 2011 and provides for a remission of stamp duty in relation to any instrument relating to an Islamic financing facility executed between a customer and a financier to reschedule or restructure an existing Islamic financing facility. The remission will apply in respect of the duty that would have been payable on the balance of the principal amount of the existing Islamic financing facility, provided that the original instrument for the existing Islamic financing facility was duly stamped.

Indirect Tax

Service Tax (Rate of Tax) (Amendment) Order 2010

This Order was gazetted to give effect to the 2011 Budget proposal increasing the service tax rate from 5% to 6% in relation to all taxable services (other than credit card or charge card services). The Order came into operation on January 1, 2011.

Service Tax (Amendment) Regulations 2010

These Regulations were gazetted to include the *"provision of paid television broadcasting services"* as one of the taxable services under the Second Schedule of the Service Tax Regulations 1975. These Regulations came into operation on January 1, 2011.

Labuan International Business and Financial Centre (Labuan IBFC)

The following pieces of legislation relating to the Labuan IBFC take effect from December 15, 2010:

a) Labuan Financial Services Authority (Processing and Approval Fees)(Labuan Financial Institutions) Order 2010 [P.U.(A) 413/2010]
b) Labuan Companies Regulations 2010 [P.U.(A) 414/2010]
c) Labuan Trusts Regulations 2010 [P.U.(A) 415/2010]
d) Labuan Financial Services and Securities Regulations 2010 [P.U.(A) 416/2010]

e) Labuan Islamic Financial Services and Securities Regulations 2010 [P.U.(A) 417/2010]
f) Labuan Foundations Regulations 2010 [P.U.(A) 418/2010]
g) Labuan Limited Partnerships and Limited Liability Partnerships Regulations 2010 [P.U.(A) 419/2010]

Public Rulings

Public Ruling 1/2011 (PR1/2011) – Taxation of Malaysian Employees Seconded Overseas

Based on Section 13(1) of the ITA, where an employee performs duties outside Malaysia, which are incidental to the exercise of his employment in Malaysia, the employment income will be taxable in Malaysia. As the term "incidental" is not defined in the ITA, this PR, which is effective from the YA 2011 onwards, provides clarification on the IRB's interpretation of the term "incidental" and explains the tax treatment of employment income derived by employees from Malaysia who are seconded by their employers to perform duties outside Malaysia.

The PR provides numerous examples to illustrate the circumstances under which duties of an employee on an overseas secondment would be incidental to the exercise of the employment in Malaysia. Based on the PR, overseas duties are considered to be incidental to the exercise of employment in Malaysia if the following characteristics are present:

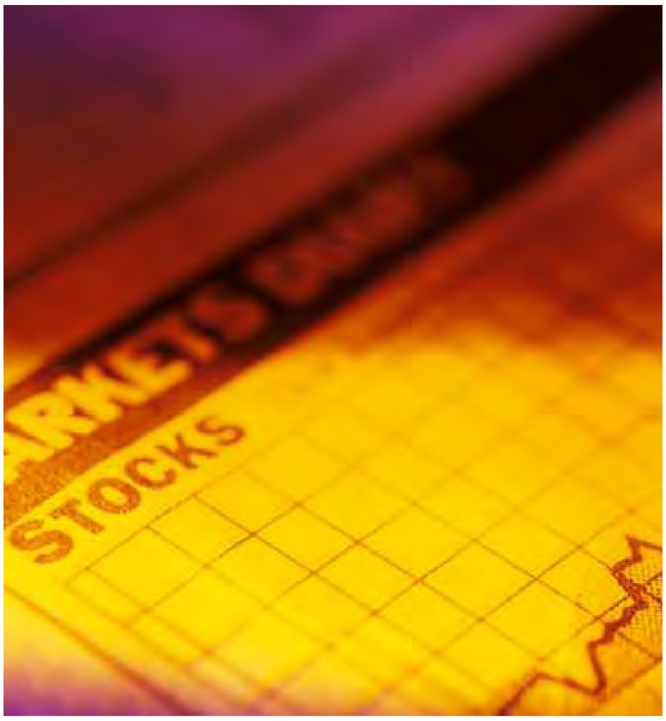
- An employer-employee relationship exists and the employee exercised his employment with the employer in Malaysia prior to being seconded overseas
- The duties performed outside Malaysia are connected with or are part and parcel of the employee's regular duties in Malaysia
- The duties in and outside Malaysia are different but these duties are carried out within the same employer-employee relationship and to further the purpose of the employer in Malaysia

- The employee resumes work with his employer in Malaysia after the completion of the overseas duties
- Duties are directed and controlled by the employer in Malaysia
- The employer in Malaysia enjoys the benefits of the overseas duties and bears the cost of the employee's remuneration during the overseas secondment.
- The employer in Malaysia bears the risk and directly enjoys the economic benefits from the performance of the employee's overseas duties.

Public Ruling 2/2011 (PR2/2011) – Interest Expense and Interest Restriction

This PR provides guidance on the deductibility of interest expense and the manner in which interest restriction should be computed. The following are some of the salient points of the PR:

- The PR is effective from YA 2011 onwards
- "Interest" is defined in the PR as "the return or compensation for the use or retention by a person of a sum of money belonging to or owed to another". The ITA does not provide a statutory definition of "interest" and hence the definition provided in the PR represents the IRB's view of what is meant by the term 'interest'.
- Interest incurred on borrowed money, which is used to finance the construction of a building, or a plant prior to the commencement of business is not deductible. Further, the PR states clearly that capital allowances cannot be claimed on such interest costs even though the interest may have been capitalised as part of the cost of the building or plant.



- A distinction need not be made between income producing and non-income producing investments in apportioning interest to the relevant sources of investment income. However, this does not apply to investments, which produce tax exempt income, and investments, which comprise of interest-free loans to related parties.
- The PR also includes various examples to demonstrate the manner in which interest restriction should be computed.

Public Ruling 3/2011 (PR3/2011) – Investment Holding Company (IHC)

This PR explains the tax treatment of investment holding companies resident in Malaysia. It is interesting to note that although the PR was issued on 10 March 2011, it takes effect from the YA 2006 onwards. The following are some of the salient points of the PR:

- A company is an IHC if its main activity is the holding of investments and not less than 80% of the company's gross income (whether exempt or not) is derived from the holding of those investments. Thus, if a company's main activity is not the holding of investments, it will not be regarded as an IHC even if its gross income from investments is 80% or more.
- Where a company is not considered to be an IHC because it has a rental business, the company will remain as a non-IHC even if gross income from the rental decreases (such that investment income exceeds the 80% threshold) in the subsequent years of assessment, where there is a temporary cessation of the rental under certain circumstances, including where the property is vacant for less than 2 years, or where the rental ceases temporarily for repairs and renovation, etc.
- The PR also explains the tax treatment of non-listed IHCs and listed IHCs as provided in Section 60F and Section 60FA of the ITA respectively

Public Ruling 4/2011 (PR4/2011) – Income from Letting of Real Property

This PR takes effect from YA 2011 onwards and explains the circumstances under which the letting of real property is considered as a business source.

Letting of real property is deemed as a business source if *comprehensive and active maintenance and support services* are provided including the following:

"(a) doing generally all things necessary (e.g. cleaning services or repairs) for the maintenance and management of the real property such as the structural elements of the building, stairways, fire escapes, entrances and exits, lobbies, corridors, lifts/escalators, compounds, drains, water tanks, sewers, pipes, wires, cables or other fixtures or fittings; and

(b) doing generally all things necessary for the maintenance and management of the exterior parts of the real property such as playing fields, recreational areas, driveways, car parks, open spaces, landscape areas, walls and fences, exterior lighting or other external fixtures and fittings."

A person would not be viewed as providing comprehensive maintenance services if that person only provides security or other facilities. Services are actively provided if the services are provided by the person who owns or lets the property or where that person hires a third party to provide the services.

The PR also provides guidance on the determination of commencement date of letting of real property and expenses deductible against the income from letting of real property.

Promotion of Investments (Amendment) Bill 2011

The Promotion of Investments (Amendment) Bill 2011 was published on 23 March 2011 seeking to amend the Promotion of Investments Act 1986 ("PIA"). The Bill largely streamlines the PIA to accord with various Budget proposals over the years. The key amendments proposed are as follows:

- to enable a company establishing a medical devices testing laboratory to apply for pioneer status or investment tax allowance;
- to amend the relevant sections of the PIA so that the PIA is in line with the self-assessment system such that the DGIR is no longer required to issue confirmation of exempt accounts, etc and the onus shifts to the taxpayers to maintain such accounts; and
- to delete certain sections of the PIA which are no longer relevant.

Thin Capitalisation

The Ministry of Finance has indicated recently that the implementation of the Income Tax (Thin Capitalisation) Rules has been deferred to the end of December 2012. Further studies are expected to be carried out prior to the implementation of the thin capitalisation provisions which were introduced in 2009 with the enactment of Section 140A of the ITA.

Administrative Matters

Issuance of income tax return forms (ITRFs) for year of assessment

Based on a press release issued by the IRB on January 11, 2011, taxpayers should have received the 2010 ITRFs by now. ITRFs are not issued to taxpayers who used the E-Filing System for YA 2009 and those with employment income amounting to less than RM26,000 in YA 2009.

The following taxpayers will need to e-file their ITRFs:

(i) Taxpayers with employment income of more than RM26,000 in YA 2010;
(ii) Taxpayers requesting for a refund of excess payments under Section 51 of Finance Act 2007 or Section 110 of the ITA; and
(iii) Taxpayers who are not taxable but have been paying taxes through the Schedular Tax Deduction.

For taxpayers who do not e-file, the IRB will only accept the original ITRFs 2010 or PDF forms obtained from the IRB branches.

Utilisation of income tax credit as set-off

The IRB has issued Operational Guidelines for the utilisation of income tax credits to off-set tax liabilities (GPHDN 2/2010). The Guidelines explain what constitutes "tax credits" and sets out the order in which tax credits should be used to settle income tax liabilities.

Based on the Guidelines, tax credits should be used to settle income tax liabilities in the following order of priority:

- Income tax arrears (inclusive of increases in tax) which are due and payable for current and previous years of assessment;
- Outstanding debts (inclusive of increases in tax) which are due and payable under (the old) Section 108 of the Income Tax Act 1967 (ITA) / Section 48(2) of the Finance Act 2007 and Section 49 of the Savings And Transitional Provisions of the Finance Act 2009;
- Overdue instalments and increases in tax due and payable under Sections 107B and 107C of the ITA.

Any excess tax credits may thereafter be utilised by the Director General to set-off any real property gains tax and petroleum income tax (including increases in tax) which are due and payable.

E-filing service to be made available on smartphones

To enhance the effectiveness of the e-filing system, taxpayers can expect to use the e-filing service through their smartphones from next year onwards.

New Business Codes

With effect from February 15, 2011, taxpayers who carry on a business are required to use the new business codes (MSIC 2008) when completing their ITRFs. The new business codes are applicable to all ITRFs (including ITRFs for backlog cases and amendments of / revisions to ITRFs for prior years of assessment) as well as e-filing. The IRB has also indicated that for investment holding companies, the new business code is 64200.

Senior IRB Appointments

Datuk Dr Mohd Shukor Mahfar was appointed Chief Executive Officer (CEO) of the Inland Revenue Board of Malaysia on 8 January 2011, replacing Tan Sri Hasmah Abdullah. Prior to the CEO appointment, he was the Deputy Director General (Compliance). In addition, the following appointments have also been made in the IRB with effect from February 1, 2011:

- Dato' Dr. Siti Mariam binti Che Ayub – Deputy Director General - Compliance
- Encik Sait @ Mohammad Sait bin Ahmad – Deputy Director General - Operations Taxation
- Encik Abd. Aziz bin Hashim – Deputy Director General - Policy

Double Tax Agreements (DTAs)

Malaysia – Germany

Effective December 21, 2010, the DTA with Germany has come into force, via the ratification of the Double Taxation Relief (The Federal Republic of Germany) Order 2010. The effective dates for the various taxes are as follows:

- Withholding tax – January 1, 2011
- Petroleum income tax – Year of assessment 2012
- Other taxes – Year of assessment 2011

Malaysia – San Marino

Effective December 28, 2010, the DTA with San Marino has come into force, via the ratification of the Double Taxation Relief (The Government of the Republic of San Marino) Order 2010. The effective dates for the various taxes are as follows:

- Withholding tax – January 1, 2011
- Petroleum income tax – Year of assessment 2012
- Other taxes – Year of assessment 2011

Malaysia – Laos

The DTA with Laos has been gazetted as the Double Taxation Relief (The Government of the Lao's People Democratic Republic) Order 2010. Withholding tax rates under the DTA are as follows:-

- Dividends – 5% or 10%
- Interest – 10%
- Royalty – 10%
- Technical fees – 10%

Protocol(s) to DTAs

The following Protocols on Exchange of Information (EOI) have also entered into force:

	Entered into force	Effective date
Malaysia - France	December 1, 2010	Any calendar year or accounting period beginning on or after January 1, 2011
Malaysia - Netherlands	October 19, 2010	For requests made on or after October 19, 2010 with regard to tax years beginning on or after January 1, 2010
Malaysia - United Kingdom	December 28, 2010	Beginning on or after January 1, 2011

Free Trade Agreements (FTA)

ASEAN Australia/New Zealand FTA

The Order amending the ASEAN Australia/New Zealand FTA, gazetted via the Customs Duties (Agreement Establishing the Asean-Australia-New Zealand Free Trade Area) (Amendment) Order 2010 came into force on September 30, 2010. The Order provides for various amendments to the original ASEAN Australia/New Zealand FTA.

ASEAN FTA

The Order amending the ASEAN FTA, gazetted via the Customs Duties (Goods of ASEAN Countries Origin) (ASEAN Harmonised Tariff Nomenclature and ASEAN Trade In Goods Agreement) (Amendment) (No. 2) Order 2010 came into force on 1 December 2010. The Order provides for various amendments to the original ASEAN FTA.

Malaysia – Chile FTA

An FTA was signed between Malaysia and Chile on November 13, 2010 and will be implemented as soon as both sides complete their domestic processes.

Malaysia – India FTA

An FTA was signed between Malaysian and India on February 18, 2011 and is expected to enter into force in July 2011.

The other FTAs, which Malaysia is currently negotiating, are with:

- Turkey
- United States of America
- Australia

The above summarises the key tax developments (excluding case law developments) over the last quarter of 2010 and the first quarter of 2011.

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Sustainability and the Finance Sector

Given the widespread impact of the recent global financial crisis, increasingly, the finance sector is now in line to be affected by factors of sustainability, as well as its intensifying social and environmental risks and impacts. As a direct consequence, more attention must be paid by financial institutions to sustainability programs that are shaped and driven by factors such as corporate strategies, policies, goals and initiatives. In turn, these are based on drivers of economic, social and environmental risk, as well as financial return, natural resources, in addition to reputation. Sustainability programs ensure that, amid environmental, social and economic uncertainty, an organisation is able to adapt and, thereby, remain viable for the long-term interest of its owners.

Financial reporting systems will play a major part in watching the sector's progress towards sustainable policy adoption. This would include IT system integrations, making financial flows more transparent and increasing pressure for implementing a less speculative global currency model. Appropriate accounting and reporting systems are needed urgently. Plus, these must have a global reach in tracking and valuing financial products, if the financial sector is to play a critical role as a catalyst and integrator in moving other global financial reporting initiatives forward.

The Finance Sector

A changing agenda for financial institutions:

We now understand the intellectual argument that natural capital (land, air, water, and living organisms in particular) provides significant value to society and the economy. But, it is not recognised or accounted for accordingly. What does this mean for the finance sector? Let's explore the type of risks that financial institutions should begin to think about when it comes to natural capital; these are:

Credit risks: The default of investments can be caused by risks associated with natural capital and this can also prompt inaccurate information affecting counterparts. Collateral risk is central to this as banks don't have the means of recognising the loss of natural capital and what this means in relation to their investments.

Operational risks: These are most serious when it comes to an acceleration of natural disasters, or the effects of ecological degradation on business outputs, such as agriculture. Losses are a probable outcome.

Reputation risks: being associated with financing an entity that is involved in major ecological liabilities bears increased risk. Once a financial institution loses its reputation in this manner, it is very difficult to build that back up.

These risks, and others, are recognised inherently by the 2010 UN-sponsored study on "**T**he **E**conomics of **E**cosystems and **B**iodiversity" (also referred to as the TEEB initiative - see www.teebweb.org), Even so, the finance sector must pioneer fundamental changes in how it estimates and analyses risks. It is more than likely that some within the finance sector will be hit harder than will the case for others. The insurance sector represents a particular case in point where exposure to natural capital risk is more pronounced, especially due to accelerating climate and environmental risks.

It must be said that the lack of agreement on valuation mechanisms and metrics are a barrier. Yet, banks today use a wide

range of instruments. These must be brought together in a systematic way, such as in a financial sector tool kit that addresses natural capital. This would also identify good examples of the financial instruments, the institutional processes, and the valuation mechanisms that are already implemented.

Key innovation trends in the sector

Investors can play a forward-thinking role in treating natural capital issues as drivers of shareholder value.

There are several areas where some innovation is taking place, and where effort is needed by the industry to accelerate necessary change:

Benchmarking:

The Natural Value Initiative (see www.naturalvalueinitiative.org) is a leading example of benchmarking, and has found that only 1 out of 31 companies analysed in the food, beverage and tobacco sectors, were particularly mature in their approach to natural capital. Benchmarking companies in the responsible investment research industry are developing fast. But, these entities are trying to cover a large amount of companies by way of predominantly public information that is available. It is noteworthy that a study released by the UN-backed Principles for Responsible Investment (PRI) and the UN Environment Programme Finance Initiative (UNEP FI) estimated that global environmental damage that was caused by human activity in 2008 represented a monetary value of $ 6.6 trillion, with this being equivalent to 11% of global GDP. Major financial companies, such as Bloomberg, Thomson Reuters-Asset4, Risk Analytics, are now getting into this space. Even so, attention also needs to be given to what is being benchmarked as different companies are good at various elements. Many smaller entities, such as AccountAbility (see www.accountability.org) and Gaia-Metrics (see www.gaia-metrics.com) are helping clients to benchmark information or provide standards and tools. In turn, this leads to better reports.

Valuation and Risk:

Banks, the investment sector and insurance companies have developed excellent risk and valuation models. The various environmental risk factors must be embedded into the general risk policies, with this needing to be beyond what, so far, is kept within the boundaries of project finance (for example, Equator Principles). Frankly, there is still too much focus on externalities. Consequently, valuations must be more object, entity and business model-centred.

Awareness:

Reputation is still the leading driver of change in the finance sector. Examples of ecosystem failures as drivers of change are rare. Civil society and NGOs are playing an important role in highlighting the issue. But their strategies could also be more effective at targeting the right stories related to risk and opportunity for the finance sector. It is vital, therefore, to bring an operational risk perspective, as well as hard business case numbers to the story, and to any associated campaigning. It stands to reason that an individual event, such as the BP oil spell in the Gulf of Mexico, can have a significant impact upon single investments and related industries.

Knowledge barriers:

There is a need to accelerate translation of the biodiversity and natural capital issue into business language and associated cultures. A key consideration here is that the older generation of financiers today does not fully understand, or relate to, the language of ecologists, climatologists and earth scientists. In some areas of the finance sector, the type of scientific data that is developed by assorted earth scientists can cause financial analysts to feel discomfort, confusion and apathy. In relation to this issue, North American Electric Reliability Corporation (see www.nerc.com) is looking at collaboration between the academic sector and finance sector on biodiversity information. There is also an urgent need to bridge the worlds of science-based policy on ‘ecological infrastructures’ (for instance, what is the optimum level of ecological balance?) and financial investment (for instance, how does this ecological equilibrium translate onto economic and financial values?).

Accounting & Reporting:

Financial reporting is reliant on underpinning standards and there is also a need for standardisation in how natural capital accounts are measured and integrated into financial statements. NGOs and investors have different ways of doing this, thereby making it difficult to know if we are comparing like with like.

Several models, such as that of the Global Reporting Initiative (GRI), are now proposing solutions to the disclosure and reporting of natural capital accounts (see www.gri.org), with this based on sustainability. However, these efforts need to engage more thoroughly with accounting bodies and financial regulators in order to experiment with enhancing the regulations and standards. One huge issue here is that the public sector (which has most nature assets 'under management') doesn't report consistently. Also, while International Public Sector Accounting Standards (IPSAS) are starting to appear in public sector reporting (see www.ifac.org), it is a very slow process of adoption. Note that IPSAS are based on globally accepted International Financial Reporting Standards (IFRS) and there is no real reason why the necessary implementation of appropriate standards cannot be accelerated. Furthermore, adoption of IPSAS would have an enormous and positive effect on modernising totally outdated, and fragmented, income tax laws in most countries. One other standard that could benefit considerably from the 'modernisation' of standards is the System of National Accounts (SNA) that, currently, focuses too much on boundary definitions instead of object tracking and valuations.

As a positive sign of possible progress, the need to have more global overarching standards is already identified with the emergence of the International Integrated Reporting Committee initiative (see www.integratedreporting.org).

Financial institutions, in particular global banks, with their worldwide operations and huge capital asset base, could serve as a driver and catalyst to utilise emerging reporting systems, such as the GRI. By so doing, the banks would serve as a leading example in terms of better integrated reporting and a new way forward in relation to financial reporting. In effect, financial institutions are trailblazers in utilising the fair value model and, with it, these entities can lead worldwide accounting convergence. Certainly, the debate around fair value accounting has highlighted the need for global harmonisation of asset and liability valuations. However, banks are weak in object tracking, as is evidenced by recent mortgage failures where it was difficult for banks to trace obligations back to the original owners through the intervening multiple layers of securitisation.

In this regard, consider the next slide in which the massive asset holding of global banks are shown. Of particular interest is the asset level of Deutsche Bank, with this having fallen by nearly a trillion US Dollars from $3.1 trillion in 2008, to $2.2 trillion in 2009. Remarkably, there is no reasonable explanation provided in the annual report or other pronouncements for such a significant reduction. This is indicative of weak accounting regulations in that a sizeable bank can avoid any justification for a more than obvious drop in its assets.

Rank	Bank	Country	Total Assets ($B)	Date
1	BNP Paribus	France	2,964	12/31/09
2	Royal Bank of Scotland	United Kingdom	2,747	12/31/09
3	HSBC Holdings	United Kingdom	2,364	12/31/09
4	Credit Agricole	France	2,243	12/31/09
5	Barclays	United Kingdom	2,233	12/31/09
6	Bank of America	United States	2,233	12/31/09
7	Mitsubishi UFJ Financial	Japan	2,196	3/31/10
8	Deutsche Bank	Germany	2,162	12/31/09
9	JP Morgan Chase	United States	2,032	12/31/09
10	Citigroup	United States	1,857	12/31/09

Total assets of Deutsche Bank dropped by nearly a Trillion US Dollars from 2008 to 2009. ($3.1 Trillion to $2.2 Trillion). Due to offsetting/netting? Cancellation of Contracts? There is no reasonable explanation of this change in their Annual Report.

IT Infrastructure:

Financial institutions are proven leaders in developing global risk models, but demonstrate less success in using global IT platforms similar to what ERP system packages have done for the industrial sector.

While this is cause for concern, and for necessary change, there is increasing pressure for worldwide system improvements (for example, see the daily news on system changes and improvements on www.finextra.com and the just-published 'Senior Supervisors Group Issues Report on Risk Appetite Frameworks and IT Infrastructure', (see www.sec.gov/news/digest/2010/dig122310.htm). Global IT structures will lead to essential consolidation in the finance sector and new business models will emerge as a direct consequence. Hopefully, this will result in less speculation (particularly in relation to currencies) and enhance trust in reported numbers generated by the sector.

In addition, financial institutions can learn from industrial applications of object tracking and support the development and improvements in valuation standards. For instance, there are ones promoted by the International Valuation Standards Council (see www.ivsc.org). The separation of objects and valuation could, in effect, be a new way forward in financial reporting.

Financial Reporting

Regarding the separation of object tracking and valuation, it is worthwhile to compare the financial statements of an industrial/consumer goods company, such as BDF Nivea (BDF), and a financial institution, such as Deutsche Bank (DB) in respect to their reporting on people, products, infrastructure, financial assets and intangibles. It is noteworthy that both are IFRS-reporting companies.

Besides the relative size and volume of their presentations (2009 Annual Report: DB: 434 pages; BDF: 134 pages) a comparison indicates that the major differences in thee reporting are:

- Better GRI and sustainability,, as well as product and infrastructure reporting by BDF (Object tracking);
- More sophisticated reporting on financial instruments and currency reporting by DB (Value reporting);
- Weak metrics on people and intangible reporting by both companies (Object reporting).

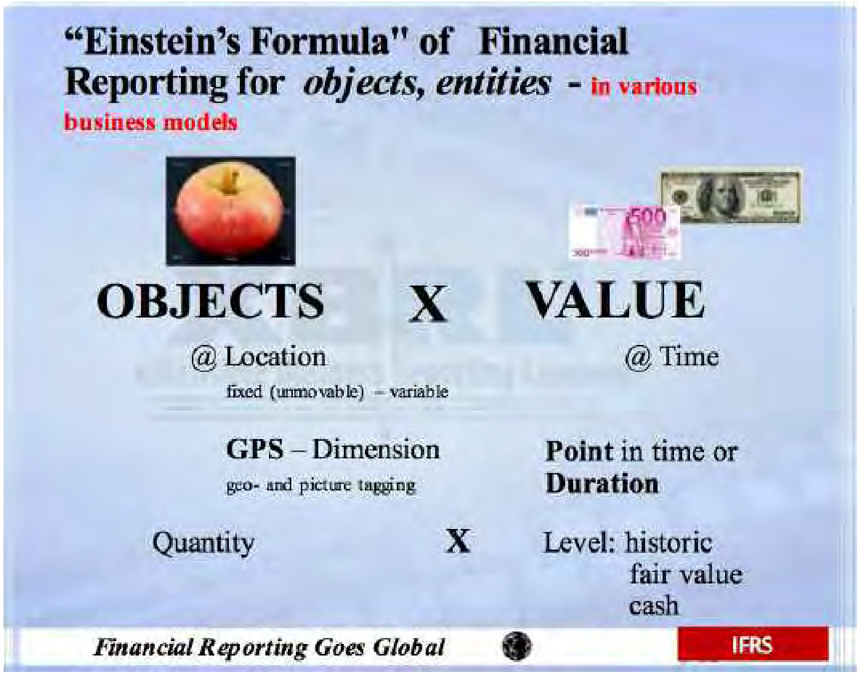
Separating Unit and Value Flow in the Supply Chain

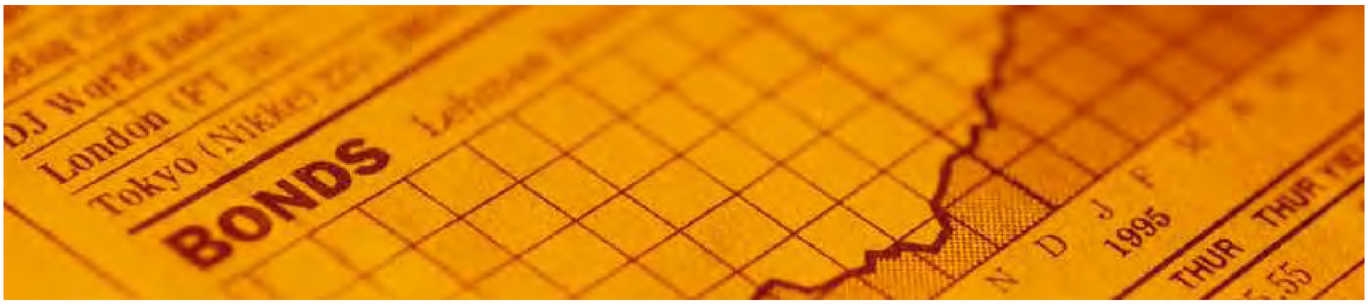
The mixed attribute model, which pulls together historical and fair values in the same financial statement, (see the United States Securities Exchange Commission report to Congress, www.sec.gov/news/studies/2008/marktomarket123008.pdf - on page A-7), is one of the culprits in making financial reporting difficult to understand. Separating Unit Flow and Value Flow would be one way forward in order to bridge business reporting and reporting on nature. On a micro-level, there is much more unit data available regarding ecosystems and biodiversity than there is value data. In business, particularly in the finance world, it is the other way around as there is greater focus on value flow in order to capture risk and uncertainty. In this regard, consider huge general reserves and re-insurance of insurance companies.

‘Einstein's Formula’ for Financial Reporting

It is worth contemplating, at this point of the discussion, that electronic transfer and tracking systems (especially XBRL in combination with RFID, GPS and other useful applications) create a global, intelligent, chart of accounts that can help to make information, whether business-related or otherwise, more useful for stakeholder purposes.

With modern technology, such as geo-tagging and photo-mechanical object recognition we are now able to track and find any number of objects in the business supply chain. Thereby, relativity becomes apparent when any objects are identified and monitored. Particularly, all identifiable objects can be aligned, and valued, in order to support improved decision making. Whether objects are apples, customers, capital items, stock holdings or deliveries, all of these can be monitored and managed with considerable ease.





Even so, there is a need for business entities to obey a couple of rules to set the boundaries. For instance, every entity must make an individual decision on how to define objects **within their entity.** Thus, objects entering and leaving the entity could have different object definitions. Some industries already have defined object definitions for their entire supply chain (for example, RosettaNet). Outsourcing and cloud computing are other ways to coordinate object definitions within industries. Unmovable (fixed) objects can employ different tracking devices than movable (variable) objects.

In addition, objects can be broken down into the following business/financial reporting areas:

- **People** (number of people x rates, benefits, etc.)
- **Tangible assets and infrastructure** (number of cash-generating units x fair value, value in use)
- **Products and Services** (Stock-keeping units x price)
- **Financial assets and liabilities** (contracts, currency units x fair value)
- **Intangibles and Communication** (identifiable units x fair value)

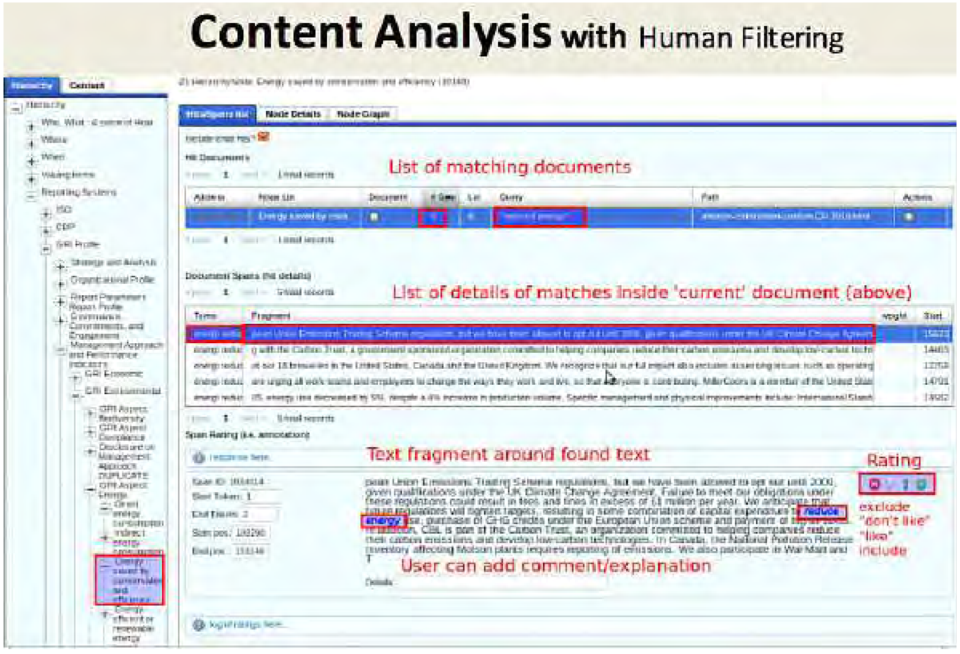
These objects can be aligned to valuation files (such as fair values, historical costs and cash flow points). At a particular point in time and when required, the objects can be multiplied with the appropriate value files so as to avoid mixing apples and oranges, as occurs in the mixed attribute model.

The above-mentioned segregation lends itself well to the alignment of biodiversity and ecosystem data with financial and business information. Dependencies and any impact on business, such as from the use of subsoil assets, as well as the pollution of water, air and earth, could be better explained. Instead of the current **silo approach**, business reporting and reporting on biodiversity and ecosystems could be integrated. Sustainability reporting, currently, is still something of a stepchild of other reporting needs as it lacks timeliness, seriousness and enforcement.

Aligning Financial/Business Reporting and Sustainability Reporting through Disclosure

Most often materials, resources and other valuable information is spread widely, within an organisation, as well as externally. Once all of this is organised into meaningful segments (such as the aforesaid objects and sub-objects) the associated unit and value flow can be analysed. Pieces of information (now referred to as objects) that might be difficult to explain could, at a minimum, be aligned to a particular sector (for example, social networks and their influence in the **people section** of any so-called financial report). Then, an indicative value can be given as an attribute in the form of a reporting disclosure.

Modern content analysis tools, such as Gaia Metrics SDR Data Prep, can help us to find, sort, and adjust information in internal company documents, as well external publications, and align them (in terms of who, where, and when) in accordance with a meaningful taxonomy or reporting system. An example of this systematic and effective approach is provided in the next slide.



As the heading in the preceding graphic suggests, this application involves a human interface in ranking and flagging the results of any search. The left side of the screen shows a tree-view of the hierarchy for basic navigation.

In the main part of the screen, the top table shows a list of 'hits' of any search, such as documents that contain the concept in the search parameters related to the selected tree to the left. The second (and middle) table shows the details of where, and how many times the given concept occurs in the 'hit' document'. This is also known as a 'span'. Finally, the lower area shows details about the selected span as is summarised in the middle table. This is where a human filter can score the span, and also add a description for why they scored it the way they did. That adds to the effectiveness of subsequent searches, increasingly so over time and through additional interrogations of all objects and related information.

Call for Action – the way forward

Financial institutions are going through major changes in relation to determining the current usefulness, and future form of their business models. In the process, these significant and influential entities must pay more attention to sustainability reporting. Consider that nature - with its plentiful amounts of metrics - and financial institutions - with their extensive knowledge as to risks assessment and valuations - can become a powerful combination, as well as a catalysing factor in improving financial reporting.

References:

The Economics of Ecosystems and Biodiversity study (TEEB) study, (see www.teebweb.org):

1. *The TEEB Synthesis Report Mainstreaming the Economics of Nature: A synthesis of the approach, conclusions and recommendations of TEEB* was released on October 20, 2010;
2. The TEEB for Local and Regional Policy Makers was released on September 9 2010;
3. The TEEB for Business Report was released on July 13 2010;
4. The TEEB for Policy Makers Report was released on November 13, 2009.

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***Kurt Ramin** is Director at Accountability and Global Head of Standards, as well as Global Chairman- Emeritus, XBRL International Steering Committee. Formerly, he was Commercial Director, London, and before that, Global Capital Markets Group Partner at PricewaterhouseCoopers in New York.*

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Announcement

CPA MALAYSIA

53rd Annual General Meeting

Members are informed that the 53rd Annual General Meeting of the Institute has been set for **Saturday, June 18, 2011 at 10:00 a.m., to be held at FR Dillenia (Ground Floor), Sime Darby Convention Centre, 1A, Jalan Bukit Kiara 1, Kuala Lumpur.**

Notice of the Annual General Meeting, minutes of the 52nd Annual General Meeting and the Institute's Annual Report will be dispatched to members in the last week of May 2011.

Nomination of candidates for election to the Council must be made by notice in writing, signed by ten members to be received by the Secretary not later than five weeks before the date of the AGM, i.e. by **May 13, 2011**. Such nomination must be accompanied by an intimation in writing from each candidate of his/her willingness to serve if elected.

Any member who wishes to bring before the AGM any motion not relating to the ordinary annual business of the Institute may do so provided the following conditions are complied with:

(a) Notice in writing of the proposed motion must be received by the Secretary not later than five weeks before the date of the AGM, i.e. by **May 13, 2011**.

b) Not less than ten members entitled to vote at the AGM shall have sent notice in writing expressing their desire that the proposed motion be brought before the AGM to be received by the Secretary not later than four weeks before the date of the AGM, i.e. by **May 20, 2011**.

(c) The proposed motion should be related to matters affecting the Institute or the accountancy profession.

The Institute's **53rd Annual Dinner** will be held on Friday, June 17, 2011 at Sheraton Imperial Kuala Lumpur Hotel.

Continuing Professional Development Programmes (May – August 2011)

Date	Programme Title	No of Days	Type	Category
May 19	Advanced Consolidation Principles	1	Seminar	FRS
May 26	Tax Planning for Small and Medium Enterprises (SMEs) and Investment Holding Companies (IHCs)	1	Workshop	TAX
June 8	Agriculture Accounting	1	Seminar	FRS
June 9	Tax Planning for Mergers & Acquisitions and Initial Public Offerings	1	Workshop	TAX
June 15	Goods & Services Tax: Corporate Concerns	1	Seminar	TAX
July 11 & 12	2011 FRSs Updates	2	Seminar	FRS
July 14	Construction & Real Estate Accounting	1	Workshop	FRS
July 18 & 19	Audit Guide for Practitioners - Stage 1	2	Workshop	AUDIT
July 20 & 21	Managing, Accounting and Reporting Value of Assets in Accordance with FRSs	2	Workshop	FRS
August 12	Deferred Taxation	1	Workshop	FRS

For further information, please contact the CPD Department at: • Tel: +603-2698 9622 • E-mail: malani.edu@micpa.com.my or salmiah.edu@micpa.com.my

The Students Sponsorship Programme is a programme launched jointly by the MICPA and approved accounting firms or approved training organisations. The objective of the Students Sponsorship Programme is to assist students who are interested to pursue the revised MICPA programme while pursuing the final year of an accredited Bachelor of Accountancy degree programme. The Bachelor of Accountancy degree must be a 4-year degree programme. It also provides an avenue to approved accounting firms or approved training organisations in identifying suitable candidates for internship and employment.

Under the Students Sponsorship Programme, approved accounting firms or approved training organisations will sponsor students who are interested to pursue the Taxation module and the Financial Reporting module of the revised MICPA programme while pursuing the final year of their Bachelor of Accountancy degree programme.

Candidates under the Students Sponsorship Programme will be required to work for the approved accounting firms or approved training organisations during their internship as well as upon completion of the Bachelor of Accountancy degree programme for a period of not less than 3 years.

The Students Sponsorship Programme is open to candidates who meet the following minimum criteria:

- Pursuing final year of a 4-year Bachelor of Accountancy degree programme accredited by MICPA or ICAA
- Minimum CGPA of 3.35 after completing 3-years of the Bachelor of Accountancy degree programme
- Active participation in extra-curricular activities
- Excellent communications skills, both oral and written. Fluency in written and spoken English is critical
- Good personality traits
- Must be a Malaysian citizen

The MICPA will work together with the various accredited public and private universities in Malaysia to identify suitable candidates who are interested to pursue the revised MICPA programme.

The profile of the identified candidates will be submitted to the approved accounting firms or approved training organisations for their consideration. The approved accounting firms or approved training organisations will conduct an interview with the identified candidates in order to consider the suitability of the candidates meeting the needs of the approved accounting firms or approved training organisations. An acceptance letter will be given to the successful candidates.

For further information, please contact the Institute's Education & Training Manager at Tel: 03-2698 9622 or email: micpa@micpa.com.my.

MICPA Activities

MICPA Participates in Professional Career Talks

The Institute continues to embark on an aggressive marketing strategy to position the Revised MICPA Programme and the CPA (M) and CA (Aust) designation respectively.

In this regard, the Institute participates actively in career fairs and exhibitions across the country to promote accountancy as a career, and in particular to create greater awareness. Our main target audience for the career talks are Year 3 & 4 Bachelor of Accountancy Students.

The following presentations were made in March and April 2011:

Professional Career Talks at Universities

- Universiti Malaya (UM) on March 1, 2011
- Universiti Utara Malaysia (UUM) on March 1, 2011
- Universiti Teknologi MARA, Machang, Kelantan (UiTM) on March 4, 2011
- Universiti Tenaga Nasional (UNITEN) on March 9, 2011
- Swinburne University of Technology, Sarawak on March 17, 2011
- Curtin University, Sarawak on March 18, 2011
- Universiti Putra Malaysia (UPM) on March 25, 2011
- Taylors University – University of West of England Programme on April 11, 2011
- Taylors University – University of South Australia Programme on April 14; and
- Monash University on April 15, 2011.

Member Firms On-Boarding Sessions

The Institute also made on-boarding presentations to the following firms:

KPMG

- On March 18, 2011; and
- On April 5, 2011.

Deloitte

- On April 4, 2011; and
- On April 25, 2011.

Professional Career Talks at Secondary Schools

Accountancy has become one of the more popular courses being pursued by young Malaysians. The Institute is always seeking opportunities to foster closer relationship with the secondary schools, to promote accountancy as a career and in particular to create awareness of the Revised MICPA Programme.

In this respect, a series of scheduled career talks at secondary schools to Forms 4, 5 and 6 students undertaking the Principles of Accounting subject were undertaken in March – April 2011:

- SMK Yaakob Latif on March 8, 2011
- SMK Bandar Seri Damansara I on March 31, 2011
- SMK Convent Sentul on April 18, 2011; and
- SMK St Mary on April 18, 2011.

Sharing Session I, Ms Theresa Goh-Why Tax is Right For You!

Engagement Sessions with Universities

Students' Networking Dinner

As part of the Institute's planned engagement sessions with Universities for 2011, a Students Networking Dinner was held with Multimedia University, Cyberjaya Campus and University Sains Malaysia.

The objective of the students' networking dinner is to provide the students an opportunity to network with captains of industries. In this way they were able to discuss their career prospects, what they may face in the employment world once they graduate and the opportunities open to them.

Multimedia University, Cyberjaya Campus

The Students' Networking Dinner with the theme "Professionals Rendezvous" was successfully held on Tuesday, January 11, 2011 and was attended by close to 120 students.

Mr Ken Pushpanathan, Vice-President of the Institute gave an opening address at the event, which was followed by 3 Sharing Sessions, which were delivered by members of the MICPA:

Session 1:

Power Your Career – Alternating Career in Commerce and Industry by En Abdul Halim Lassim, Senior Vice President of HeiTech Padu Berhad and Chief Executive Officer of HeiTech Managed Services Group;

Session 2:

Why Tax is Right for you by Ms Theresa Goh, Executive Director, Deloitte Malaysia.

Session 3:

Nurturing Your Talent by Mr Siew Chin Kiang, Executive Director in KPMG Advisory and an Audit Partner in KPMG Ms Teh Suet Ghoon, the Most Outstanding CPA Student of MICPA for 2010 was also present to share her experience with the students.

Universiti Sains Malaysia

The Institute in collaboration with USM Accounting Society organised a "*Students Networking Dinner*" with the theme "Accountants of Tomorrow" on Friday, April 1, 2011.

It is also our objective to provide the students an opportunity to network with professionals from the accounting firms. About 140 participants attended the event, including 80 Final Year Accounting Students, Accounting Society Members and representatives from the School of Management.

As part of the programme for the evening, Mr Ooi Kok Seng, Partner at KPMG, Penang shared his experiences in public practice and Mr Koay Theam Hock, Partner at BDO, Penang shared his experiences on internal audit and governance.

Sharing Session II, En Abdul Halim bin Md Lassim – Power Your Career "Alternating Career in Commerce and Industry"

Sharing Session III, Mr Siew Chin Kiang - Nurturing Your Talent

IFRS™

IASB Update (www.iasb.org)

IASB and EFRAG Review Progress Towards Completion of Major Convergence Projects

The International Accounting Standards Board (IASB) and the European Financial Reporting Advisory Group (EFRAG) met on March 18, 2011 to review the IASB's current work.

EFRAG is the private sector body responsible for stimulating debate in Europe around the evolution of International Financial Reporting Standards (IFRSs) and providing input to the work of the IASB, after appropriate due process, on behalf of Europe.

Led by Sir David Tweedie, chairman of the IASB, and Françoise Flores, chair of the EFRAG, the meeting focused on the remaining three Memorandum of Understanding projects on financial instruments, leases and revenue recognition, as well as the project on insurance contracts. The EFRAG's recommendations on these four projects were discussed. The two bodies agreed on the need for the IASB to deliver high quality standards and a commitment to a due process that reflects input from all stakeholders.

Representatives from the IASB and EFRAG discussed the steps required to conclude the remaining convergence projects and the subsequent process to endorse the standards for use in the European Union.

Commenting on the meeting, Sir David Tweedie said, "This was another useful exchange of views with our colleagues and friends at EFRAG. We continue to make good progress towards the completion of the G20 endorsed major convergence projects and remain committed to delivering standards of the highest quality that have benefited from unprecedented levels of public consultation."

Françoise Flores said, "EFRAG is appreciative and very supportive of the IASB efforts to best respond to the significant and numerous concerns expressed during the consultation period on Revenue Recognition, Leases and Insurance Contracts.

We are satisfied to hear that high quality accounting requirements remain the IASB's main driver. EFRAG is looking forward to helping the IASB further in organising, in close coordination with the IASB, outreach events throughout Europe in April and May to inform of, and discuss, the main tentative decisions made by the IASB and FASB in their re-deliberations of the standards."

The next meeting of the IASB and EFRAG will take place in the second quarter of 2011. EFRAG is publishing a summary of the messages expressed at the meeting. This summary is available to download from **www.efrag.org**.

IFAC

IFAC Update (www.ifac.org)

IFAC Issues Revised Guidance to Further Support the Development of Professional Accountancy Organisations Worldwide

The Professional Accountancy Organisation Development Committee (PAODC) of the International Federation of Accountants (IFAC) has issued a revised edition of its Good Practice Guide, *Establishing and Developing a Professional Accountancy Body* (the Guide), which was first released in 2005 and updated in 2007 to support professional accountancy organisations in expanding and strengthening their role and responsibilities in representing the accountancy profession.

The structure of the Guide, enhanced and simplified from the original version, is now organised in two sections: *Establishing and Developing a Professional Accountancy Body*, which covers the roles and responsibilities of a professional accountancy organisation, education and examinations, and capacity development; and *Tools and Resources to Support the Development of the Accounting Profession*, which includes new case studies, practical illustrations, and supplementary guidance.

PAODC Chairwoman Deborah Williams noted, "Building on the hard work undertaken by the former Developing Nations Committee, we are very pleased to release a completely revised and updated Good Practice Guide as our first PAODC publication, which was written in response to demand from the developing profession. Strengthening professional accountancy organisations is an essential element of developing financial infrastructures, which in turn assists in achieving financial stability. Our committee and the guidance it provides, helps newer professional accountancy organisations, and all of their development partners, along the path to building an effective, sustainable profession."

The Guide should be a valuable resource for individuals and organisations involved in building the capacity of the accountancy profession, IFAC members and associates seeking further development, and other organisations involved in the regulation of accounting and auditing activities. While primarily aimed at building the capacity of the profession in emerging countries, the guide will also be useful for more developed professional accountancy organisations considering revisions to governance structures, the development of education programs, and the adoption and implementation of international standards.

This revised edition includes the following additions:

- Further guidance on enhancing public sector focus
- Expanded information about the IFAC Statements of Membership Obligations (SMOs)
- Sample Action Plans on quality assurance, and adoption and implementation of international standards
- Guidance on strengthening governance

Establishing and Developing a Professional Accountancy Body can be downloaded free of charge from the IFAC website.

IFAC Survey Highlights Need for Further International Alignment of Risk Management and Internal Control Guidelines

Risk management and internal control frameworks, standards, and/or guidance should be aligned internationally, according to the results of the *Risk Management and Internal Control Survey* released by the IFAC Professional Accountants in Business (PAIB) Committee. With over 600 responses from around the globe and from all types of organisations, the survey results also highlighted that:

- risk management and internal control systems should be better integrated into the governance, strategy, and operations of organisations; and
- risk management and internal control guidelines should be combined into a set of integrated guidelines, as both elements are integral parts of an effective governance framework.

As many organisations have international activities, further international alignment of risk management and internal control guidelines would benefit their operations and compliance processes, reducing costs and allowing for the comparison of these systems across borders and, thus, increasing investor confidence.

Recommended Next Steps

Respondents recommend that national and international standard-setting bodies and professional associations, as well as the relevant regulators, collaborate to (a) determine the major similarities and differences between the various guidelines, (b) compile leading risk management and internal control practices, and (c) consider the benefits of further integration and international alignment of regulations and guidelines in the area of governance, risk management, and internal control.

Respondents would like to see these discussions lead to the establishment of an international, integrated framework. To further international alignment, existing national guidelines could be expanded or modified—with allowances made for specific national circumstances—to meet the principles of an international framework.

The survey analysis, *Global Survey on Risk Management and Internal Control—Results, Analysis, and Proposed Next Steps*, is available at www.ifac.org/PAIB/risk-management-and-control.php.

Transitioning to ISAs, Sustainability, Ethics, and SMPs Are Key Issues for Global Accountancy Leaders, According to IFAC Global Survey

Profession Urges IFAC to Increase Role in These Areas

Credibility of the profession, standard setting, and adoption and implementation are key areas of focus for leaders in the accountancy profession, according to results of the *2010 IFAC Global Leadership Survey of the Accounting Profession*, released by IFAC, the global organisation for the accountancy profession with members and associates in 125 countries.

"In our fourth annual survey, there was extremely strong confirmation among survey participants that IFAC should continue in its pivotal role as an international standard setter," said Ian Ball, chief executive officer of IFAC. "In addition, respondents asked us to continue to work toward convergence and the adoption of international standards, and proactively support and restore public confidence in the accountancy profession."

IFAC's Role in Implementation of Global Standards is Crucial

The accountancy profession feels that transitioning to International Standards on Auditing (ISAs) is a crucial issue—96 percent of survey respondents cited this as very important or important, compared with 83 percent last year. There was also universal sentiment that IFAC, as a representative of the global accountancy profession, has a key role to play in convergence and leading the way in the global adoption and implementation of standards.

Virtually all survey participants (98-99 percent) said that IFAC plays a very important or important role relating to confidence in, and adoption of, high-quality international standards. In addition, 97 percent of respondents said that recognition of IFAC as the umbrella organisation for international standards in the areas of auditing and assurance, education, ethics, and public sector financial reporting is very important or important. The vast majority of survey participants said IFAC should continue to work toward convergence and effective implementation of international standards. To encourage implementation, 91 percent of those surveyed said that developing guidance regarding international standards and corporate governance principles is very important or important.

Sustainability and SMPs Take Centre Stage

Sustainability emerged as a key issue as well, with 91 percent saying that progressing corporate social responsibility, including sustainability, is important, compared to 82 percent last year. In addition, 95 percent of respondents said that addressing the needs of SMEs and SMPs is crucial.

Global Code of Ethics Needed

The importance of ethics also was cited—auditor independence and agreeing/discussing expectations to prevent and detect fraud were cited by 91 percent and 89 percent of respondents, respectively. The survey also confirmed the widespread opinion that there is a clear need to have a global code of ethics to protect the fundamental qualities of the profession, particularly relating to independence. According to participants, the code needs to take local culture into account, and needs to be effectively enforced.

Demand for Professional Accountants Continues to Grow

Significant demand is seen across various sectors, particularly in public practice, with approximately three-quarters of respondents saying that demand is very high or high in public practice-accounting/advisory/tax/other (78 percent) and public practice-auditing/assurance (71 percent). These results compare positively to our 2009 survey, in which 77 percent and 65 percent, respectively, of respondents cited very high or high demand in these areas. Those surveyed said that the accountancy profession continues to be attractive due to career options, ability to work internationally, and earning potential.

About the Survey

The 2010 IFAC Global Leadership Survey on the Accountancy Profession asked officers (generally presidents and chief executive officers) from IFAC's member bodies, associates, affiliates, and regional accountancy organisations and groupings a variety of questions regarding the accountancy profession. Survey results include data from 123 respondents who took the survey from January 10, 2011 to February 15, 2011.

Key Business Leaders from Around the World Recommend Fundamental Changes to Business Reporting in IFAC Report

Elemental changes to the current format of financial reporting need to be made to increase its relevance and stakeholder value and stem the increasing complexity that has plagued financial reporting in recent years, according to key business leaders from around the world interviewed by the IFAC. Developing a new form of reporting that integrates an organisation's social and environmental performance with its economic performance, in a simplified manner, would benefit all stakeholders, according to interviewees. These and other recommendations are summarised in the report, *Integrating the Business Reporting Supply Chain*, released by IFAC.

The report is based on IFAC's interviews with 25 prominent business leaders, representing preparers, directors, auditors, standard setters, regulators, and investors, on what should be done to effectively improve governance, the financial reporting process, the audit, and the usefulness of business reports in the aftermath of the financial crisis. The report provides a summary of interviewees' recommendations in each area and highlights some of IFAC's related initiatives.

"Society needs successful commercial organisations that act responsibly, and it is important that the business reporting system not only *allows* but actively *promotes* this corporate philosophy. There is much debate as to whether or not the current reporting system is fit for this purpose, and this report seeks to drive forward the debate in the crucial areas: governance, financial reporting, financial auditing, and the usefulness of business reports," said Charles Tilley, chair of the IFAC Business Reporting Project Group.

Strong governance lies at the core of high-quality business reporting. Interviewees agreed that good governance starts with tone at the top. Additional recommendations to strengthen governance in organisations include:

- Governance codes should be principles based and stakeholder driven;
- Collaborative, global effort is required to address systemic risk; and
- More independence should be required of boards of directors.

Improving financial reporting depends on simplifying reports, so that they are easily understood by all stakeholders in the reporting supply chain, according to interviewees. Interviewees also called upon regulators and standard setters to limit the financial reporting burden on smaller and non-listed entities.

In the area of auditing, interviewees agreed that limited audit choice is a challenge that needs to be addressed. They also made recommendations to further improve practice development and auditor communication, and recommended that auditors expand the scope of their assurance services to include non-financial information, such as the social and sustainable performance information included in integrated business reports.

Interviewees acknowledged that achieving integrated business reporting will be very hard to accomplish, and will require all stakeholders in the business reporting supply chain to manage the challenges—including litigation risks and regulations that may inhibit change—in a coordinated way.

IFAC would like to thank all of the business leaders who agreed to be interviewed, graciously lending their time and expertise, and without whom this project would not have been possible. To access a summary of the key recommendations, the interview transcripts, and a series of articles based on the interviews, visit the IFAC website at www.ifac.org/frsc/. More information about the project group and their previous work is also available on this site.

IFAC Members and Stakeholders Invited to Comment on Proposed Compliance Program Strategy

The Compliance Advisory Panel (CAP) has released for comment the IFAC's *Proposed Member Body Compliance Program Strategy 2011-2014*. The paper was drafted as a result of the strategic discussions held between the CAP, IFAC compliance staff, and Public Interest Oversight Board (PIOB) representatives in October 2010 and January 2011. The discussions were based on the CAP self-assessment, submitted as part of the 2009-2010 Monitoring Group's review of the IFAC Reforms, as well as comments from the Fifth Public Report of the PIOB (May 2010).

The paper highlights the vision, values, and objectives of the IFAC Compliance Program and suggests priority areas through 2014. These areas include enhancing quality of professional accountancy organisations (PAOs); contributing to the agendas and actions of PAOs for the meaningful adoption and implementation of international standards; improving information and knowledge sharing; and collaborating with stakeholders involved in the regulation and development of the profession.

The CAP invites IFAC members and external stakeholders to comment on its proposed strategy. To access the paper or submit a comment, visit the Exposure Drafts and Consultation Papers section of the IFAC website. Comments on the paper are requested by May 30, 2011.

IFAC Global Forum Highlights Role of SMPs in Partnering with Small Businesses

On March 21, 2011, over 200 delegates from more than 45 countries converged in Istanbul for the fifth SMP Forum of the IFAC's Small and Medium Practices (SMP) Committee.

Delegates from IFAC member bodies convened to discuss, debate, and share best practices on a range of topics, including the challenge for small businesses in keeping up with the complicated and rapidly changing regulatory environment and the many ways that SMPs can partner with small businesses to build and sustain value. The forum also included breakout sessions on implementing the IESBA Code of Ethics, the IAASB's future projects for SMPs, and resources and tools to support this sector.

To learn more about IFAC's activities to support SMPs, and to access the valuable resources and guides produced by the SMP Committee, see the International Centre for SMPs on the IFAC website.

Updated IFAC Sustainability Framework Supports Professional Accountants in Achieving Sustainable Value Creation

The Professional Accountants in Business (PAIB) Committee of the IFAC has significantly updated its *Sustainability Framework* (the Framework), a tool to support professional accountants and their organisations as they integrate sustainability into their strategy, operations, and reporting.

The Framework highlights the important roles that professional accountants play in facilitating the sustainable development of their organisations, as well as the importance of adopting an integrated approach to business reporting.

Embracing sustainability and corporate responsibility from three perspectives—strategy, operations, and reporting—is critical to gaining the trust of stakeholders and the wider public, and ultimately ensuring sustainable value creation. Through key considerations, as well as examples from major international corporations, smaller firms, professional accountancy organisations, and leaders from around the world, the Framework provides a comprehensive view of some of the current best practices globally in each of these areas, and is applicable to entities of all sizes and levels of complexity.

Presented in a digital magazine format, and available in PDF, the Framework contains numerous internal links to allow professional accountants to easily navigate to the sections of most relevance to their particular roles.

All sections include key considerations for professional accountants, including examples and references to other sources of information and guidance. The Sustainability

Framework is available in the International Centre for Professional Accountants in Business on the IFAC website.

UNCTAD-IAESB Accountancy Education Forum Identifies Opportunities and Challenges in Implementing Accounting Education Programs

The International accountancy, education, and Professional Accountancy Organisation (PAO) leaders from over 30 nations convened on March 8, 2011 at the United Nations in Geneva for the *Accountancy Education Forum: Building Human Capacity and Professional Accounting Education for High-Quality Corporate Reporting.*

The event was jointly hosted by the United Nations Conference on Trade and Development (UNCTAD) and the International Accounting Education Standards Board (IAESB).

The event provided UNCTAD and IAESB with an opportunity to reach out to key stakeholders in the area of accounting education and to share the latest developments on their respective activities, including the IAESB's current work program on updating its IESs and its efforts to assist PAOs with implementation of existing accounting education standards.

Further, the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting's (ISAR) current work on capacity building for high-quality corporate reporting was highlighted. In particular, the importance of accounting education for strengthening the human capacity pillar of the ISAR capacity-building framework were noted.

IAASB's ANNUAL REPORT HIGHLIGHTS FOCUS ON CLARITY, QUALITY, AND RELEVANCE

The International Auditing and Assurance Standards Board (IAASB) has released its 2010 annual report. The report highlights the IAASB's ongoing work to promote the adoption and implementation of its clarified International Standards on Auditing (ISAs), and the issuance of a number of proposals in areas where there is demand for new and innovative assurance and related services other than audits of financial statements.

"A number of projects underway are addressing issues that are at the forefront of our stakeholders' minds, and our efforts can be best summarised as a pursuit of three goals: clarity, quality, and relevance," said IAASB Chairman Prof. Arnold Schilder. "Developing assurance standards in new areas has taught us that wide consultation becomes even more critical to ensure the public interest is being met." Accordingly, the annual report details the extensive outreach and liaison activities undertaken during 2010 with key groups, such as regulators and audit oversight bodies, national auditing standard setters, accounting standard setters, governments and public sector organizations, and accounting firms.

Noted James Gunn, IAASB Technical Director, "The IAASB's debates on its 2010 standard-setting proposals are likely to evolve during 2011 as stakeholder responses are received. We hope that the new interactive format of the 2010 annual report allows those interested in the IAASB's work to more easily stay abreast of developments in our initiatives." The annual report also catalogues the tools and resources that have been developed to support the clarified ISAs and makes reference to the ongoing consultation on the IAASB's work program for 2012–2014.

A report from Linda de Beer, the newly appointed chairman of the IAASB Consultative Advisory Group (CAG), describes the work of the CAG in providing input to the IAASB. The IAASB also continues to receive oversight from the Public Interest Oversight Board (PIOB).

The 2010 IAASB annual report can be downloaded from www.ifac.org/IAASB/About.php.

ARTICLES FOR THE MALAYSIAN Accountant

JOURNAL OF THE MALAYSIAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

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Kerajaan Malaysia v Ekran Berhad[1]

IN THIS ARTICLE, IRENE YONG EXAMINES THE RECENT HIGH COURT DECISION IN KERAJAAN MALAYSIA V EKRAN BERHAD IN RELATION TO WHEN A STAY OF PROCEEDINGS SHOULD BE GRANTED FOR RECOVERY OF TAX ASSESSED.

Facts

The Inland Revenue Board had raised an assessment for the year of assessment 1997 ("disputed assessment") seeking to tax Ekran Berhad ("EB") in the amount of RM25,036,323.98 ("tax amount"). As EB did not pay the tax amount, the Government of Malaysia ("GOM") instituted a civil suit for the recovery of the tax amount.

Although EB opposed the suit on the grounds that the disputed assessment was erroneous, summary judgment was granted to the GOM to recover the tax amount.

EB then counterclaimed for a declaration that gains on capital account were not subject to income tax and also lodged an appeal ("tax appeal") to the Special Commissioners of Income Tax ("SCIT") on the grounds that the disputed assessment was erroneous.

The tax appeal was allowed by the SCIT. However, upon appeal to the High Court by the GOM, the decision of the SCIT was overturned and judgment was given by the High Court in favour of the GOM. Dissatisfied with the High Court's decision, EB further appealed to the Court of Appeal against the High Court's decision.

As the taxpayer had succeeded in the first instance before the SCIT, the GOM applied for and was granted a stay of proceedings pending disposal of its appeal by the High Court.

After the High Court's decision was delivered in favour of the GOM, it was the taxpayer who then sought a stay of the proceedings pending disposal of its further appeal to the Court of Appeal.

Issues

The issue for the High Court's determination was whether the stay of proceedings sought by the taxpayer should be granted in the instant case.

The Law

The relevant legislative provisions of the Income Tax Act 1967 ("ITA") at the material time provided as follows:

"Section 103. Payment of tax.

(1) Subject to this section, tax payable under an assessment or a composite assessment shall on the service of the notice of assessment or composite assessment on the person assessed, other than a company to which section 103A applies, be due and payable at the place specified in the notice whether or not that person appeals against the assessment.

Section 106. Recovery by suit.

(1) Tax due and payable may be recovered by the Government by civil proceedings as a debt due to the Government. …

(3) In any proceedings under this section the court shall not entertain any plea that the amount of tax sought to be recovered is excessive, incorrectly assessed, under appeal or incorrectly increased … "

Decision

The High Court held that it was trite law that special circumstances must be shown in order for an application for a stay of proceedings to succeed, in the same way that it applies to an application for a stay of execution. Accordingly, the High Court applied the same test as was applied by the High Court to grant a stay in the following cases.

In **Kerajaan Malaysia v Jasanusa Sdn Bhd**[2] **and The Government of Malaysia v Datuk Haji Kadir Mohamad Mastan and another case**[3], the Supreme Court and the High Court respectively granted the stay of execution sought by the respective taxpayers.

The Courts further held that sections 103(1) and 106(3) of the ITA do not bar a Court, in appropriate circumstances, from exercising its inherent powers in granting a stay, even in a tax case, as the ITA does not have any provision curtailing or restricting the inherent jurisdiction of the Court to stay an execution.

In the light of the legislative provisions set out above, in particular section 106(3), a taxpayer cannot rely on grounds that the amount of tax sought to be recovered by way of the disputed assessment was excessive, incorrectly assessed, under appeal and the like to defend against tax recovery suits instituted by the GOM.

Notwithstanding the foregoing, the High Court held that it was not precluded from granting a stay of proceedings under its inherent jurisdiction and power to grant a stay.

The High Court held that the facts of the instant case constituted special circumstances for the grant of a stay as, amongst other things:

(a) the GOM itself had applied and succeeded in obtaining a stay of proceedings; and

(b) it would be unfair and unjust for the taxpayer to pay the substantial amount of taxes as they had succeeded before the SCIT in the tax appeal.

The High Court also took cognizance of the fact that the findings of, and the inferences drawn by, the SCIT were binding on appellate courts and not subject to review by the appellate courts, as was held by the Court of Appeal in **Aspac Lubricants (M) Sdn Bhd v Ketua Pengarah Hasil Dalam Negeri**[4].

Conclusion

Ekran confirms that the strict provisions of section 103 and 106 are not cast in stone. The power lies in the High Court by way of its inherent jurisdiction to achieve a fair and just outcome.

The following passage from **Jasanusa** neatly summarises the object and purpose of sections 103 and 106 of the ITA, at page 112 of the report:

> *"Matters of this nature involve, inter alia, balancing the need of the Government to realise taxes and the need of the taxpayer to be protected against arbitrary or incorrect assessments. The Court should be ever vigilant against taxpayers who may use the procedure of the Court, like applying for a stay of execution, to defer or postpone payment of his just dues or to abscond by migration or to dissipate the assets to defeat the judgment. The Court should also bear in mind the possibility of arbitrary or incorrect assessments, brought about by fallible officers who have to fulfil the collection of a certain publicly declared targeted amount of taxes and whose assessments, as a result, may be influenced by the target to be achieved rather than the correctness of the assessment." [emphasis added]*

IRENE YONG, ADVOCATE & SOLICITOR
SHEARN DELAMORE & CO.

1 Suit No. 22-84-2003 III(II). Unreported decision of the High Court.
2 [1995] 2 MLJ 105
3 [1993] 4 CLJ 98
4 [2007] 6 MLJ 65

NEWS from Down Under

By Bill Palmer, Director, Asia, The Institute of Chartered Accountants in Australia

The Institute of Chartered Accountants in Australia

Malaysia and Australia ties strengthen

The relationship between Malaysia and Australia continues to thrive with both countries committed to collaborating on a range of important issues such as public policy, superannuation, Islamic finance and education.

The longstanding relationship between Malaysia and Australia was further strengthened when the Malaysian Prime Minister Najib Razak travelled to Australia in March to attend meetings with the Australian Prime Minister Julia Gillard. This was his first visit since taking office in 2009 and follows Ms Gillard's earlier visit to Malaysia in November last year.

During meetings, the Prime Ministers discussed collaboration on domestic policy reform agendas, including public sector, superannuation and Islamic Finance, which are highly relevant to the accounting profession in both countries.

The Australian public sector adopted accrual accounting some years ago and as a result, has seen an increase in the number of public sector CFOs with professional accounting qualifications. Consequently, Malaysia's intention to adopt accrual accounting, as part of its public sector reform, should provide good opportunities for Malaysian accountants, not only in assisting with implementation but also with longer term career opportunities in the public sector.

A similar experience may arise with superannuation, where the Australian accounting profession (particularly small to medium size practices) have been able to significantly redirect their offerings to clients away from the lower contribution compliance area to higher value added retirement planning and advice. A key driver for this was the introduction a few years ago of higher thresholds for companies to provide audited financial statements. This led to a decline in audit work especially for smaller practices.

In addition, the subsequent increased requirements arising from the clarity project, in relation to auditing standards and increased regulatory oversight of audit quality, has resulted in more small firms exiting the audit market. Similar circumstances now exist in Malaysia and consequently the profession in Malaysia needs to closely monitor opportunities, which may arise from any superannuation reform.

On the other hand, the Australian profession is observing developments in Malaysia with the growth of Islamic finance and the opportunities, which it may present particularly given Malaysia has elected to adopt the IFRS platform as the basis for its Islamic accounting standards.

Meanwhile, the leaders also welcomed the signing of a Memorandum of Understanding to further strengthen cooperation in education. Both Prime Ministers recognised educational links were especially strong between the two countries with large numbers of Malaysians studying in Australia. Plus, three Australian universities having established campuses in Malaysia. Not to mention a growing number of Malaysian students continue to undertake the Chartered Accountants Program.

It's clear through all these areas, the relationship between Malaysia and Australia is as strong as ever. Both countries now and over the long term are committed to enhancing bilateral cooperation, stakeholder relations and business linkages.

CHINA

Hong Kong Exchanges Allow Further Use of Different Accounting Standards

Hong Kong Exchanges and Clearing House (HKEx) announced on March 8, 2011 that a Japanese registered company had applied for public offering on HKEx as the second listing market. HKEx decided that the company would be allowed to prepare for its accounting report and financial statements in accordance with Japanese GAAP.

According to the 'Rules and Guidance on Listing Matters' of HKEx, overseas issuers should prepare for their accountant reports following allowed accounting standards, including HKFRS, IFRS, or U.S. GAAP. Therefore, the Japanese company was asked to disclose reconciled financial statements to IFRS as well as the financial statements based on Japanese GAAP.

This is not the first time that HKEx has accepted financial statements based on accounting standards other than those formally allowed by HKEx. HKEx also has accepted Singapore GAAP, Canadian GAAP, and UK GAAP previously. But all these overseas issuers were asked to disclose the significant differences from IFRS in their prospectus.

The current 'Rules and Guidance on Listing Matters' of HKEx was recently modified in December 2010. Based on the new rules, HKEx began to allow Mainland Chinese registered issuers to adopt Chinese GAAP and to employ Mainland Chinese CPA firms. According to the previous chairman of HKEx, the difference between HKFRS and Chinese GAAP has been minimised after China switched to their new accounting standards, therefore allowing the use of Chinese GAAP can significantly reduce costs for companies that are cross listed on both Mainland China and Hong Kong stock exchanges.

The actions taken by HKEx can be viewed as a result of the convergence of different accounting standards around the world. Besides reducing the cost to prepare the financial statements, it also simplifies the listing procedures for issuers to list on different stock exchanges, which in turn improves the efficiency and timeliness of information disclosure.

(Source: www.accountingeducation.com)

NORTHERN IRELAND

Government may devolve N Ireland Corporation Tax

The government has published a consultation paper looking at ways to support the rebalancing of the Northern Ireland economy. This includes the option of devolving powers to set the corporation tax rate to the Northern Ireland Executive (NIE).

The consultation assesses the costs and benefits of a separate tax rate for Northern Ireland and the rest of the UK, and considers potential mechanisms for introducing a separate rate.

The consultation paper sets out estimates of the costs and benefits of such a move, and says that a reduced corporation tax rate could play a significant role in helping to rebalance the Northern Ireland economy, especially over the longer term, by encouraging private sector investment and growth.
The introduction of a reduced corporation tax in Northern Ireland could also raise competitivity and attract inward investment as companies review whether to invest in Northern Ireland or in Ireland with its existing 12.5% corporation tax on corporate trading profits.

Its estimates suggest that the level of investment in Northern Ireland would be around 6% higher each year than it would have been if the corporation tax level is reduced to 12.5%. Increases in income tax, national insurance, business rates and VAT would help offset the effect of the lower rate.

Brendan Morris, chair of CIOT's Northern Ireland branch, said such a move 'could be a real boost to the Northern Irish economy but it would not be a one way bet', as there was no guarantee the books would balance in the executive's favour.

Morris also warned of the risk of imposing additional administrative burdens on business.

'The profit of a company that only operates in Northern Ireland would clearly be subject to a new devolved rate. But how would a UK-wide trader derive its Northern Ireland profits figure? How would HMRC police the split? The risk is that new rules could generate significant administrative burdens for businesses and for HMRC,' Morris said.

(Source: www.accountancymagazine.com)

SOUTH AFRICA

Johannesburg Stock Exchange to Review Financial Statements of all Listed Companies

The Johannesburg Stock Exchange (JSE) recently announced plans to begin reviewing financial statements of all listed companies in a move to be more proactive in the monitoring of public companies. All listed companies will now be reviewed once every five years, in addition to any investigations based on specific complaints. Previously, reviews were conducted based on complaints or the JSE's initiative but not on any planned schedule. The JSE will be specifically looking for non-compliance with IFRS, but the move is also expected to increase shareholder confidence in a better-regulated market. This move means that all financial submissions from companies will be reviewed, and potentially investigated, at any time.
(Source: www.saica.co.za)

SRI LANKA

CASL Issues Accounting Standards for Sri Lanka in Move Towards Convergence

The Institute of Chartered Accountants of Sri Lanka (ICASL) recently issued the Sri Lanka Accounting Standards (SLFRS) as part of the convergence process they have undertaken to help move accounting standards in Sri Lanka toward convergence with International Financial Reporting Standards (IFRSs). These standards will be in effect for all financial statements beginning on or after January 1, 2012. The ICASL has also issued a paper explaining these new standards.
(Source: www.icasrilanka.com)

UNITED KINGDOM

Proposals for Public Entity Standards for Tier 2-Entities – FRED 45

The UK/Irish Accounting Standards Board (ASB) of the FRC has published Financial Reporting Exposure Draft (FRED) 45. This sets out proposals to be included in a Financial Reporting Standard for Public Benefit Entities (FRSPBE) to accompany the proposed Financial Reporting Standard for Medium-size Entities (FRSME).

The FRSPBE has been developed because IFRS based standards are written for the ‘for-profit’ sector and do not address some transactions that are specific to the public benefit entity sector.

It is proposed that the FRSPBE will be mandatory for entities, which meet the definition of public benefit entity that apply the proposed FRSME.

A public benefit entity has been defined as:
An entity whose primary objective is to provide goods or services for the general public, community or social benefit and where any equity is provided with a view to supporting the entity’s primary objectives rather than with a view to providing a financial return to equity providers, shareholders or members.

Issues which have been addressed include:
- Concessionary loans;
- Property held for the provision of social benefits;
- Entity combinations;
- Impairment of assets;
- Funding commitments; and
- Incoming resources from non-exchange transactions (donations etc).

Roger Marshall, Chairman of the ASB said, “The proposals in FRED 45 clarify how some PBE sector specific transactions should be accounted for. Many of the proposals mirror the requirements in existing literature and Statements of Recommended Practice, and therefore are consistent with current practice.”

FRED 45 also contains a consequential amendment, which will in effect reinstate the requirements of FRS 30 ‘Heritage Assets’ into the FRSME.

The ASB is grateful to the members of the Committee on Accounting for Public Benefit Entities for their efforts in developing these proposals.

The consultation period will run until July 31, 2011. It is proposed that the new Standard will be effective at the same time as the FRSME, which is currently proposed for annual reporting periods beginning on or after July 1, 2013.

The consultation period for the draft FRSME ends on April 30, 2011. The ASB will be considering the responses it receives to the draft in May 2011 and will post on its website its tentative decisions as this re-deliberation work progresses.

Further details of the ASB’s proposals for the future of financial reporting requirements for entities in the UK and Republic of Ireland can be accessed at: http://www.frc.org.uk/asb/technical/projects/project0072.html.
(Source: www.accountingeducation.com)

Big Four stranglehold threatened by OFT probe

The Big Four’s stranglehold on the large audit market could be under threat after the House of Lords today recommended that the Office of Fair Trading holds a detailed investigation into the firms' oligopoly. This would be with a view to a possible inquiry by the Competition Commission.

It would be the first time the OFT would look at the Big Four since it decided against a full-scale competition investigation in 2002 after Arthur Andersen collapsed, reducing the then Big Five by one. The auditing giants and their regulators were also slammed for 'a dereliction of duty' and 'complacency' by the Lords, which found that the breakdown of dialogue between bank auditors and regulators had 'made the financial crisis worse'.

In addition, International Financial Reporting Standards came under fire for encouraging box-ticking and reducing 'the scope for auditors to exercise judgment to reach a true and fair view'. The Lords recommended that 'prudence be reasserted as the guiding principle of audit'.

These are among the key findings of the House of Lords economic affairs committee, which has published a report on its eight-month investigation into the audit market that finished in January. The inquiry found the domination of the large company audit market by the Big Four firms limits competition and choice – in 2010 they audited 99 of the FTSE 100 largest listed companies, which change auditors every 48 years on average. Meanwhile, in UK bank audit, only three of the Big Four are active.

According to the report, there is the risk that one of the firms might leave the audit market, leading to an unacceptable degree of market concentration.

Among the other recommendations made by the Lords committee were:

- FTSE 350 companies should carry out a mandatory tender of their audit contract every five years;
- Audit committees should hold discussions with principal shareholders every five years;
- The published report of the audit committee should detail significant financial reporting issues raised during the course of the audit and explain the basis of the decision on audit tendering and auditor choice (with the Financial Reporting Council's UK corporate governance and stewardship codes being amended accordingly);
- A company's external auditors should be banned from providing internal audit, tax advisory services and advice to the risk committee for company. The Lords also recommended that the OFT examine whether any other services should be banned from being carried out by a company's external auditors;
- Government should reassert the importance of the going concern statement;
- Government should promote a prudent interpretation of IFRS as applied to banks, including a 'sober valuation' of complex financial instruments;
- Regulators should promote the introduction of living wills for Big Four firms that would lay out all the information the authorities would need to separate the good from the failing parts of an audit firm so disruption to the financial system from a firm's collapse would be minimised;
- There should be a statutory obligation for auditors to meet with banking regulators, perhaps on a quarterly basis.
- The OFT should conduct a market study of restrictive bank covenants that potentially limit companies' auditor appointment choices as part of its wider inquiry.

Committee Chairman Lord MacGregor of Pulham Market said, "Our inquiry has revealed widespread concerns about the Big Four's dominance and the risk that they could become the Big Three."

(Source: www.accountancymagazine.com)

CPA MALAYSIA

MICPA
Practising Certificate

The Membership Affairs Committee of the Institute in considering applications for practising certificates, has frequently come across cases where a member has commenced public practice before he is issued with a practising certificate by the Institute.

The Committee would like to remind members that in accordance with **bye-law 56 of the Institute's bye-laws, a member shall be entitled to engage in public practice in Malaysia only if he holds a practising certificate issued by the Institute.**

If members need clarification on the above, kindly contact the Institute's **Membership Services Department.**

The Malaysian Institute of Certified Public Accountants
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Producing Productive and Loyal Workforce

By Kavalyn Kreer

Very rarely do most employers appreciate staff loyalty. When counting their assets, most companies usually forget to include staff loyalty amongst the buildings, customer base, land and other tangibles. Many employers don't realise that during these economically turbulent times, a loyal workforce is probably the most valuable asset of the company.

A loyal workforce is a happy workforce and therefore a productive workforce. When staff is unhappy, they will not perform their best and prefer to go home and forget about the company. Happy staff will not mind staying late or working weekends, and they will take the extra effort to ensure the quality of their work. This will show in the turnover figures because there will be higher output.

When the workforce is happy, the morale is higher and the workers enjoy going to work and putting their energies into it. These employees do not clock-watch, as they are busy working.

When employees feel unappreciated in their jobs, eventually as time goes by they will become a liability to the company because they are unhappy. Office managers who do their best to keep the staff happy will find it beneficial because loyal staff will stick with a good employer through good and hard times. So don't underestimate the value of staff loyalty.

Employees who are unhappy in their work place will eventually find another job, realising that life is too short to work in a place that makes them miserable. And when they leave, they will take with them all the experience that they gained to another company. The management will be left with the task of finding and training another employee. Whereas staff, who is happy will stick with the company through thick and thin, even put up with salary cuts to carry on with the employer who they like and respect.

When there is loyalty, there is also a high chance of high morale. Staff will enjoy going to work and putting in extra time and thinking about improving their skills outside of their work time. They will be little procrastinating and they will go to work every morning feeling buoyant. High morale will also improve the team spirit among the staff. New members will be welcomed and made to feel part of the team. Meetings and events will not be a chore because everyone will be full of ideas and willing to listen to one another. Any disagreement will be dealt with maturity and the greater good of the company will also prevail.

Unhappy employees will take any opportunity to take off from work. Anything, from a sniffle to an upset stomach will be considered more important then their jobs. Happy employees will feel a strong sense of responsibility and loyalty towards their employers and they will make an effort to be at work even if they are genuinely ill.

When a company has good and loyal employees, the company's reputation will soar. Customers will be happy with their service and even if something goes wrong, the efficient workforce will deal it with immediately. Good service is usually appreciated and eventually the company will have a good reputation. And before long, the company will have an edge over their competitors. This can only happen effectively if the company appreciates and nurtures staff loyalty. There are very few downsides of a loyal workforce and if employers work on keeping their employees happy, loyalty will follow and so will the profits.

When staff is loyal, they treat the company like their own regardless of who owns the company. It's just not a mere job for them; it is almost a vocation. Even if the employee is not so happy, a positive attitude towards work is a plus. It is better to be upbeat at work rather than angry and brooding. When staff feels positive, it means they will be more proactive and they will do things on their own initiative.

Employees provide the support for managers and administrators to succeed to their own roles. This is because the quality of an employee impacts strongly the overall performance of their supervisors and eventually, the company.

The supervisor must ensure that the staff is happy and works well as a unit. The supervisor and the staff must build a professional relationship. The staff must have a commitment towards their jobs and the supervisor must treat them well. A loyal staff will help foster a sense of purpose and direction.

A manager with loyal staff can expect the subordinates to step up when something needs to be done. In turn, the staff must believe and respect their leadership. Throughout the company hierarchy, there must be mutual respect and commitment to the job. In this ideal work environment, the staff will support their company and managers in the most difficult of times. A loyal staff will stand up and defend their company during any crisis and when this happens, it lends credibility to the employers, who in turn can be assured that these employees will stay with them even during the traumatic times.

Loyal staff can make or break a company and it's management. The success of a company and it's executives often depend on the performance if the employees. When staff is loyal he or she works towards the goal of the company and puts their salary second. It is during times of uncertainty when the value of a loyal staff is realised.

Therefore, employers must not underrate their workforce. Employees need to be appreciated, recognised, cared for and rewarded for their loyalty. This is really is the key to a company's success.

This article was written by Kavalyn Kreer, who writes lifestyle articles for publication on the web and print.

CPA MALAYSIA | The Institute of Chartered Accountants in Australia

REVISED MICPA PROGRAMME

2011 Examination

Time Table

	Term 1			Term 2			Term 3		
	FIN111	MAA111	EBA111	TAX 211	AAA211	EBA211	FIN311	MAA311	EBA311
Enrolment open	Dec 07 2010	Dec 07 2010	Jan 31 2011	Apr 11 2011	Apr 11 2011	Jun 13 2011	Jul 11 2011	Jul 11 2011	Oct 17 2011
Enrolment close	Jan 10 2011	Jan 10 2011	Feb 28 2011	May 09 2011	May 09 2011	Jul 11 2011	Aug 08 2011	Aug 08 2011	Nov 14 2011
Late enrolment close	Jan 10 2011	Jan 10 2011	Mar 07 2011	May 16 2011	May 16 2011	Jul 18 2011	Aug 15 2011	Aug 15 2011	Nov 21 2011
Commencement	Feb 07 2011	Feb 14 2011	Apr 04 2011	Jun 13 2011	Jun 20 2011	Aug 08 2011	Sep 12 2011	Sep 19 2011	Dec 12 2011
Project due	**Mar 21 2011**	**Mar 28 2011**	**N/A**	**Jul 25 2011**	**Aug 1 2011**	**N/A**	**Oct 24 2011**	**Oct 31 2011**	**N/A**
Examination	**May 10 2011**	**May 17 2011**	**Jun 14 2011**	**Sep 13 2011**	**Sep 20 2011**	**Oct 18 2011**	**Dec 13 2011**	**Dec 15 2011**	**Mar 06 2012**
Results release*	Jun 10 2011	Jun 17 2011	Jul 15 2011	Oct 14 2011	Oct 28 2011	Nov 18 2011	Feb 17 2012	Feb 24 2012	Apr 06 2012
Supplementary exam enrolment open*	Jun 13 2011	Jun 20 2011	N/A	Oct 17 2011	Oct 31 2011	N/A	Feb 20 2012	Feb 27 2012	N/A
Supplementary exam enrolment close*	Jun 20 2011	Jun 27 2011	N/A	Oct 24 2011	Nov 07 2011	N/A	Feb 27 2012	Mar 05 2012	N/A
Supplementary exam*	Jul 11 2011	Jul 11 2011	N/A	Nov 14 2011	Nov 14 2011	N/A	Mar 19 2012	Mar 19 2012	N/A
Supplementary results release*	Aug 12 2011	Aug 12 2011	N/A	Dec 09 2011	Dec 09 2011	N/A	Apr 20 2012	Apr 20 2012	N/A

**Note : Dates are estimated only and may be subject to change.*

MAY 2011 EXAMINATION

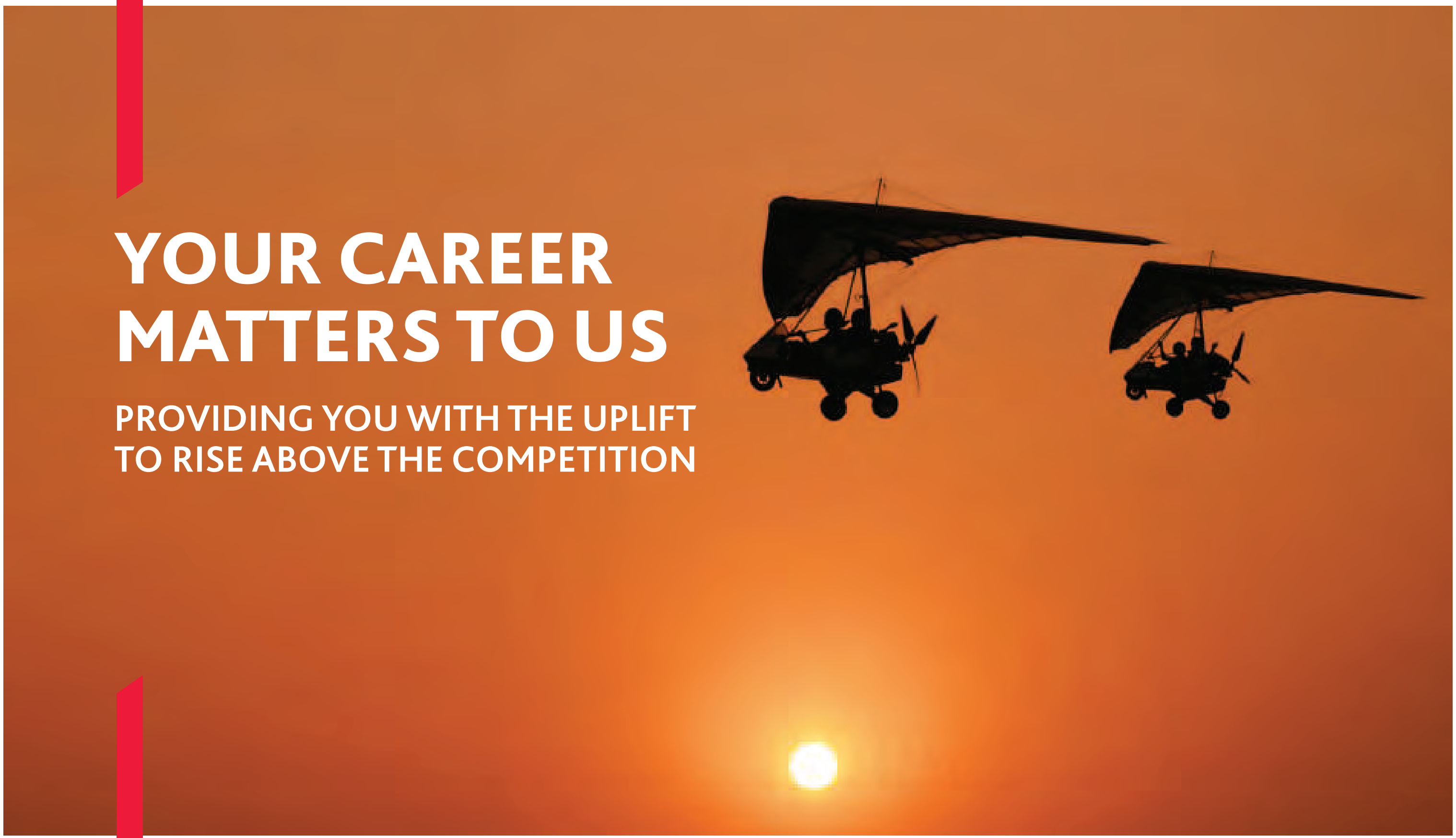
Professional Stage Examination

Time Table

Session Date	MORNING (9:00 a.m. – 12:00 noon)	AFTERNOON (2:00 p.m. – 5:00 p.m.)
Monday (May 23)	Financial Accounting and Taxation	Financial Reporting
Tuesday (May 24)	Business and Company Law	Auditing and Assurance
Wednesday (May 25)	Management Information and Control	Business Finance & Management

Advance Stage Examination

Date	Time	Examination Paper
Monday (May 23)	9:00 a.m. – 12:30 p.m.	Advanced Financial Reporting
Tuesday (May 24)	9:00 a.m. – 12:30 p.m.	Advanced Auditing & Assurance
Wednesday (May 25)		Advanced Business Management & Integrative Case Study
	9:30 a.m. – 11:30 a.m. [8:45 a.m. – 9:30 a.m. (Reading Time)]	Part A - Integrative Case Study
	12:30 p.m. – 2:30 p.m.	Part B - Advanced Business Management



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