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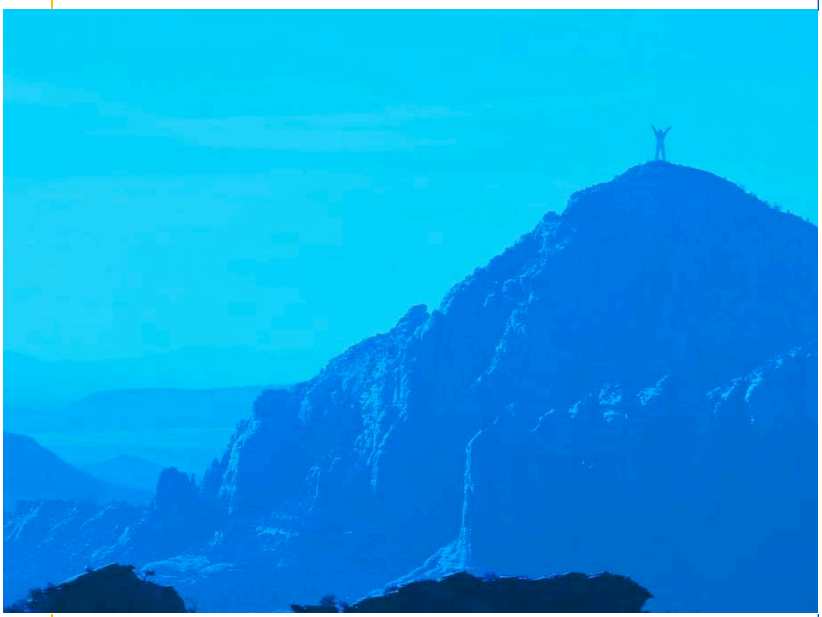

Through its IIN membership, ICAP participated in a survey of its non-practicing members in September 2007. Seven countries took part in the survey namely Pakistan, New Zealand, Canada, Australia, Ireland, United States, and the Netherlands.

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SIX DAYS OF 'COLLABORATIVE INNOVATION'

The World Economic Forum in Davos, Jan.22-27

Accounting Profession: Vision 2008 & Beyond

As the wheels of the profession turn towards a new year, the importance of education, practical experience and professional competence increases by the day. The nature and extent of continuing professional development needed by accountants is changing, and hence calls for the Institute's evolving role in keeping its members updated and abreast of changes in legislation and international accounting standards. The content and process of our education and development should also be aimed at gaining international recognition and acceptance.

In its quest for good practice in pre- and post-qualification education and continuing professional development, the International Accounting Education Standards Board (IAESB) is conducting a fundamental review of the Framework for International Education Statements. Approximately 22 percent of ICAP members are employed overseas. As a member of IAESB, I believe it has become imperative to ensure that the scope and nature of international accounting education standards facilitate global mobility of professional accountants and provide a basis for mutual recognition of their qualifications. Technical knowledge, practical training, values, ethics and attitudes will similarly play very important roles in the formal education and training of professional accountants in future.

Given that professional accountants are essential to the optimal functioning of capital markets our vision must be to cultivate individuals who can effectively take on that role by turning accountants in to strategic business advisors. If the Small and Medium Practices (SMP) market is to expand and flourish, Chartered Accountants will have to take on the additional role of trusted advisors to their clients. In order to become trusted advisors they have to keep up with the demands of changing networking and IT landscapes to enable them to provide high quality accounting and assurance services as well as helping their clients navigate the road ahead in areas of financing and tax planning.

In *The World is Flat,* Thomas Friedman suggests that the service sector --- telemarketing, accounting, computer programming, engineering and scientific research etc. --- will be further outsourced to the English-spoken abroad while manufacturing will continue to be off-shored to China. We must take in to account the realities of an increasingly multi-polar world where neighboring India and China are becoming multiple centers of growth, where developing countries like Brazil are achieving sustained economic growth, and Russia, Chile and Mexico are getting ratings upgrade from international rating agencies. What is it about these countries that have allowed them to become major stakeholders in the success of globalization? We already know the answer to that. It is time for us to implement those working solutions to our specific problems so we can learn, teach, innovate, collaborate and compete in a global economy.

Accounting Profession: Vision 2008 & Beyond

In an almost unanimous response to IFAC's Global Leadership Survey 2007, 143 respondents, mainly chief executives and presidents of international accounting institutes, in 91 countries, said that a strong accountancy profession plays a key role in their individual country's growth and development, and that professional accountants were essential to the optimal functioning of capital markets. Looking towards 2008, attracting new entrants to the profession was seen as the most important national issue to be addressed by accountancy organizations. Some respondents even indicated that a limited supply of qualified professional accountants was having a negative impact on their national economies.

In his famous *'Who is Us?'* 1990 Harvard Business Review article, Robert Reich wrote that 'a nation's most important competitive asset becomes the skills and cumulative learning of its workforce.' At the core of human capital development is education. And this capital risks depreciation if it is not sustained through regular updating of skills. As has been amply demonstrated by the success of recent emerging economies the availability of skilled human capital can tip the scales in favor of or against economic growth and development of a nation.

Hence it follows that accountancy can not move forward without high quality financial information and high quality audit. Our professionals need to build on the highest educational, technical and ethical standards so they can provide the kind of high quality financial information that is expected of them as Chartered Accountants. Providing that reliable and essential information should be the focus of our profession in the coming years, and the uninterrupted supply of that information will form the bedrock for business transformation, and ultimately provide the inspiration for business and investor confidence in our economy.

The way I see it the Institute's mission is to guide our accounting professionals through the delivery of accurate reporting standards and rules of corporate governance, improving the framework and regulation of audit quality, reinforcing principles-based and evidence based decision making, encouraging individual audit firms to build an internal culture of compliance, and representation in Government to further the interests of the profession and public policy. The Institute's challenge is to keep the ICAP qualification as the apex qualification for finance professionals in the country by supporting and representing our members across all public and private sectors. In order to generate desirable educational outcomes, the Institute's vision for 2008 and beyond must be to develop individuals with high potential for future senior leadership roles so that they are in a position to articulate the profession's ideals of promoting business, ethics and good governance.

ACCOUNTING PROFESSION VISION 2008 & BEYOND

Past Presidents Speak

The accountancy profession facilitates economic activity in both public and private sectors by protecting public interest and contributing to the development of society. Professional accountants facilitate this role by providing reliable and transparent information. But the scope of accountancy's traditional function is expanding beyond local, national and international boundaries. Based on the financial, economic, political, social, environmental, historical, geographical, and even cultural implications of globalization that will steer the world, every Chartered Accountant needs to be aware of what is occurring globally in markets and industry.

For this important issue of The Pakistan Accountant our Past Presidents have kindly consented to share their experience, their foresight and their views on the direction the profession is set to take in coming years. Their opinions are candid; their intent, objective. As John Fitzgerald Kennedy said:

'To state the facts frankly is not to despair the future nor indict the past. The prudent heir takes careful inventory of his legacies and gives a faithful accounting to those whom he owes an obligation of trust.'

- *President ICAP for two terms from 1986 to 1988*
- *Served several terms as Vice President ICAP from 1975-1976 and 1983-1986*
- *Was Chairman and member of various standing and other Committees of ICAP including Southern Regional Committee (SRC) and C.A. Ordinance and Bye-laws Committee*
- *Elected Vice President SAFA for the year 1986-87*
- *Nominated member of International Accounting Standards Steering Committee on 'Assets & Expenses'; IFAC's Committee on 'Financial and Management Accounting'; and Sub-Committee of the National Assembly.*
- *Was Executive Editor of The Pakistan Accountant for a number of years*
- *Led Pakistani delegations to CAPA conferences in Hong Kong, New Delhi and Melbourne*

"The future beckons the accountants to be ready with vision to foresee the events and with courage to fight the battles with distinction so as to live up to their motto 'We Are Different'."

Ebrahim S. H. Dahodwala, FCA
(1986- 1988)

The ever changing developed and developing economies of the twenty first century defy the imagination of the projectionists and the visionaries.

The global market confronts new challenges compelling professionals to rethink and remold their mind sets and perspectives to suit the business world of men and machines.

In this scenario the accounting fraternity can least afford to rest on its laurels since their own sphere of activities has undergone a massive change. From mere verifiers of events gone by they are now called upon to assist not only in looking beyond but also in planning how the beyond should be faced with proficiency and precision. More vocal is the consultative demand from commerce and industry to turn their dreams of adventurous ventures into reality of attainable profits. Such challenges are not only exercises of intellect but also assignments of responsibility. The accounting profession has thus launched into a web of business networks and relationships.

However, the profession's daunting challenge emanates from the serious collapses of large business houses which have generated critical censures on professional diligence from the authority and the regulators alike. Unless the Institute looks at the situation with a castigating frown not only the image of profession will be irretrievably tarnished but the utility of its services will also be perennially diminished. If that happens, the Institute will lose its control paving the way for officialdom to step in. That is the last thing members would want considering the tremendous efforts the peers had put in to secure their independence.

The future beckons the accountants to be ready with vision to foresee the events and with courage to fight the battles with distinction so as to live up to their motto 'We Are Different'.

- *President ICAP for two terms from 1994 to 1996*
- *Vice President ICAP from 1992 to1993*
- *Served on ICAP Council for 8 years i.e. two terms from 1989-90 to 1996-97*
- *Has served on various standing and other Committees of ICAP as Chairman/member.*
- *Attended various local and international conferences and is widely known for his eloquence.*

"There is a need to concentrate on the development of skill sets to suit the requirements of the time and ensure that our core values remain our guiding principles."

Syed Masoud Ali Naqvi, FCA
(1994-1996)

I do recollect the day when as President of the Institute, I attempted to draft a Mission Statement which was included in the Annual Report of ICAP for 1993-1994. The Mission Statement was later approved by the Council of the Institute.

The Council of the Institute continued to accelerate its efforts to accomplish the underlying objective of the statement. In 2001, the Mission Statement was reviewed and a comprehensive exercise was carried out to review Vision, Mission Statement and Strategies for ICAP.

The interactive process and the conclusions reached demonstrated the dynamism of the evolution of the profession. The change in the business environment, technology advancements, globalization, focus on corporate governance and increasing pressure on standard setters for global convergence of Accounting and Auditing standards and certain major corporate failures and scandals are some of the variables which have almost redesigned the genesis of the accounting profession with a complete transformation of its risk profile.

> In 2001, the Mission Statement was reviewed and a comprehensive exercise was carried out to review Vision, Mission Statement and Strategies for ICAP.

The core values of the profession i.e. integrity, credibility and confidence were challenged and the resultant crises have led the profession to revisit its vision, scope, competencies, values and skill sets to continue to enjoy its premier position, in some respects monopolistic position and privilege which it has continued to enjoy throughout its voyage of transformation.

The vision for 2008 and beyond for the accounting profession will evolve in the backdrop of the above challenges and the demands of the complex

The vision for 2008 and beyond for the accounting profession will evolve in the backdrop of the above challenges and the demands of the complex global business environment

global business environment, changing at a speed which could at times overtake any strategies and response developed by the profession.

In this context, I believe that the accounting profession could still play a core and crucial role and face the challenges posed by the dynamics of a changing business environment, and fight for competitive advantage over a number of other professions. All this would be possible if the profession not only remains alive and responsive but keeps its edge being proactively engaged in upgrading its quality of education, and reviewing its curricula to ensure that it matches with the demands of changing times. Further, there would be a need to concentrate on the development of skill sets to suit the requirements of the time and above all to ensure that our core values of integrity and ethics remain our guiding principles.

"The convergence of accounting and auditing standards and a vision for a single accounting and auditing framework all over the world appear to be a reality in the not too distant future."

• President ICAP for the term 2001-2002

• Vice President ICAP for the term 1997-98

• Fellow of ICAP and ICAEW

A. Husain A. Basrai, FCA
(2001-2002]

For a long time the accounting profession was considered to be a conservative, serious, number focused and an unattractive profession. With the advent of technology and its advancements, increasing stakeholder interest, growth and development of corporate culture and globalization in the last two decades or so, the profession went through complete transformation. It became more and more challenging and the multiplicity and complexity of various national standards, their inconsistencies, related impact on financial information generation and financial statements resulted in a debate on the value of financial information for all stakeholders and the role of the accounting profession as a whole.

• Completed part of training with Harrison, Son, Hill & Co.(merged with Robson Rhodes),then joined Peat Marwick Mitchell & Co., London in 1974

• Served on ICAP Council for 8 years i.e. two terms from 1997-98 and 2004-2005

• Served on various standing Committees of ICAP Council as Member and Chairman.

• Attended various foreign conferences/seminars etc.

• Vast and diversified experience in audits, consultancy and tax.

• Contributed articles in Professional Journals and presented papers at various seminars.

With the advent of technology and its advancements, increasing stakeholder interest, growth and development of corporate culture and globalization, the profession went through complete transformation.

Technology took away the prerogative and the traditional role of book keeping which can now be performed by generalists. The 'corporate scandals' and restatement of accounts challenged the role of accountants as auditors and the whole skill set, level of expertise, values, and concept of conflicts of interest were put under the microscope and underwent total transformation. Unfortunately, as a consequence of these tremors, a major global firm in practice vanished.

The convergence of accounting and auditing standards and a vision for a single accounting and auditing framework all over the world appear to be a reality in the not too distant future. The profession is and will no more be a *sedentary* profession; it is now full of challenges. There are huge risks but these are being mitigated with more robust standards, oversight and monitoring. The profession will become far more interesting and challenging, the role would be more geared towards high level management, value addition, analytical services and a more rational liability regime. The demands for a 'set of skills' will be different and will remain dynamic in relation to a fast changing business environment and stakeholders' needs. All these would require an equally dynamic process of education, training and skills development. The boundaries of various professions will become more fragile and there will be considerable overlap.

I recall the exercise initiated in 2001, when I was honored to be President, to review the Vision, Mission Statement and Strategies for ICAP. The interactive process which eventually resulted in the current Mission, Vision and Strategies appears to be still valid and relevant but it would soon require another review on a more proactive basis.

I am very confident that the profession would emerge from under the clouds of current concerns, trust gap and confidence crisis as a more respected and premier profession which would be proud of its expertise, skill sets, integrity, ethics and independence.

The profession will become far more interesting and challenging, the role would be more geared towards high level management, value addition, analytical services and a more rational liability regime.

- *President ICAP for the term 2003-2004*
- *Vice President ICAP for two terms 1998-1999; 2001-2002*
- *Fellow of ICAP and ICAEW.*
- *Council member for the terms 1997-2000 and 2001-2005.*
- *Represented ICAP on IFAC's IT Committee from 1998-2001 and IFAC Developing Nations Task Force and Committee from 2003-2005.*
- *Member of Federal Government ad-hoc Public Accounts Committee from 2000-2002.*
- *Member of Government of Pakistan Committee on Functional Separation of Audit and Accounts 1999-2000*
- *Chairman SAFA WTO/GATS Committee*
- *Member of Audit Committee of the Central Board of Directors of State Bank of Pakistan 2003-2007*

"The market is and will continue to demand high caliber, technology driven corporate finance and management persons rather than persons who are excellent in their accounting and auditing techniques."

Mujahid Eshai, FCA
(2003-2004)

Whenever any one asks what the future will be, it can turn into a most difficult task. Perhaps this is one reason why those who predict the future, as a profession, like to do so in clouds of secrecy and with all kinds of caveats thrown in. To be able to do so requires an insight into the past and the present circumstances as well as the personal or group characteristics to make some kind of prophecies about the future.

The task of defining a vision for the profession of accountancy generally and Chartered Accountancy in particular is indeed a daunting task. Why so? It needs a detailed analysis of where the profession stands today, whether the challenges thrown in by the market developments of the past have been adequately met or not, and particularly what are the current perspectives of those at the helm and in the field about the future.

Let us begin with the Institute of Chartered Accountants. Remembering that we live in a globalized, competitive world it is incumbent upon the Institute to start thinking in terms of the product that it declares as a qualified Chartered Accountant in future. Essentially it means that the typical accountant of the past is not a commodity desired or required in the market. The market is and will continue to demand high caliber, technology driven corporate finance and management persons rather than persons who are excellent in their accounting and auditing techniques but very raw on the particular demands. This, however, does not mean that the market demand for the knowledgeable, learned, technology and business risk savvy auditor will not exist or be required. This need shall be even more so than at present. But what it does entail is producing the right kind of product. The Institute has to place much greater reliance on the quality and class of accountant that they will produce down the road. It is not a game of numbers but high class, quality professionals with ability to communicate and deliver their viewpoints in emphatic,

transparent and independent manner. The Institute must undertake to revise its curriculum immediately and then at least every two years. Efforts towards this end must commence now.

This also requires the professional firms to change their approach to the extremely important aspect of on-the-job training. They have to become training centers with all the paraphernalia required to deliver the objective and abstain from being referred to as 'sweat-shops.' The quality all-round training to be imparted can only be delivered if the process of thinking undergoes a change and measures required to be taken are recognised as absolutely essential, introduced over a defined period of time. The practicing accountant must remember that the business managers/owners/ board of directors being dealt with today are a totally different breed who demand quality and value-added service. Firms demanding or charging 'appropriate' fees are also required to exhibit the on-job availability of requisite expertise. The client today knows what they are paying for and does not want to be short-changed.

The Institute's methodology of decision taking has to become transparent. Decisions pertaining to policy changes, affecting every practicing or non-practicing chartered accountant, need to be openly discussed with the members before the decision is taken. The Council must be very careful in taking decisions that are perceived by the membership at large to be against the interest of the profession as a whole. The executive functioning of the Institute must be detached from the policy, strategy and monitoring functions of the Council. The Executive headed by a Chief Executive must be answerable for all executive actions to the Council but the latter should not have any role to play in the management of the Institute except as a monitor. The best practices and rules of Corporate Governance must be followed by those who expound them.

The Council needs to review the relationship with the Government in terms of maintaining its independent role in civil society as a service provider to both the private and public sectors. The current relationship only serves to provide a forum for sitting with the Government nominees and no more. A different forum other than the Council can be established for exchange of views.

The number of elected members on the Council has to increase. The regions, North and South, should have parity in terms of the elected members of the Council.

The President of the Council must have a full time attendance at the Institute, on leave from his or her firm for the tenure. The tenure of the President should be enhanced from one year to two years. The election of the President should, perhaps, be according to declared criteria wherein the services performed outside the profession must also be recognized.

The past few years should provide an important insight into the different roles that will continue to be expected of Chartered Accountants in the future. This requires that the members get wider exposure, knowledge and experience of the changes that are taking place and will continue to take place in the local and international economics markets whether pertaining to governance, finance and business, or money. This means an extremely pro-active attitude towards the changes and open minds to accept changes for the betterment of the profession and the professionals engaged in it. This means a different approach in line with the basic principles of transparency, integrity and accountability. This means a massive challenge for all participants, the Institute, the members and the firms. Healthy competition can lead to healthy growth. But this means not believing in and developing covert or overt biases and cartels. This means establishing credence in the institution that one belongs to. This means the institution working for the majority interest rather than the interest of the few. This means showing that we have matured into an institution that should be heard and trusted. After all trust, straight forwardness and honesty are the cornerstones of our profession.

The quality all-round training to be imparted can only be delivered if the process of thinking undergoes a change.

The Institute of Chartered Accountants of Pakistan

BUSINESS SURVEY

ANALYSIS

As many of you may be aware, ICAP became a member of the International Innovation Network (IIN) in 2007. The network comprises of 16 institutes who share ideas and knowledge on the products and services delivered within the institutes. As well as holding two annual conferences, many specialized taskforces exist such as practice members, business members, CPD and publishing.

Through its IIN membership, ICAP participated in a survey of its non-practicing members in September 2007. Seven countries took part in the survey namely Pakistan, New Zealand, Canada, Australia, Ireland, United States, and the Netherlands. The aim of the survey included to:

- Understand the roles and activities of business members
- Identify issues of concern
- Assess the expectation business members have for ICAP
- Evaluate product ideas/concepts

Out of 3,282 surveys sent, 414 responded resulting in a response rate of 13%. The respondents included those members employed within education (faculty and non-faculty), government/public sector, NPO/Charities and corporations.

A detailed view of the survey contents is outlined below:

SECTION 1

QUESTIONS TO IDENTIFY ISSUES OF CONCERN FOR MEMBERS IN INDUSTRY

The following respondents rated the following issues as very important/critical issues

1.	Developing management skills	94%
2.	Developing leadership skills	94%
3.	Advancing your career	91%

4.	Managing work/life balance	90%
5.	Keeping up with technology	87%
6.	Planning your career	86%
7.	Health/Stress	85%
8.	Keeping up with changes in regulations and standards	83%

The findings highlight the current emphasis on the importance of softer skills within the profession. Staying on top of CPD requirements, planning for retirement, competing for jobs with other accountants and managing the volume of work were rated as less important.

The members were then requested to list the steps which ICAP can take to assist them with the important issues previously highlighted. The following suggestions were given:

- More online materials should be made available to keep up to date with technical issues i.e. summaries and practical case studies rather than comprehensive text. A web portal may be established.
- More online CPD courses to assist those living abroad and CPD activities which focus on softer skills such as leadership, communication, presentation skills and management. Alliances may be formed with major universities to resource talent with such experience.
- Assist in the recruitment process by linking up corporate organizations with job seekers and recruiting agencies
- Create a platform within ICAP for professionals in business with CPD activities focused on that group
- Create a Thought Leadership Exchange program
- International recognition of qualification
- Introduce retirement scheme for members
- Notification of changes within the profession and online support for clarification
- Improved ethics and stress management activities
- Industry specific updates
- The Pakistan Accountant should feature more career counseling with options available to younger members
- On line management courses for overseas members
- CPD material should be available online and interactive sessions may be conducted
- Identify web casts available online and inform members of the same
- Case studies for students in the area of financial management
- More management related seminars. May cover 2-3 day workshops.
- More social gatherings and forums for networking
- More CPD activities in other cities apart from Karachi

The members were then asked to rank challenges they face in their position. The response was as follows:

	Moderate Challenge %	Major Challenge %
Implementing internal control and/or risk management systems	33	45
Keeping up with regulatory requirements	39	38
Managing staff	44	33
Staff Development	42	32
Succession Planning	37	29
Measuring your organizations' financial performance	32	33
Reducing fraud within the organization	32	31
Measuring your organizations' non-financial performance	32	30
Reporting on your company's financial performance	31	28
Staff Retention/Minimizing staff turnover	30	29
Reporting on your company's non-financial performance	35	20
Implementing new accounting standards	38	15
Uncertain political environment	23	28
Hiring CAs	29	18
Hiring other business professionals	34	12

The respondents cited fulfilling managements' expectations and development of the regulatory framework as other major challenges.

SECTION 2

ASSESSING BUSINESS MEMBERS EXPECTATIONS OF AND SATISFACTION WITH THEIR INSTITUTE

Members were asked to rank the level of satisfaction with ICAP in terms of serving the members needs. The rating was as follows:

	%
Very Satisfied	8
Somewhat satisfied	51
Neither	21
Somewhat dissatisfied	17
Very dissatisfied	3

When asked as to the reasons for the rating of somewhat dissatisfied and very dissatisfied, the members forwarded the following:

- The overseas members feel isolated from the Institute
- More focus should be on Professional Development Programs
- More focus on reciprocal arrangements among other countries
- For student training and post qualification management techniques and webinars may be introduced
- The focus is on producing Chartered Accountants rather than business leaders. Training should include compulsory interpersonal skills, project management skills, public speaking skills, English speaking and

writing skills, conflict management, HR management and stress management

- The website may include up to date information, may be more user friendly and solved question papers for students, search engines for past articles in Pakistan Accountant, research articles on IASs and an online library may be introduced
- Membership ID card may be provided to members
- Efforts should be made to resolve the potential conflicts which exist between international standards and local issues e.g. in mutual funds industry
- CPD activities are insufficient to allow members to accumulate required CPD credits. Activities should be evenly spread throughout the country.
- For members in industry information booklets should be made available covering challenges in forex, project financing, liquidity and capital management

The members were then requested to rate the importance of certain items. The results were as follows:

	Somewhat Important %	Very Important %
Informing members in business, government and education of key issues	32	62
Addressing issues of concern to members in business, government and education	31	61
Helping members in business, government and education stay up to date	29	62
Considering the views of members in business, government and education when changing auditing and accounting standards	37	53
Promoting the value of a CA over other accounting designations	17	73
Offering relevant products and services to members in business, government and education	29	59
Considering the views of members in business, government and education when changing the code of conduct standards	42	46
Informing members in business, government and education of products and services	42	42
Informing members in business, government and education of standard setting activities	45	39
Providing value for membership	40	35
Informing members in business, government and education of other institute activities	55	19

The members were then asked to rank their satisfaction with ICAP regarding the above issues. The results are as follows:

	Neither %	Somewhat Satisfied %	Very Satisfied %
Providing value for membership	28	47	8
Offering relevant products and services	24	42	4
Addressing issues of concern	23	40	8
Informing members of key issues	22	45	9
Informing members of products and services	30	40	5
Informing members of standard setting activities	21	51	11
Informing members of other institute activities	28	44	7
Considering the views of members when changing accounting/auditing standards	22	47	11
Considering the views of members when changing code of conduct standards	27	45	8
Helping members stay up to date with changes to standards and other regulations	17	46	12
Promoting the value of a CA over other accounting designations	22	34	12

SECTION 3

QUESTIONS TO ASSESS PRODUCT AWARENESS

Members were asked regarding their awareness of the products offered by ICAP. They responded as follows:

	% Aware
MIES	49
CPD Seminars, Workshops, Conferences	91
Technical Advisory Services	64
Disclosure checklists	60
CPD E-newsletter	60
Information emails from the Institute	79
Website	93
Members Reference Library	43
Facilitation Centre	25
Digital Library	17
Monthly Newsletter	89
Pakistan Accountant Magazine	81

In terms of whether or not members use the above listed products the responses were as follows:

	Have not used %	Have used in past but not currently %	Currently use %
MIES	8	17	24
CPD Seminars, Workshops, Conferences	13	36	42
Technical Advisory Services	34	21	9
Disclosure checklists	9	36	15
CPD E-newsletter	9	13	38
Information emails from the Institute	5	8	67
Website	6	22	65
Members Reference Library	27	12	4
Facilitation Centre	16	7	3

Digital Library	11	1	4
Monthly Newsletter			

Note: The remaining % of members did not respond to this question

For those products which they use or have used the members were asked to rank their satisfaction with the same. The responses were as follows:

	% Very Dissatisfied	% Somewhat Dissatisfied	% Neutral	% Somewhat Satisfied	% Very Satisfied
MIES	0	1	9	18	13
CPD Seminars,Workshops and Conferences	6	11	21	33	7
Technical Advisory Services	0	1	9	14	5
Disclosure Checklists	0	1	9	25	16
CPD E-newsletter	0	2	16	22	11
Information emails from the Institute	1	2	19	34	19
Website	5	10	23	37	12
Members Reference Library	0	1	6	7	3
Facilitation Centre	0	1	4	2	3
Digital Library	0	0	1	3	1

Note: The remaining % of members did not respond to this question.

For those services which were not rated as very satisfied, the members were asked as to improvements which could be made to improve the ranking. The responses were as follows:

- *MIES* was a good initiative, however, its value is now declining. There is a need to appreciate academia more and resource some strong speakers
- Include summaries of *IFRSs* and *IASs* in *MIES* series
- *MIES* content may include the latest developments in various industries and the booklet may be industry specific. Should be more practical
- *MIES* should include global emerging issues in world economy
- Focus more on overseas members
- Solutions to exam questions should be placed on the website as well as up to date *CPD* information
- Promote the role of members in decision making bodies of the Government and greater synergies should be developed with accounting bodies in other countries
- Conduct workshops on practical problems faced by industries
- Improve the website by making it more interactive and tailor it for members in each sector of industry
- Technical Services should be timely and effective and disclosure checklists should be comprehensive and updated on a timely basis
- *CPD* activities should include topics such as stress management, employee hiring, retention and development
- *CPD* newsletter should include a brief about the topic rather than reference to website and industry specific information
- *CPD* should include risk management, HR, system analysis and development, Islamic Banking and investment strategies
- *CPD* calendar of events should be approved by the executive committee and then implemented by the Regional Committees
- *CPD* activities for overseas members and availability on website
- *ICAP* should promote itself as a dynamic business oriented body rather than solely conducting examinations. Latest business development trends in different industries should be updated
- Internal control checklists may also be prepared
- Industry specialists, foreign presenters should be invited to regular conferences/workshops
- Members should be notified of their username and password for access to the members profile on the website

In terms of the most effective way for ICAP to communicate to members, 79% felt the most effective was direct email, the website was also favored in terms of communication. The least effective was phone calls, with postal mail getting a mixed response. Notification through the newsletter and Pakistan Accountant were averagely effective.

SECTION 4

EVALUATING POTENTIAL NEW SERVICES

Members were asked about the likelihood of them using certain products and services, if introduced by ICAP. They responded as follows:

	Might Or might not %	Probably Would %	Definitely Would %
Online networking service which allows members to contact other members	11	33	52
Exclusive discount for members on common products from retailers	15	30	51
Industry specific E-newsletters	7	31	62
Sharing industry specific papers/ literature	6	32	61
CPD Activities via video conferencing	20	34	40
Web casts	24	37	34
Post qualification courses e.g. MBA	14	33	44
Arrangements to share CPD activities of other institutes	8	34	57
Having "My Account" for each member on ICAP website	13	29	55
Online purchase of books	19	33	42
CFO Forum	16	31	50

The remaining members were of the view that they would probably not or definitely not.

The members were asked if there were any other services or products they would like to see offered. They gave the following responses:

- Online *CPD*
- Public sector accounting/auditing publications
- Family entertainment program and annual dinner for members
- Membership cards
- Assistance with job placement especially for unemployed chartered accountants
- *SMS* alerts for *CPD* activities
- Monthly update on Pakistan economy
- Research on published accounts from industry sectors

The members were asked about their interest in topics relating to products and services. They responded as follows:

	Not Interested %	Somewhat Interested %	Very Interested %
Legislation/Regulation Impacting the Profession	7	42	51
Accounting and Financial reporting	4	27	69
Taxation	10	40	51
Auditing/Internal Audit	17	44	39
Directorship/Corporate Governance	5	36	59
Risk Management and Control	4	23	73
Succession Planning	12	48	39
Corporate Finance	5	30	65
Financial Planning/Wealth Management	6	37	57
Investigative/Forensic Accounting	19	43	38
Privacy	31	52	17
Technology, the Internet and eBusiness	10	43	47
Human Resources	17	53	30
Leadership/Management Skills	4	21	75
Sustainability, Environmental, Social Reporting	22	57	21
Insolvency and Restructuring	25	51	24
Career Planning	9	42	50
Ethical Advisory	16	58	25
Entrepreneurship/Starting a Business	19	50	31
Work Life Balance	7	44	48
Information Systems Security	14	47	39
Budgeting/Forecasting	8	38	54
Strategy Formulation/Execution	7	30	63
Presentations and Communication	5	27	68

SECTION 5

CAREER PLANNING

While 85% of respondents mentioned that there was a specific position they would like to achieve, 15% did not have such aims. In terms of career plan, 70% of members had a non-documented career plan, 12% had a career plan which was documented and 18% did not have any career plan.

Respondents were asked regarding the sources of career advice used when developing their career. The results were as follows:

	%
Colleagues	39
Mentor within the company	31
Supervisor/Manager	26
External mentor	24
Career Events/ Seminars	11
Skills Gap tool analysis	10
Online career planning/career guidance	9
Executive recruiter	7
Other events/Seminars	6
Printed career planning/career guidance materials	5
Career Consultant	5
ICAP	4
Others	3
None	7

30% of respondents did not respond to this question.

From the above sources used, respondents rated internal sources as more important, namely colleagues, supervisors/managers and mentors within the company. In comparison executive recruiters, career consultants and ICAP were rated as least effective.

Respondents were asked to rate the importance of the following items in their job/career.

	Unimportant %	Neither %	Important %
Career Advancement	3	2	95
Social activities at work	5	14	81
Autonomy	2	7	91
Job Security	2	7	91
A 35 hour work week	10	21	69
Flexible working hours	11	19	70
High Compensation	1	2	97
Intellectual Challenge	1	1	98
Opportunity for Travel	8	21	71
Interesting Work	1	1	98
Variety of Work	1	3	96
Good Corporate Culture	0	1	99
Continuous Skill Development	0	1	99
Work/Life Balance	0	3	97
Recognition of Achievement	1	17	82
Entrepreneurial Opportunities	2	5	93

Members were then asked to rate their satisfaction level, with the above listed, in their current position. More than 70% were satisfied with career advancement, autonomy, job security, intellectual challenge, interesting work and variety of work. While 35 hour work week, flexible working hours, high compensation and continuous skill development were rated as dissatisfactory.

68% of respondents changed employers in the last 5 years, while 32% did not.

Reasons for changing employers were cited as:

	Not a Reason %	Minor Reason %	Major Reason %
Better remuneration	8	28	32
Opportunity for Advancement	5	12	51
Work/Life Balance	23	24	21
More interesting work	9	15	44
Desire to travel	41	19	8
Dissatisfaction with manager	45	13	10
Dissatisfaction with employer	32	18	18

Note: The remaining members did not respond.

Other major reasons cited were ethical issues/lack of corporate culture, career growth, further education, relocation overseas to gain international exposure and lack of professional development.

61% of respondents mentioned that they probably will change ***jobs*** in the next 2 years, while 58% said they probably will change ***employers*** in the next two years.

Demographics

The ***age group*** of the respondents was as follows:

Under 35	53%
35-44	29%
45-54	11%
55-64	6%
>65	1%

In terms of the size of the respondents' organization, the following emerged:

Number of employees in company

	%
2-9	3
10-49	10
50-249	22
250-999	23
1000 or more	42

Number of Chartered Accountants in company

	%
	22
2	15
3-5	28
6-10	14
11-25	12
26 or more	9

The majority of respondents were in financial services, manufacturing industries and oil and gas. 39% of the respondents' companies are traded on a stock exchange.

When respondents were asked regarding their most time consuming work activity, 23% said financial accounting, 10% general management, 9% corporate finance and 9% audit.

The respondents' job titles were as follows:

	%
President/CEO	3
CFO	21
Other Executive Management	7
Vice President	5
Controller	9
Director	8
Manager	25
Consultant	3
Analyst	3
Accountant	1
Internal Auditor	5
Other	10

The respondents were distributed within the following areas:

	No.	%
Sindh	126	30
Punjab	101	24
Islamabad	36	9
NWFP	3	1
Saudi Arabia	29	7
UAE	45	11
Bahrain	13	3
Canada	14	3
U.K.	9	2
U.S.A.	8	2
Other Overseas Countries	30	7

Conclusion

Overall, we found the survey to be hugely beneficial in terms of the feedback obtained from our members in industry. It was the first time that such a survey had been undertaken. However, such interaction on a regular basis with our members to some extent bridges the expectation gap.

Internally it guided us regarding the effectiveness of current products and services offered and will assist us in the future development of the institute.

We would like to extend our appreciation to the participating members and would urge them to maintain regular contact with the Institute as we also rely on the support of our membership base.

TECHNICAL e-newsletter

FOR THE MONTH OF MARCH 2008

ACCOUNTING UPDATE

Amendment to IFRSs issued

On 14 February 2008, The International Accounting Standards Board (IASB) issued amendments to improve the accounting for particular types of financial instruments that have characteristics similar to ordinary shares but are at present classified as financial liabilities.

IAS 32 requires a financial instrument to be classified as a liability if the holder of that instrument can require the issuer to redeem it for cash. That straightforward principle works well in most situations. However, many financial instruments that would usually be considered equity, including some ordinary shares and partnership interests, allow the holder to 'put' the instrument (to require the issuer to redeem it for cash). Currently these financial instruments are considered liabilities, rather than equity.

The amendments to *IAS* 32 address this issue and require entities to classify the following types of financial instruments as equity, provided they have particular features and meet specific conditions:

- puttable financial instruments (for example, some shares issued by co-operative entities)

- instruments, or components of instruments, that impose on the entity an obligation to deliver to

another party a pro rata share of the net assets of the entity only on liquidation (for example, some partnership interests and some shares issued by limited life entities).

Additional disclosures are required about the instruments affected by the amendments.

The amendments will apply for annual periods beginning on or after *1 January 2009*, with earlier application permitted.

For further information on the **amendment to IAS 32**, please visit the project website on www.iasb.org.

AUDITING UPDATE

Exposure Drafts

The International Auditing and Assurance Standards Board (IAASB) published the following two exposure drafts for public comment:

Exposure Drafts	Due Date for Comments
Proposed ISA 210 (Redrafted), Agreeing the Terms of Audit Engagements	15/4/2008
Proposed ISA 710 (Redrafted), Comparative Information-Corresponding Figures and Comparative Financial Statements	15/4/2008

Proposed Redrafted ISAs 210 and 710 reflect the application of the IAASBs' clarity drafting conventions to extant ISA 210, Terms of Audit Engagements and ISA 710, Comparatives.

The proposed ISAs 210 and 710 can be viewed at *http://www.ifac.org/eds*

Members' valuable comments

IAASB has asked for the comments on the said exposure drafts, members are requested to send their valuable comments before the due date to ICAP at the following email ID
maria.qamar@icap.org.pk

TAXES UPDATE

The Federal Board of Revenue (FBR) issued the following Notifications, General Orders and Circular:

INCOME TAX ORDINANCE, 2001

NOTIFICATIONS

SRO NO.	Subject
SRO#105(I)/2008 01/2/2008	Exemption of levy of capital value dated tax on purchase of building by the Royal Embassy of Saudi Arabia in Islamabad for official use.
SRO#152(I)/2008 16/2/2008	Amendment in Second Schedule dated to the Income Tax Ordinance, 2001
SRO#153(I)/2008 dated 20/2/2008	Amendment in Second Schedule to the Income Tax Ordinance, 2001
SRO#171(I)/2008 dated 21/2/2008	Amendment in Second Schedule to the Income Tax Ordinance, 2001

CIRCULAR

Circular No.	Subject
Circular #2 of 2008 dated 28/2/2008	Clarification regarding non applicability of with holding tax provision in case of Banking Companies.

SALES TAX ACT 1990

NOTIFICATIONS

SRO NO.	Subject
SRO#100(I)/2008 dated 1/2/2008	Appointment of officers for Sales Tax and Federal Excise
SRO#101(I)/2008 dated 1/2/2008	Registered persons fall within the jurisdiction of LTU Islamabad
SRO#115(I)/2008 dated 6/2/2008	Exemption of Sales Tax chargeable on imports of material and equipment for construction and operation of Gwadar Port for a period of forty years.
SRO#135(I)/2008 dated 12/2/2008	Exemption of Sales Tax on Margarine
SRO#154(I)/2008 dated21/2/2008	Amendment in SRO#645(I)/2007 dated 27/6/2007
SRO#155(I)/2008 dated 21/2/2008	Amendment in SRO#390(I)/2001 dated 18/6/2001
SRO#170(I)/2008 dated 22/2/2008	Fixation of value of Re-rollable Scrap imported through Iran and Afghanistan.

GENERAL ORDER

STGO NO.	Subject
STGO # 5/2008 dated 11/2/2008	Amendment in STGO # 07 of 2007 dated 13/9/2007
STGO # 6/2008 dated 11/2/2008	Amendment in STGO # 08 of 2007 dated 13/9/2007
STGO # 7/2008 dated 11/2/2008	Amendment in STGO # 09 of 2007 dated 13/9/2007
STGO # 8/2008 dated 11/2/2008	Amendment in STGO # 14 of 2007 dated 13/9/2007
STGO # 9/2008 dated 11/2/2008	Amendment in STGO # 16 of 2007 dated 13/9/2007
STGO # 10/2008 dated 11/2/2008	Amendment in STGO # 17 of 2007 dated 13/9/2007
STGO # 11/2008 dated 22/2/2008	Amendment in STGO # 19 of 2007 dated 13/9/2007

Customs Act 1969

NOTIFICATION REGARDING IMPORT

SRO No.	Subject
SRO 90 (I) /2008 dated 29/1/2008	Amendment in Customs Rules 2001.

A more detailed view of the above mentioned Notifications, General Orders and Circular may be obtained at *http://www.fbr.gov.pk.*

COMPANIES ORDINANCE 1984 UPDATE

The Securities and Exchange Commission (SECP) of Pakistan issued the following Notification:

Notification No.	Subject
JD (CS) / 2008 31/1/2008	Extension in date to submit application for SECP dated Panel of Auditors up to 29 February, 2008

A more detailed view of the above mentioned notification may be obtained at *http://www.secp.gov.pk.*

STATE BANK OF PAKISTAN

State Bank of Pakistan issued the following Circulars:

Circular No.	Subject
BRPD Circular in No.1 dated 31/1/2008	Financing Facilities by State Bank-Enhancement Repo Rate from 10% to 10.5%
BSD Circular No. 1 dated 1/1/2008	Minimum Capital Requirement- Implementations of Basel II
BSD Circular No. 02 dated 28/1/2008	Statutory Liquidity and Cash Reserve Requirements
BSD Circular No. 03 dated 31/1/2008	Maintenance of Cash Reserve Requirements
BSD Circular No. 04 dated 2/2/2008	Statutory Liquidity and Cash Reserve Requirements
BSD Circular No. 5 dated 14/2/2008	Minimum Capital Requirement- Implementations of Basel II
BSD Circular No. 6 dated 3/3/2008	Guidelines on Internal Controls
FSCD Circular No. 01 dated 31/1/2008	Rate of Remuneration on Special Cash Reserve Account Maintained with SBP Under FE-Circular 25 of 1998.
FSCD Circular No. 02 dated 21/2/2008	3-day Repo Facility
IBD Circular Letter No.1 dated 27/2/2008	Submission of information regarding Sukuk Issued in Pakistan
MFD Circular letter No. 2 dated 4/2/2008	Scheme for financing locally manufactured machinery.
MFD Circular letter No. 3 dated 4/2/2008	Export Finance Scheme –Modifications in procedure for refinance

FEBRUARY NEWS BRIEF

- **SBP** tightens monetary policy – rate up by 50bps to 10.5 per cent
- FBR withdraws 2 percent extra sales tax levied on commercial importers of pesticides
- **SECP** introduces two types of Real Estate Investment Trust Rules (REITs) schemes
- Domestic debts increase by Rs 225.34 billion in five months **(SBP)**
- World Bank Report: corruption one of the core reasons for hindering development
- Germany was world's leading exporter in 2007
- SECP to set up a capital markets institute with the aim of offering different examinations leading to certificates in specialized areas
- More and more investors are turning to Islamic Banking to avoid credit turmoil in other financial markets
- **FBR** to set up "Disaster Recovery System"
- **US** lenders to pause delinquent mortgage foreclosures
- **US** retail sales rise
- **SBP** raises retail exposure limit to Rs 75m for consumer loans and small business loans
- **LCCI** and Bank of Punjab sign MOU to strengthen relations between the business community and the bank
- **SECP** – Continuous Funding System (CSF) MK-II Market will go live in April
- Barclays Bank to begin operations in mid 2008 in Pakistan
- Indonesian growth in 2007 fastest in 11 years
- Supreme Court allows FBR to levy sales tax on steel sector
- Pakistan is expected to acquire a significant share of US companies outsourcing agreements in the IT field
- **FBR** withdraws 2 percent extra sales tax levied on commercial imports of different types of finished pesticides and its active ingredients
- Financial sector assets have grown to US $ 180 billion
- **SBP** requests banks to refund fines to exporters for availing refinancing facilities without valid limits
- **KSE-100** index closed above 15,000 points for the first time
- **SBP** to set up Chair for Monetary Economics and Chair for Finance at the Institute of Bankers Pakistan
- **US** home prices plunge at record rate in 2007
- **FBR** abolishes bank endorsement condition
- Oil rose to 28 year high (near $103)
- **SECP** designs model memorandum of association for 27 industry sectors

ICAP's PROPOSALS FOR BUDGET 2008-2009

Presented to FBR by ICAP's Committee on Taxation and Economic Policies
Compiled by Directorate of Technical Services, ICAP

The Institute's Committee on Taxation and Economic Policies has submitted its proposals for incorporation in the Forthcoming Federal Budget for the year 2008-2009.
Our comments and recommendations have been prepared with a view to bring tax reforms including broadening the tax base and creating a taxpayer friendly environment. Our proposals also include suggestions to simplify the law and remove ambiguities in the taxation regulations particularly with reference to corporate tax policies and providing incentives for corporatisation in the country. Our comments/proposals on economic policies are a reflection of our vision of establishing an investment friendly Pakistan that provides high and sustainable growth.

DIRECT TAXES

1.0 TAX REFORMS

To broaden the tax base it is necessary to provide incentive to the normal regime and to abolish withholding regime for corporate sector. Present system promotes non-documentation of economy.

Suggestions

To deal with the same following suggestions may be considered by the Board:-

1.1 Gradual Phasing out of Final Tax Regime

The Institute has been of the view that all persons, be taxed on net income basis. This is a good sign that gradual phasing out of final tax regime is taking place but still there are following three areas which are still under Final Tax Regime which we suggest should also be taken out from the presumptive regime:

- Execution of contracts
- Commission and
- Commercial imports

Presumptive system of taxation to be abolished for exports also. Exports may be exempted from tax (zero rate) however, there is a need to record income, expenses, assets and liabilities.

1.2 Implied Whitening Scheme

Under the present scheme of taxation there is an apparent scheme of implied whitening of untaxed money. This is included in section 111(4) of the Ordinance with reference to foreign exchange remittances. There is a need to have a well defined and transparent scheme to eradicate money laundering. In this regard it is suggested that a plan be instituted for the same as under:

Announcement of a time frame by which this scheme will come to an end, for example July 1, 2008.

1.3 Tax on Capital Gains

There is a need to rationalize the regime for taxability of capital gains.

Suggestions

In principle, there should not be any exemption of capital gains i.e. capital gains should be taxed. However in case of a person, who is a non - resident, tax on capital gain should be calculated after allowing indexation for devaluation of Pakistani Rupee, if any. Guidance may be obtained from section 48 of Indian Income Tax Act.

Separate slab tax rates be introduced for capital gains based on the period of holding. 7.5 percent for holding period above twelve months and 15 percent for short term gains.

- Capital gains on capital asset, held for long-term investment, may be provided exemption, say over 5 years.

1.4 Reintroduction of Provincial Capital Gains Tax on Sale of Immovable Properties with Federal Government to act as Withholding Agent.

Provincial Capital gain tax with a low rate be reintroduced on sale of immovable property. This includes sale of plots, houses etc. Federal Government to act as withholding agent for the same. This process may be applied in the same manner as Provincial Sales Tax on Services. Corporate Sector may be allowed credit for such taxes paid.

Rate of CVT (Capital Value Tax) be rationalised as collection from CVT is not at par, to what was expected at the time of its introduction. Further the valuation table needs to be reviewed again for urban as well as rural areas in order to achieve the objective.

1.5 Thin Capitalization

To encourage equity participation, the provision of thin capitalization as provided under Section 106 to non-residents should also be made applicable to resident companies in line with other relevant laws that is Prudential Regulations issued by the State Bank of Pakistan.

1.6 Valued Customers' Card

FBR should introduce a Valued Customers' Card, associating certain privileges, to all persons who have paid taxes above a certain limit. It is suggested to introduce categories as follows:

Categories	Income level	Tax Paid Limits
Businessmen		
Professors		
Doctors		
Engineers		
Chartered Accountants		

1.7 Anti- Avoidance Provisions

Under the international best practices in tax now taxation authorities, by way of rules and regulations, are providing guidelines for the cases and situations for operation of anti-avoidance provisions. In this respect specific provisions were introduced by UK last year. For example, UK law now provides treatment for certain lending transactions that are not stock lending transaction (Badla) as if they were stock lending transaction, guidelines for creation of losses through purchase and sale of rights to distribution on shares by financial traders, exploitation of accounting rules which result in profits on loan relationship being de-recognised and thus falling out of the charge to tax etc. Such regulations considering our country's specific environment be introduced in our law also. This would reduce discretion and abuse by tax officers and tax payers respectively.

(i) avoidance of tax on interest involving stock lending transactions (announced on December 5, 2005), and

(ii) the treatment of certain arrangements that are not stock lending arrangements as if they were stock lending transactions.

- the creation of losses through purchase and sale of rights to distributions on shares by financial traders (announced on January 20, 2006).

- avoidance of tax through the use of mandatory convertible bonds to avoid loan relationship credit pick ups.

- exploitation of different accounting rules used by group companies which result in profits on loan relationships or derivatives arising on intra-group transfers falling out of the charge to tax through exploitation of the definition of fair value or the avoidance of tax on discount.

- exploitation of accounting rules which result in profits on loan relationships being derecognised and thus falling out of the charge to tax.

- avoidance of tax for investors in loan relationships where the investor receives less than a full commercial lending return but another connected party receive the value of the return in a non-taxable form.

- the creation of exchange losses on contrived hedging arrangements where, had there been an exchange profit, that profit would have escaped tax.

2.0 CORPORATE TAX POLICY

2.1 Definitions

2.1.1 Small Company *Sub-section 2(59 A)*

It is recommended that the benefit of reduced tax rate under this section be extended to those companies also that were registered before July 01, 2005 and fall within the criteria of small company as mentioned in section 2 (59 A).

2.1.2 Pre-commencement Expenditure *Section 25 (5)*

Pre-commencement expenditure has been defined as "any expenditure incurred before commencement of a business and includes the cost of feasibility studies, construction of prototypes and trial production, which are all in the nature of expenditure incurred prior to commencement of commercial operations. The words "commencement of a business" could be misleading and needs to be substituted with the words "commencement of commercial operations".

Suggestion

Sub-section (5) be substituted to read as under:

"In this section, "pre-commencement expenditure" means any expenditure incurred before the commencement of commercial operations of a business wholly and exclusively for the purpose of the business, including the cost of feasibility studies, construction of prototypes, and trial production activities, but shall not include any expenditure which is incurred is acquiring land, or which is depreciated or amortised under section 22 or 24".

2.2 Group Taxation *Section 59(B)*

Section 59B seeks to provide group relief in the form of adjustment of losses between holding and subsidiary or subsidiary to subsidiary if they fulfill the minimum holding criteria. The required holding is 55% if one of the companies in the group is a listed company and 75% if none of the companies in the group is listed company. The law further prescribes certain conditions that the group companies have to fulfill in case they avail the facility of group relief. The conditions are set out in sub section (2) of section 59(B). One of the conditions is as follows.

Sub-section 2(c) of 59(B) :

"Holding company, being a private limited company with seventy-five percent of ownership of share capital gets itself listed within three years from the year in which loss is claimed."

The Institute is of the view that requiring holding company to get itself listed within three years from the year in which loss is claimed should not be there instead there should be a condition that at least one company should get itself listed. This would bring the condition in line with the other condition of minimum holding discussed above where a higher holding is only required if none of the companies in a group is a listed company.

Further the requirement to list the holding company is against the principal of group formation and consolidation as in our view no group would like to keep its investments in a listed company due to the risk of hostile takeovers etc. as in such an event the group may loose control on its entire entities within the group.

In view of the above sub-section (2)(c) of 59 (B) be substituted as follows:

At least one of the companies of the groups shall get itself listed within three years from the year in which loss is claimed if all companies of the groups including the holding companies are private limited companies.

2.3 Apportionment of Expenses *Section 67*

Section 67 read with Rule 13 provides basis for apportionment of expenses among different classes of income, but it does not apply to exports for which separate Rule 231 has been provided, which is a replica of Rule 216 of 1982 Rules when there was no specific provision in the law for apportionment of expenditure. Since in Income Tax Ordinance, 2001, Section 67 / Rule 13 stipulate specific provisions for the purpose, there appears to be no need of Rule 231. Therefore it is proposed that the said rule should be deleted.

Specific clarification be issued to clarify that provisions of section 67 and Rule 13 require a reasonable basis of allocation that necessarily imply no specific allocation system in all cases. For this purpose it is suggested that specific rules may be drafted for allocation of expenses for different sectors like financial institutions, manufacturing sector, service sector etc. since each sector has its own peculiarities. These rules need to be drafted after consultation with the respective stakeholders.

2.4 Foreign Losses *Section 104*

Clarification needs to be issued that foreign losses are allowed to be set off. Restriction has only been laid down for carry forward in the following years.

It is therefore suggested that separate treatment of foreign losses be abolished.

2.5 Foreign Exchange Remittance *Section 111*

Subsection (4) of Section 111 of the Income Tax Ordinance, 2001 does not apply to unexplained income or assets of non-resident Pakistanis whereby a person does not have to offer explanation about the nature and source of any amount of foreign exchange remitted from outside Pakistan through normal banking channels.

The above-mentioned sub-section though promotes inflow of foreign exchange remittances towards the country; however, the same provision is being largely misused by the persons involved in foreign exchange business etc. Moreover, the provision is also refraining persons from being enrolled /included in the tax net.

Therefore, it is suggested that Section 111 (4) of the Income Tax Ordinance, 2001 on foreign remittance should be abolished with effect from July 1, 2008.

2.6 Appeal to the Commissioner *Section 127*

Wherever there is a grievance of the taxpayer due to an order of the Commissioner under the Ordinance, the taxpayer should have a right to appeal. All orders of the Commissioner (from 121 to 124) should be appealable before appellate forums. It is therefore suggested that after the words 122 in section 127 the following may be added "123, 124".

2.7 Taxation of Non-residents and Withholding tax *Section 153*

The term 'execution of contract' is unique in Pakistan

as this term does not exist in any regional or international fiscal law. Now there is a time to abolish these aberrations. The term execution of contract be deleted from section 153 and from other places. Either there is a supply of goods or rendering of services or a composite agreement for both. It is suggested that rules be prescribed for determining the nature of a composite contract.

It is appreciated that this would raise the issue for 'Contractors' specially the Government Contractors who are at present enjoying the fruits of presumptive taxation and the tax cost has been made part of the contract price. As Government Contractors be taxed on normal basis and specific rules be prescribed for determining net income from such contracts. This would also encourage concept of small companies.

It is further suggested that those professionals who are working on contract basis i.e. medical practitioners, architects and professors/teachers, not be taxed at the rate of 6% specified in Division III of Part III of the First Schedule. Instead normal salary slabs be applicable to them as specified in Division I of Part I of the First Schedule.

2.8 Withholding Tax on Stock Exchange Transaction

Section 233

Withholding tax is collected from all persons who trade shares on the stack exchanges under sub-clause (c) and (d) of section 233A. The tax collected is not the final tax liability and is adjustable or refundable against the final tax liability of the customer or the financer.

It is suggested that this adjustable withholding has not only created hardship for the genuine investors but has also created difficulties for the department as the verification of the claim of withholding is a difficult task for the department. This is due to the reason that the tax is deposited by the stock exchanges in the name of the respective members/brokers whereas the stock exchange member / broker issues the broker-note in favor of the customer / financers who claim the adjustment or refund of tax on the basis of such broker-note. Therefore, there is no data available with the Federal Board of Revenue from which the claim of the customer / financer can be verified and therefore genuine refund claims of investors and financers are pending.

On the other hand it has come to light through various news items that the Federal Board of Revenue is apprehending that large volume of such refunds that have been issued but are not genuine and therefore internal inquiries are being conducted to ascertain the matter.

It is therefore suggested that the withholding of tax under sub-clause (c) and (d) of section 233A may be withdrawn so as to stop the hardship to genuine taxpayers and eliminate chances of misuse as well.

However, if tax on capital gain is introduced as recommended in 1.3 above then section 233 does not need any amendment.

2.9 Inter-corporate Dividends

Clause 103A Part I of Second Schedule

It has been the recommendation of the Institute in the past that dividend received by resident companies be exempt from tax as this is dual taxation in the hands of the holding company and then the ultimate shareholders. In view of the above, it is suggested that exemption may be granted to resident companies from tax on dividend received by them. Therefore, the scope of exemption granted to inter-company dividends under clause 103A of Part I of the Second Schedule be expended to inter-corporate dividends received by all resident companies instead of the present exemption to only group companies entitled to group taxation under section 59AA.

2.10 Services provided by resident to foreign companies

Clause 131 Part I of Second Schedule

The service sector is contributing in earning foreign exchange for the country by providing services to foreign clients and business entities considering investment in Pakistan in line with the government endeavors to encourage foreign investment. The technical services provided by this sector from Pakistan are far more valuable for the country. To promote and encourage export of services it is proposed that such income of a person resident in Pakistan should be exempt from taxation. At present such exemption is limited to 'Technical Services' only.

This can be achieved by following amendments in Clause 131 of Part I of the Second Schedule.

- In paragraph (a) after the words 'technical services rendered' comma be inserted and the words 'outside Pakistan' appearing for the second time be deleted. The words and comma 'outside Pakistan,' be inserted after the word "enterprise".

- In para (b) after the words 'technical services rendered' comma be inserted and the words 'outside Pakistan' be deleted. The words and comma 'outside Pakistan,' be inserted after the word "enterprise".

2.11 Exemption to Mutual Funds *Second Schedule*

Clause 99 exempts mutual funds' income provided 90% or more of its accounting income for the year is distributed. For this purpose, the accounting profit shall be reduced by capital gains, whether realized or unrealized. This provision has in fact restricted the growth of mutual funds and has resulted in decrease in dividend payout by mutual funds over the period. We believe that any accounting income which is not realized should not be considered for distribution.

To avail this exemption mutual fund resorted to short term investments in share market while other

avenues of investment remained untapped.

Suggestion

To promote growth of mutual funds it is suggested to amend clause 99 of second schedule by inserting a word 'realized' as follows:

"Any income derived by a mutual fund or ....., if not less than ninety percent of its realized accounting income of that year, as reduced by *realized* capital gain, is distributed amongst the unit or certificate holders or shareholders as the case may be:"

2.12 Rules for taxability of Royalty and Fee for Technical Services *Rule 18 & 19*

Rules 18 and 19 are in contradiction to scheme of taxation laid down in section 6. Rule 19 provides option to non-resident person to elect for presumptive tax regime, even if it is not permissible under section 6 for royalty and Fee for Technical Services.

Thus, this Rule overrides the sanctity of the Ordinance. It is therefore suggested that the option should be withdrawn or, alternatively, option should be provided in section 6.

2.13 Arms' Length Consideration *Rule 20 to 27*

- Taxation of transfer pricing be further clarified.

- Industry specific benchmarking for profit margins be introduced considering the nature of business, economic realities and taking into confidence the stakeholders. For example CBR in consultation with the Institute and other bodies should conduct an exercise for determining 'normal profit' margins for the application of 'Resale Price Method' for determining arms length consideration. Similar exercises be conducted if other methods are to be applied. In the present situation in Pakistan it appears that Resale price method be explored for practical implementation.

- Data base should also be developed for improved application of comparable uncontrolled price method.

2.14 Companies Profits (Workers' Participation) Act, 1968 (WPPF)

WPPF has become an additional tax for those corporate entities that are engaged in manufacturing activity. For them tax incidence has become more than 40% (35% plus 5% WPPF and WWF). Further this money is also not being spent on the welfare of the workers as there are many companies whose workers do not fall in the definition of workers given in WPPF Act. Instead the significant portion of the money goes to the government. Therefore it is suggested that this Act should be repealed.

2.15 Workers Welfare Fund Ordinance 1971 (WWF)

Like WPPF, WWF has also become an additional tax for the corporate sector, so it is suggested that Workers Welfare Fund Ordinance, 1971 and Workers Welfare Fund Rules, 1976 should also be repealed. However, if withdrawal of WWF is not possible then alternatively companies should be allowed to utilize it for the welfare of its labor instead of depositing into WWF.

Further the clause inserted in last budget, 'Taxable or accounting profit whichever is higher,' should be rectified as it is leading to double taxation. It should be calculated on accounting profit only.

2.16 General Insurance *Rule 5(b) of 4th Schedule*

Rule 5 of the Fourth Schedule sets out the computation of "profit and gains of any business of" other than life insurance, stating that this will be as per accounts submitted to the SECP subject to certain adjustments. One of the adjustments is set out in Rule 5(b) which provides as follows:

5(b) any amount either written off or taken to reserve to meet depreciation or loss on the realization of investments shall be allowed as a deduction, and any sums taken credit for in the accounts on account of appreciation, or gains on the realization of (investments) shall be treated as part of the profits and gains, provided the Commissioner considers the amount to be reasonable; and

We are of the view that the above provisions do not appear to be rational, as it allows unrealized losses as deductions and taxes unrealized gains. The latter is particularly strange as rule 6A of the Schedule exempts realized gains (currently up to tax year ending on June 30, 2008). Given the volatility of equity markets in particular, this provision could cause huge variations in tax payable by non-life insurers caused by rising markets in one year being followed by falling markets in the next year.

Further the above provision has been the sole cause of the Accounting Regulations issued by SECP relating to non-life insurance not requiring adoption of International Accounting Standard 39.

It is recommended that as a matter of policy, capital gain should be taxable when realized and capital losses allowed as deductions when realized. In view of this it is therefore suggested that rule 5(b) of the Fourth Schedule be reworded as follows:-

"5(b) subject to the provisions of rule 6A, any amount of investment written off shall be allowed as a deduction, but any amount taken to reserve to meet depreciation of investments shall not be allowed as a deduction, and any sums taken credit for in the accounts on account of appreciation of investments shall not be treated as part of the profits and gains unless these have been crystallized as gains or losses on the realization of investments; and"

2.17 Transitional Provisions for Banking Companies *Clause 8A of 7th Schedule*

The Seventh Schedule was inserted in the Income Tax Ordinance, 2001, to specifically cater for the taxation of banking Companies. The Seventh Schedule is a self contained provision of law, whereby the profits declared by the banks would be subject to tax and certain adjustments prescribed in the schedule can be made and no deductions would be possible other than that. In these circumstances the banks are faced with the challenge of losing the right to claim deductions in respect of disallowed provisions for non performing loans and other assets, which were disallowed in the past mainly for being premature for allowability as per the law. In view of the above, there is a need for introduction of transitional provisions in the seventh schedule for addressing the issues with regard to past disallowed claims of banking companies. The proposed rule 8A is as follows:-

(1) Assets under Finance Lease at the beginning of the operation of this schedule shall continue to be taken for tax purposes in the same manner as prior to the application of this schedule. Whilst determining taxable income under this schedule, adjustment shall be made as if the schedule has not come into operation in respect of those assets and transactions. This adjustment shall only be applicable for finance lease agreements executed prior to January 1, 2008. Unabsorbed depreciation on assets under Finance Lease which cannot be absorbed till the tax year in which all Finance Lease executed before January 1, 2008 mature will be allowed in the year following that tax year.

(2) Provision for bad debts made in the books of account prior to Tax Year 2009, which was not allowed as deduction shall be allowed as a deduction in the year such 'debt' is treated as 'loss' as per the prudential regulations issued by the State Bank of Pakistan following the operation of this schedule. For this purpose a certificate to that effect from the auditors shall be provided.

(3) Provision for bad debt made in the books of account prior to tax year 2009 which was classified as 'loss' as per the prudential regulations issued by the State Bank of Pakistan but not allowed as a tax deduction will be allowed as tax deduction on production of a certificate from the auditors that such debt had already been classified as loss in prior years as per the State Bank of Pakistan regulations.

(4) Where a credit was taken or a deduction was not allowed in an assessment order prior to tax year 2009 due to the difference in the accounting and tax treatment of a transaction, an adjustment shall be made in determining the taxable income for a tax year in which adjustment would have been made to the taxable income had this schedule not applied. Such adjustment shall be certified by the auditors.

INDIRECT TAXES

1.0 INDIRECT TAXES – POLICY ISSUES

1.1 Rationalisation of Tax Rates

With the stabilization of tax reforms, there is a need to review the incidence of overall tax rate in the country interalia to make the indigenously manufactured goods competitive against imported goods. Currently the manufacturing industry faces incidence of following taxes and levies:-

1. Income tax
2. Sales Tax
3. Customs
4. WPPF
5. WWF

1.2 Import Price / Minimum Value Addition / Implied Whitening of Income

Pakistan is effectively the only country in the world where whitening of black money is possible with a minimal cost equal to the presumptive tax. The negative effect of this system is a major handicap in development of tax base and documentation. This has been explained as under:

- Under and over invoicing has become a very serious issue which is badly affecting the collection of taxes at import stage.

- Because of provision on minimum value addition, there is effectively a ceiling on the genuine value addition as very few people declare value addition in excess of 10% which leads to serious distortion.

- Although, in principle it is an issue of income tax the other aspect is implied whitening of income by declaring any sale price which is final liability for Income Tax purposes. Thus there is a possibility of whitening of any sum with 6% Income Tax & 16.5 per Sales Tax.

Suggestions

1. There is a need for coordinated and focused economic analysis to address the above issues.

2. Minimum Value addition should be eliminated or at least exempted for corporate entities. An option once given should be valid for a period of three years.

1.3 Audit

Audit is the backbone of self assessment Tax system. ICAP recognizes the present problems in Sales Tax audit and believes that perpetual suspension is not the answer. However an audit whenever conducted should remain focused and deterrent in nature.

The Institute is of the view that in order to address issues or impediments with regards to Sales Tax audit

there is need for standardized transparent Audit Policy. ICAP takes the opportunity to offer its assistance in formulating such standardized policies and procedures.

1.4 Indirect Tax on Services

Procedure for Indirect Taxes on services needs reexamination. It is suggested that indirect tax on services should be on VAT mode.

1.5 Coordination

Expansion of Tax base necessarily requires coordinated approach for Income Tax and Sales Tax.

We propose that:

- The concept of additional yearly Sales Tax return and inbuilt reconciliation with the Income Tax return should be introduced and filed along with the Income Tax Return.

- Income tax and Sales Tax audits should be integrated.

- There is also a need to integrate the data base of SECP and FBR

2.0 SALES TAX – LEGISLATIVE ISSUES

2.1 High rate of sales tax

Products attracting octroi were subject to a levy at the rate of 2.5% whereas sales tax incidence was 12.5%. Subsequently the octroi was merged with sales tax thereby attracting a total levy of 15 %(12.5% + 2.5%). This rate should have been made applicable only to the products that were subject to octroi. Unfortunately non octroi products were also made subject to octroi.

Suggestion:

Rate of tax to be reduced to original 12.5% only. A separate levy of 2.5 percent could be introduced for certain products which were subject to octroi.

Specific Amendments in Sales Tax Act, 1990 and the Sales Tax Rules

2.2 DEFINITIONS

Section Ref:

2(21) Person

Definition of the term 'person' be replaced by the one in the Income Tax Ordinance, 2001.

2(37) Tax Fraud

There is a need to review the definition of Tax Fraud. Currently supply of taxable goods without getting registration with the department is treated as 'tax fraud' on the part of the supplier. Therefore a genuine businessman is facing problems to commence his business till the time he is awarded his sales tax registration number. On the contrary, supply of taxable goods without getting actually registered could penalize him with the most serious offence of 'tax fraud' under the Act.

Moreover, this is inconsistent with the exemption available to businesses having turnover lower than Rs. 5 million during the last 12 months. It would be more business friendly to encourage a new entity to start the commercial activity immediately without requiring for procedural compliance at the starting stage provided a bank guarantee for a requisite amount is provided and a registration is acquired within a stipulated time.

2(44) Time of Supply

- There is a need to clarify tax incidence on 'hire purchase' transaction.

- Under the second proviso (a) the term 'associated person' be amended. The underlined concept be applicable in cases where one of associated person is unregistered.

2(47) Wholesaler

The definition of wholesaler may need to be curtailed and restated as follows:

"Wholesaler" means any person who carries on, whether regularly or otherwise the business of buying and selling goods by wholesale or supplying or distributing goods, directly or indirectly, by wholesale for cash or deferred payment or other valuable consideration and a person who in addition to making retail supplies is engaged in wholesale business."

2.3 Regulation of Sales Tax on VAT Principles *Section 7A*

7A In an attempt to broaden the tax base, the Government has introduced minimum value addition schemes for different sectors i.e. commercial importers, retailers, biscuit confectioners, steel re-rollers and melters etc. The sales tax collected at import or local procurement stage is treated as full and final liability of such specified registered persons. Charging sales tax in presumptive mode is a deviation from core VAT principles.

Further, the taxpayers not exclusively registered as commercial importers and importing fixed assets or plant for their own use and not for commercial purposes are also subject to this sword.

For the sake of simplification and compatibility with the core principles of VAT, it is proposed that the sales tax laws may suitably be amended by abolishing all fixed tax schemes.

7A (2) The last two lines of this sub-section be removed which prescribe waiver of audit requirements in case of minimum value addition.

There is no reason to link audit requirement with the concept of minimum value addition.

2.4 Tax Credit not Allowed *Section 8(1) (a)*

■ Input Tax Credit on Electricity and Gas consumed in Residential Colony of Independent Power Producers (IPPs).

The tax auditors have been objecting adjustment of input tax paid by the taxpayer on electricity and gas consumed in residential blocks of the factory where its production facilities are located. The tax department is of the view that this area falls under the mischief of section 8(1)(a) and thus such claims of input tax are inadmissible.

For IPPs, the in-house consumption of electricity is also included in the overall cost of production, which is charged to sales tax when billed to WAPDA. Such in-house consumption justifies to be considered for sales tax exemption.

It is pertinent to note that the Customs Excise & Sales Tax Tribunal (CESTAT) has already allowed input tax credit related to electricity and gas consumed in residential blocks of the taxpayer's factory. Even otherwise such input tax very much becomes refundable to the taxpayer since it is paid on workforce without which the factory operations cannot function. It is, therefore, suggested that suitable provisions may be added in the law regarding the issue.

8(1)(d) Fake Invoice be defined to mean an invoice which is not supported by actual transaction of supply.

2.5 Joint and several liability of registered persons in supply chain where tax unpaid *Section 8A*

This section was introduced in the last budget. It requires that a registered person shall be made jointly and severally liable if the sales tax is not paid by the seller of the goods from whom the registered person has purchased goods. It is strongly recommended that this section should be deleted as in any case registered person (purchaser) can not be made liable if seller fails to pay sales tax. Further this section is also against the law of justice where a person is punished for an offense which he has not committed.

2.6 Assessment of Tax *Section 11(5)*

Conditions and time limit be prescribed for order passed under section 11(5) of the Act. There can be valid argument for deleting this section considering the fact that it is not consistent with the provisions of section 36 of the Act.

2.7 Delisting, Black listing & Suspension of Registration *Section 21*

There should be proviso that charge for issuing fake invoice or undertaking tax fraud has been held in the Order-in-Original rather than only a show cause notice.

2.8 Records *Section 22*

In sub- section 2(a) the word 'fiscal' be removed.

2.9 Tax Invoice *Section 23(1)*

Appropriate amendment be introduced in respect of requirement of invoice for retail tax. There has to be appropriate amendments/provisions in respect of sales tax for supplies where there is minimum value addition.

2.10 Access to Record *Section 25*

The title of section be revised to 'Access to Records for Audit'. Tax payers may not be required to provide records / information at the will of the sales tax officers.

2.11 Monthly Return / Retail Tax Return *Section 26(AA)*

The word 'true and correct' be deleted in section 26(1). The word 'import' be added with purchases.

2.12 Additional Tax *Section 34(1)*

■ It should be clarified that in case of past cases (cases related to all preceding years) additional tax will be levied at the rate presently applicable subject to a maximum of principal tax liability.

■ Simultaneous levy or penalty and additional Tax under the Act may need to be removed, being unjustified, since both the provisions are of punitive nature. There should be only one penalty on a single default. Moreover, additional tax should not be charged on an inadvertent error.

■ Default surcharge should not be charged on an inadvertent error as was the case of additional tax.

2.13 Recovery of Tax not Levied or Short Levied or erroneously Refunded *Section 36(1)*

It should be clarified that section 36(1) will apply in case of 'tax fraud' only.

2.14 Power to Arrest *Section 37(A)*

This section should only be applicable where the case of tax fraud has already taken the stage of Order-in-Original.

2.15 Appeals to Tribunal *Section 46*

It is suggested that the condition of expiry of stay after six months be removed (by administrative instructions) and both proviso to section 46(1) and (4) be deleted.

Further Section 46(7) requiring decision of appeal within ninety days be deleted.

2.16 Appeals to High Court *Section 47(8)*

It is proposed that section 47(8) be deleted that requires stay to the extent of 6 months only.

2.17 Liability for Payment of Tax *Section 58*

It should be clarified that business enterprise does not include a Limited Company.

2.18 Exemption of Tax not paid or Short Levied on result of general practice *Section 65*

In section 65(1) (a) the word 'in any area' be deleted.

2.19 Supply to Export Processing Zones

Sales tax at the rate of zero percent is applicable on supply of raw materials, components and goods for further manufacture of goods in the Export Processing Zone vide serial number 5 of Fifth Schedule to the Sales Tax Act, 1990. This means, supply of goods which are not used in manufacturing of goods in EPZ are not entitled to zero rating of sales tax.

The intention behind not allowing zero rating sales tax on goods used otherwise than in manufacturing/ production was in the context of SRO 578 (I)/98 dated June 12, 1998 which interalia had disallowed input sales tax on building materials. Since now under the existing provisions of the Sales Tax Act, 1990 input sales tax is allowed on building material, it is proposed that zero rated sales tax supply may be allowed on building material to EPZ as well.

2.20 Proposed Addition of New Section to the Act

A new section be introduced to the effect that any issue decided by the Customs, Excise & Sales Tax Appellate Tribunal, High Court or the Supreme Court will be given effect in the returns / orders for the subsequent period. If that order or decision is reversed then such assessment / returns be revised to that effect. This section should in principle be in line with section 124A of the Income Tax Ordinance, 2001. It may be noted that absence of similar provision leads to unwarranted litigation.

2.21 Third Schedule

Third Schedule should be deleted. On items included in this schedule, sales tax is recovered from the manufacturer at the retail price which is against the concept of VAT. In 1996 amendments had been made to reduce number of items to three. In the recent past a regressive approach has been adopted for the same that needs to be changed and items from the Third Schedule provisions be gradually deleted

3.0 SALES TAX RULES, 2006

3.1 Special Audit *Chapter VI*

A general provision be introduced to authorise the Board to seek audit 'opinion' on any other matter.

3.2 Zero Rating of Supplies against International Tender for Afghan Refugees *Chapter VII*

There have to be rules for general international tender supplies. At present such rules are restricted to Afghan refugees only.

4.0 SALES TAX SPECIAL PROCEDURES RULES, 2007

4.1 Revision of the definition of 'courier service' *Chapter VI*

The scope of certain definitions of taxable services like 'courier service' has been widened to the extent that the service providers who are conceptually not involved in the business of courier have been required to register themselves for sales tax purpose.

Similarly, in case of international freight forwarders and transporters, if they deliver goods to their customers, they would be subject to levy of sales tax in the capacity of a courier company.

Suggestions

In view of above, the definition of "courier service" may be amended as under:

"Courier company means a company duly authorized to deal in courier service and engaged in providing or rendering courier service to its customers."

5.0 CUSTOM & EXCISE ACT

5.1 Basis of charging FED for Shipping Agents

Under Federal Excise Act, 2005 the shipping agents are required to charge FED @ 15% of the charges. It has not been defined whether charges mean the C&F export cargo freight commission which a shipping agent receives from its principal as was previously clarified under Rule 96ZZK or the repealed Central Excise Rules, 1944. Though FBR has clarified this issue, in principle the basis of charging FED should be governed through the substantive provisions of the Act, not through a clarification / ruling.

5.2 Charges for FED

At present FED is charged on removal / clearance of goods from business premises FED lining up charge of FED on time of supply as per Sales Tax need to be examined. Keeping in view the basic VAT principles, the relevant provisions may suitably be amended to levy FED on supply of goods only.

ECONOMIC ENVIRONMENT

1 Agriculture

1.1 Reducing the Cost of Produce

An understanding of the following factors is critical in order to provide a just relief for the economic development of this sector:

- Contribution towards national income (GDP) 20.9%
- Workforce employment 43.4%
- Direct / Indirect dependency of rural population 66%

Concern(s)

- A recent regressive trend
- Lower productivity

It is the advent of the WTO regime and high time that we carry out a SWOT analysis for Pakistan; undertaking which, we would realize that we neither have classified, nor succeeded, as an industrialized state, nor agriculture state which Pakistan primarily was.

Suggestion(s)

- Fiscal and tax incentives for the establishment and development of dairy farms, food / fruit processing units, i.e., Agro-based value addition units.
- Income tax incentives on exports of processed (value-added) fruit / food.
- Tax credit on agricultural research.
- Reduction / exemption on duties, sales tax and income tax on imports and other local purchases undertaken to support the development / growth of the agricultural sector, for example, tools, machinery, seeds, fertilizer, etc.
- Facilitating the basic facilities required for efficient crop cultivation.
- Announcement of further incentives on achievement of, or exceeding a prescribed standard of output / yield per acre.

The above suggestions are likewise intended for cash crops that directly or indirectly contribute towards the exports of the country, such as cotton and rice.

1.2 Rehabilitation of the Canal System

Concern(s)

- Deteriorating canal system is resulting in water logging and salinity; thus leaving a large area of fertile land as uncultivable.
- Shortage of water due to non-availability of dams.

Suggestion(s)

Award of contracts for the construction of dams and canals on BOT basis, with return flowing to the operator along with the payment for 'Abiana'. Subsidies may be provided to the contractors so as to keep the costs of these projects to a bare minimum, which shall in turn reduce the required amount of return from the end consumers. On the other hand, the farmers would be compelled to increase the yield per acre and the quality of the produce in order to compete and provide for the increase in existing costs of water supply ('Abiana')

2.0 Textiles

It is important to consider the following facts:

- % of total manufacturing 46%
- Contribution to exports 60%
- Workforce employment 38%

Concerns

WTO regime and international competition.

Suggestion(s) (In addition)

- Subsidies in power costs for export oriented units.
- Allowing tax credits on the incurrence of BMR (also generally for all export oriented units).
- Tax credit on marketing costs and other expenses directly related to export sales.
- Setting up of a department in the EPB in order to amicably resolve issues relating to the anti-dumping provisions.

3.0 Oil and Gas

Suggestions

Though neglected, the oil & gas sector has proven to be one of the most lucrative sectors in recent times. Therefore, the following suggestions are advised:

- Instead of providing tax holiday for a period of 10-15 years, exemption may be restricted on a percentage basis related to the extraction, gradually reducing it from year 0 upto the minimum useful life of the oil well.
- Tax credit on development works at the oilrig.
- Tax credit on Research & Development (R&D) incurred during exploration.

4.0 Hotel Industry

Tourism and Hotel Industry has been declared as an Industry and Ministry of Industries and Production has already circulated that industrial status has been allowed to the Hotel Industry but CBR has to issue an SRO for its implementation thereby concessions under 'Industrial Status' could be accorded to this industry. Considering the foreign exchange generated by hotel industry it should be given Status 'A' as against prevailing Export Status 'C' in conformity with other Exporters.

4.1 Payments by Foreigners in Foreign Exchange

Foreigners visiting Pakistan should be required to pay their hotel bill in Foreign Currency. This had been

announced in the budget in the year 1999 but has so far not been implemented; it is proposed that payments to foreigners are required to be made in foreign currency so that it would become a great source of foreign exchange earnings for Pakistan.

4.2 Restructuring of taxation

■ It is suggested that for the purpose of streamlining the taxation on the hotel industry it should be restructured in a manner that all the applicable indirect taxes be clubbed together into one tax, and recovered from the hotels and restaurants by one agency. The collected tax may be re-allocated internally to different head of accounts or departments by the collecting agency concerned.

■ Increase the allocated amount for tourist infrastructure (i.e. transportation, roads & rails network and communication facilities.)

■ It is further suggested that for the purpose of giving hotel industry a boost, five-year tax holiday may be given to 2 & 3 Star Hotels and for convention centers with a seating capacity of not less than 1,500.

4.3 Tourist information counters

■ Airport authorities having international flights should have Tourist Information Counters at airports so that vital information could be provided for hotel accommodation, tourist visiting places and similar other useful information to the International travelers and tourists arriving from other countries to Pakistan. The said counters may have hotline facilities with the hotels of repute and all travelers arriving may be able to directly arrange accommodation of their choice, from the said counter.

■ 3 days Visa on arrival may be introduced and Hotel and Tourism industry may be encouraged to develop packages to attract passengers in transit to avail arrival Visa facility.

5.0 Pharmaceutical Industry

Suggestions

Tax credit / incentives on establishment of Research and Development (R&D) institutes by foreign pharmaceutical companies or foreign partners of pharmaceutical companies or R&D activities carried out in Pakistan on their behalf.

6.0 Automobile Industry

Suggestion

Introduction of the 'Tariff based' system instead of the 'Deletion Program'.

7.0 Leather Industry

Suggestion

Tax incentive (in the form of tax credit) to exporters attaining a certain volume / amount of export sales.

8.0 Sugar Industry

Suggestion

Molasses shall be utilized in the production of ethanol rather than exporting the same. It shall be made mandatory to use a 5% volume of fuel grade ethanol (which is ozone friendly) in petroleum products used in motor vehicles. This would result in saving of a huge amount of foreign exchange.

9.0 Labour Policy

One of the important attractions to an investor is the availability of skilled and non-skilled labour. Labour laws therefore are an important consideration for an investor.

Suggestion

The existing labour laws may be reviewed by a high-powered committee to consolidate and rationalize them in a manner that the laws are not an irritant to an investor. The laws should not give the investor the power to arbitrarily dismiss the labour but it is equally vitally important that the law should not give "teeth" to the labour as well. Employers should have the right of hire and fire subject to reasonable checks and balances.

10.0 Research Bureau

The lowering of the tariff shall intensively increase the competition to local industry in that foreign goods are anticipated to flood the market. The tariff rates might be lowered still more under the conditionality of the World Bank and the Asian Development Bank. In the face of such acute competition existing industries shall come to depend on research and development (R&D). Owing to financial constraints of the government funds for the R&D would have to come from corporate sector itself.

Suggestion

A cess of certain percentage may be imposed on all industries. These receipts may be used for establishing a high profile R&D body that should have separate wings for R&D concentrated on the major grouping of the industry, for example, Textile, Leather and other manufactured items etc.

It may be considered to allow Double deduction on the capital expenditures in the nature of Research and Development as is allowed in many countries who wish to promote R&D activities for future growth of their economies.

South Asian Federation of Accountants
President

February 4, 2008

Dear SAFA Member

I thank the Member Bodies and the Member Board of the South Asian Federation of Accountants (SAFA) for electing me the President for the year 2008.

Institutional growth requires continuous sharing of thoughts and seeking guidance from constituents. This letter is a part of that objective.

In today's world, regional and international professional bodies have attained greater significance with new dimensions.

The formation of SAFA 25 years ago provided us this regional forum for cooperation. We salute the farsightedness of our predecessors. It is our duty to carry the mission further and realign their vision with the present changed and charged environment.

This year we will consolidate our objectives for the next quarter of the century. This policy paper will be released soon.

In the present world, economic policies for any nation will have to align or at least take into account, the developments and trends in that particular geographic region in line with overall global perspective.

Twenty first century is a century of 'knowledge'. A 'knowledge based' boundryless economy will emerge in future. This will further accelerate the mobility of capital and wealth. Resources will flow where proper environment exists for nourishment. The ingredients for natural flow and growth are return, security, equitable regulatory framework and reasonable human mass for sustained demand for products and goods.

Accounting is a science that provides efficacy in the creation of capital and wealth for individuals and corporates. This efficacy is provided by introducing and maintaining reporting, measurement, recognition system for financial information (accounting), acting as a trustee between owners and management (auditing), advising the best possible and efficient method for value creation within the ambit of regulations (corporate finance) and confidence building measures for a general body of investors in larger public interest (corporate governance and ethics).

Now, regional and international cooperation in the accounting profession is a necessity rather than a desire. If we accountants will not come forward and spearhead the changed financial world other players will emerge. Capital mobility is a natural instinct that cannot be curtailed.

I firmly consider that your (SAFA) region will be a nucleus of growth in the accounting profession in future world. This is not a dream. There are facts and empirical evidences that lead to this conviction.

SAFA represents a body having the largest number of professional accountants in the world. In my view, the present number is not relevant. The strength lies in the potential for growth. There is no region in the world which can produce such a large number of talented graduates for future knowledge economy. We can provide around 5 million such professionals in the following decade.

For me the issue is to improve our potential and avoid waste. We as a region spend the least resources for our future generation in the form of allocation for health and education. We do not trade amongst ourselves and prefer to buy expensive products from outside the region. We prefer atom bombs over atomic energy. These are unforgivable crimes. Our future generations will not forgive us for the same. Time has come for a change in mindset and act wisely.

SAFA will like to present a role model for regional cooperation. Our members whether in industry, practice, government or education should realize their role and their strength.

Over time we have achieved recognition and excellence in adoption of adherence to accounting standards, education and training of accountants and proactive role in industry, finance and development of regulatory frameworks. Now it is time to consolidate and grow; grow in size and earnings.

I would like all my Pakistani, Indian, Bangladeshi, SriLankan, Nepali, Maldivian and Afghani professional accountants to be ready to lead the global accounting profession.

I will communicate again soon laying down the concrete agenda for future. We inherit a strong culture and history. Let us recreate a new 'Indo-Gangetic' civilization of knowledge, peace and acceptability for all.

Yours truly

Syed Shabbar Zaidi
President

Tweedie Dismisses IFRS for Micros Standard despite SMEs' Concern

Arvind Hickman

International Accounting Standards Board (IASB) chairman David Tweedie has warned the global standard setter will not develop international standards for micro-sized entities despite a growing wave of concerns about the complexity of IFRS for SMEs and its suitability for smaller entities.

The controversial IFRS for SMEs, which has been proposed as an exposure draft, has been labelled too complicated for micro-sized entities by a new International Federation of Accountants (IFAC) Small and Medium Practices (SMP) Committee report. This follows repeated calls by developing nations for the global standard setter to simplify the standard or create another one aimed at micro-sized entities.

In a recent interview, Tweedie told *The Accountant* he believes the standard is too complicated in some parts, but stressed it is up to national regulators to apply the standard to the size of company they feel is appropriate.

"It's not up to us to say who is small in your jurisdiction," he explained. "You apply it to whom you think is small. I think it is still too complicated, but in a way we wanted to just get the thing out, because we've been discussing this for two and a half years. So we'll get comments back and I think it will probably be further simplified."

DRAWING THE LINE

Although IFRS for SMEs is only 15 percent of the size of full IFRS, Tweedie accepts it is still too large for some smaller entities. He said the IASB cannot set standards for everyone and emphasised there are no intentions to develop IFRS for micro-sized entities.

"If they're talking about mum and dad chip shops, we're not setting standards for them. We're not trying to go all the way down here. They don't even audit companies here [in the UK] below a certain level," he said.

"We have no immediate plans [to look at a micro-sized standard]. We got into [developing IFRS for SMEs] because we were asked to. Some of the board didn't want to do it, they just wanted to focus on multinationals and forget the rest. But there was a lot of demand from emerging economies to do something for them. What they were after was something that is based on international standards, as these are, and slash the disclosures, just put in the new principles, cut a lot of the examples out and the whole thing has shrunk. If some of the countries don't want to use it, it doesn't bother us. However, [full] IFRS is different."

The IFAC report, *'Micro-Entity Financial Reporting: Some Empirical Evidence on the Perspectives of Preparers and Users',* explores the suitability of the standard for entities with fewer than ten employees by drawing on the feedback of users and preparers of micro-sized entity financial reports in Italy, Kenya, Poland, Uruguay and the UK.

Participants who supported the development of a separate set of accounting guidance for micro-entities felt that two levels should be developed: a concise version that would be easy for business owners to follow and understand; and a more technical version for preparers of financial statements. In addition, there was support for some form of attestation, such as a statement made by a professional accountant, to be attached to the financial reports of micro-entities.

CONFLICTING OPINIONS

The report found that significant differences emerged between the business environments of the UK and Kenya. In the UK, the Financial Reporting Standard for Smaller Entities meant guidance on the preparation of small listed companies was readily available and these respondents were reluctant to support another, third tier of international regulation. However, in Kenya, IFRS have been the main source of accounting regulation for all entities since 1999 and there is no financial reporting guidance available for small entities, fuelling a need for a new standard for micro-sized entities.

In the other countries, support depended upon the extent to which the standard was accepted by taxation authorities.

IFAC SMP Committee senior technical manager Paul Thompson told *The Accountant* he isn't convinced of the need for a micro-sized entities IFRS. "My personal view is that what the micro entities are really looking for is not necessarily a financial reporting standard but some form of financial management package to help the owners better understand the finances of their organisations. I'm not sure whether for a typical micro entity there are not many external users. When you look at the costs and benefits of it, I'm not sure whether the really small fry should be producing general purpose financial statements," he said.

Published: January 2008 Source: The Accountant 6050

TRIBUTE

Irtiza Husain (1933-2008)
Past President, ICAP

Mr. Irtiza Husain, FCA (R-67) past President and senior member of The Institute of Chartered Accountants of Pakistan, passed away from cardiac arrest on January 10, 2008 in Lahore.

Mr. Husain was one of the founding members of ICAP, admitted as an Associate on July 1, 1961, and a pioneer in the field of Chartered Accountancy in Pakistan. He had the distinction of being the first Chartered Accountant to become President of the Institute for three consecutive terms from 1983 to 1986, and was Vice President from 1976 to 1977 and from 1982 to 1983. He was also a member of the Institute of Chartered Accountants of Scotland (ICAS).

Mr. Husain was a senior partner in Messrs. A.F. Ferguson & Co. Chartered Accountants from 1976 to 1987. He later served as ex-officio Secretary to Government of Pakistan as well as Chairman Corporate Law Authority (now SECP) from 1981 to 1989. His efforts towards the enactment of Companies Ordinance, 1984 were instrumental. In 1990 he entered professional practice for some time before retiring.

He was a member of the International Accounting Standards Committee (IASC) for drafting of IAS 18 and represented ICAP on various international forums (conferences, seminars etc.) and lead the Pakistani delegation to the United Nations Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting at the first, second and third sessions of the Group, held in New York in 1983, 1984 and 1985 as Rapporteur, Vice Chairman and Chairman respectively. He was also a member of the Financial Accounting Standards Board for Islamic Banks and Financial Institutions from 1987 to 1995, and a member of the IFAC taskforce on future organization of accountancy profession from 1997 to 1998.

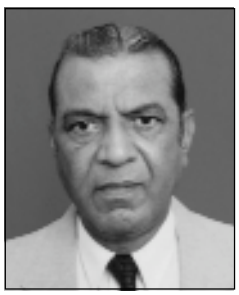
He served on the Southern Regional Committee of ICAP for four years and was a member of the Council for various terms spanning over 15 years. On February 6, 1990 the Council passed a resolution recognizing Mr. Husain's services to the Institute, the Council, the profession and the corporate sector, with special reference to his efforts in enactment of the Companies Ordinance, 1984, and for liasing between the Government and the Institute in matters pertaining to the Institute and the profession.

Mr. Husain was an illustrious individual who guided and inspired a generation of professional accountants, and will be remembered for his principled approach to work and life.

Irtiza Husain leaves behind his wife, son and two daughters.

REMEMBRANCE...

Syed Amjed Husain, FCA (R-0148) died on December 5, 2007 of protracted illness.



He was admitted to membership of the Institute as Associate Chartered Accountant on July 1, 1961 and became a Fellow member in January 1979. He initially worked with Hashmi & Co. Chartered Accountants and then joined Pakistan National Oils Ltd. as Accounts Manager in 1975. In 1977 he joined Pakistan State Oil and became Managing Director. In July 1994 he joined Eirad & Co. Ltd. where he served as Executive Director for sometime.

He leaves behind his wife and son.

Mohammad Younus Khan, FCA (R-1900) died in Saudi Arabia on December 22, 2007 during Hajj.

He was admitted to membership of the Institute in February 1991, and entered professional practice under the name and style Khan & Co. Chartered Accountants as sole proprietor. In March 2003, he also entered into partnership to practice under the name and style Shahid Waheed Younus Jamil Chartered Accountants.

Syed Masood Hussain, FCA (R-390) died on January 31, 2008 from respiratory disorder.

He was admitted to membership of the Institute in April 1967 and became a Fellow member in July 1977. He worked in the insurance industry in various senior positions. In 1982 he proceeded to Saudi Arabia to work with Zahid Tractors. On his return to Pakistan in 1986 he joined Century Papers & Board Mills Ltd. as General Manager Finance and later New Jubilee Insurance Co. Ltd. as Executive Vice President, Finance.

He leaves behind a daughter and two sons.

Nasim Akhtar Zuberi, ACA (R-719) died in January 2008 from cardiac arrest.

He passed his final examinations in June 1971. He commenced professional practice under the name and style Nasim Zuberi & Co. and

later changed to Nasim Akhtar & Co. Chartered Accountants as sole proprietor. He was also partner in Mahmood Akhtar & Co. Chartered Accountants since 1973 and continued this practice along with his sole proprietorship.

He leaves behind his wife and daughter.

M. Ibrahim Ahmed, FCA (R-0215), expired on February 7, 2008 due to old age and chest infection.

He was admitted to membership of the Institute in April 1963 and became a Fellow member in October 1984. In 1951 he joined Burmah Shell Pakistan, where he worked until 1963. He then joined Pakistan National Oils Ltd. as Accounts Manager and served there until 1976. He also served the State Oil Co. Ltd., Pakistan National Product Co. and National Fibers Ltd. in various senior positions for two years and then proceeded to Saudi Arabia to work the Yanbu Petromin Refinery from 1981 to 1991.

He is survived by three sons.

SIX DAYS OF 'COLLABORATIVE INNOVATION' The World Economic Forum in Davos, Jan.22-27

The theme of this year's annual meeting of the World Economic Forum in Davos, a small Swiss ski village, was 'The Power of Collaborative Innovation'. Climate change and the environment were a central theme at the WEF this year where more than 2,500 participants from 88 countries met to discuss key global issues. The main focus of the Forum, however, was a possible US recession boding ill for the global economy.

Klaus Schwab is the founder and executive chairman of the Geneva based WEF, a one week mega event held each year where the rich and powerful of the world gather for meetings, discussions, workshops and plenary sessions on major economic and political issues of the day.

'Green' Was a Central Theme

A great deal of discussion centered around climate change and energy with an emphasis on devising an equitable global agreement on capping carbon emissions that does not compromise developing countries' right to utilize energy for economic growth, and encourages them to bring in energy efficiency and explore renewable sources of energy.

Some 20 sessions were dedicated to environmental issues. On January 24, more than 40 leaders of global tech companies, including Microsoft Chairman Bill Gates, Cisco Systems CEO John Chambers, Intel Chairman Craig Barrett, and Michael Dell, founder and recently reinstated CEO of Dell, met and tried to agree on a more coordinated approach by the technology sector to tackle green issues.

Meltdown in Financial Markets

The turmoil in world markets and the beginning of the slowdown in the US as a result of the bursting of the subprime and credit bubbles brought a note of pessimism to the first day of proceedings in Davos. Mounting concern about a U.S. recession had dragged down bank and retail stock prices across Asia, Europe, and Latin America and sent international stock indexes plummeting.

A session called 'When the US Sneezes…' hotly debated the issue of whether or not Europe, Asia and the rest of the world can 'decouple' from the declining US economy. With the globalization of financial markets and the strengthening of emerging economies wealth and ownership are moving away from the US and Europe towards the Middle East, China and Russia.

There is a backlash in European markets against US credit rating agencies and the subprime mess they have helped create by failing to give investors in Europe adequate warning of the risk of mortgage securities backed by US home loans. American lawmakers are also examining what role the three main credit rating agencies played in the housing market downturn. Moody's and Standard & Poor's have previously come in for fierce criticism for maintaining investment grade ratings on Enron until just days before the company declared bankruptcy.

Sovereign Wealth Funds (SWFs)

Another hot talking point in Davos was Sovereign Wealth Funds (SWFs) --- state-controlled funds that invest surplus national reserves in the US and the west in order to gain long-term returns. Their recent growth has been fuelled by high oil prices and US trade imbalances, and is expected to reach $12 trillion by 2015. The session 'Myths and Realities of Sovereign Wealth Funds', on January 24, was packed to capacity.

The SWFs, based mainly in the Middle East, China, Russia and Canada hold about $2.5 trillion, more than hedge funds or private equity, and they are investing in Citicorp, Merrill Lynch, Bear Sterns and other US blue chips and European banks. The Funds claim they are independent and that their investment strategies are based on strictly commercial principles, but most

are directly or indirectly controlled by governments raising fears that they seek strategic control and pose a political threat to western interests.

The US is calling on the International Monetary Fund (IMF) and Organization for Economic Cooperation & Development (OECD) to define a code of conduct for SWFs. Larry Summers of Harvard University identified three areas of possible concern regarding SWFs: one, corporate governance since a passive long-term investor could choose to overlook poor management decisions: two, multiple motive investments whereby Funds may urge managements to change strategy to suit their objectives; and three, general politicization in case a Fund decides to take an active trading position.

BRIC* Rising

Brazil is emerging as an agricultural superpower and is leading the developing bloc in negotiations on a World Trade Pact following the Doha round of talks in 2001 which have been deadlocked owing to differences over cutting farm and industrial tariffs and subsidies. The talks broke down again last June over market access for manufacturers. The United States is also pushing for a deal to be done by the end of the year.

A new mood of economic realism is prevailing towards Russia with EU and Russia looking to strengthen ties in the future. Russia's finance minister Aleksey Kudrin met Director General WTO, Pascal Lamy and European Union trade comissioner Peter Mandelson on the sidelines of the forum to discuss the issue of Russia's accession to WTO which the Europeans believe should happen soon.

Addressing a select group of international business leaders at a session called 'India's International Agenda' Kamal Nath, Indian Minister of Commerce and Industry, said that India is exploring the possibilities of long-term trade and economic cooperation agreements with China, which is emerging as a major trade partner of India. Nath described India's increased global integration as presently being 'only at the appetizer stage'.

China's rising economic and political power dominated discussions at the WEF. With its economy growing at 9.5 percent in the fourth quarter of 2004, the sustainability of China's hot growth, rising salaries in South China where most foreign factories are located and the yuan's revaluation in the next year topped the list of agenda items. There was speculation that the Europeans are asking China to revalue the yuan against the dollar to take some pressure off the euro which has been rising against the dollar in exchange for lifting an arms embargo after Tiananmen Square against China.

Notably among the trilateral agreements and frameworks made among the BRICs is the Shanghai Cooperation Organization (member states include Russia and China, associate members include India). The G-20 coalition of developing states includes all the BRICs.

Bill Gates' Creative Capitalism

Microsoft chairman Bill Gates brought his own vision of social entrepreneurship called 'creative capitalism'. 'We have to find a way to make the aspects of capitalism that serve wealthier people serve poorer people as well. I like to call this idea creative capitalism,' he told the Conference. Gates wants corporations to 'stretch the reach of market forces to bring the benefits of science and technology to everyone.'

Bill Gates got a standing ovation at the closing session of the World Economic Forum. He is stepping down later this year to focus more on philanthropy.

Judge Pakistan on Economic Performance: President Pervez Musharraf

Speaking to business and political leaders at the WEF, President Pervez Musharraf said the world community should judge Pakistan on its economic progress and its fight against militancy. He reiterated his promise to hold free, fair and peaceful elections and transition to civilian rule.

Managing the Global Workforce: Having the Right Talent in the Right Location

It was widely agreed upon in Davos that managing a global and diverse workforce is going to be the biggest challenge for organizations seeking to be dominant forces in the global market. Organizations will have to focus on: people, technology and product, and necessarily in that order. Recruiting and retaining the most qualified staff will be the primary concern even for small and medium sized businesses with employees in multiple locations.

In an interview with Steve Hamm of BusinessWeek , Carlota Perez, author of *Technological Revolutions and Financial Capital: the Dynamics of Bubbles and Golden Ages* summed it up :

'Golden Ages are all about demand growing in rhythm with potential supply. A truly all-encompassing globalization, with facilitating institutions and intensive employment creation based on a dynamic specialization and re-specialization of all regions could bring a global golden age and create a win-win situation for countries, corporations and people.'

**BRIC thesis proposed by Jim O'Neill, global economist at Goldman Sachs, argues that the economic potential of Brazil, Russia, India, and China (BRIC) is such that they may rank among the four most dominant economies by the year 2050.*

WORLD IN FOCUS

GOP to Sell Major Assets by June

Government of Pakistan plans to sell shares of Kot Addu Power Co., National Bank of Pakistan and Habib Bank Ltd. by June this year, reviving a program to divest assets that had stalled after imposition of emergency. Finance Minister Salman Shah said the companies were already doing due diligence. The government is aiming to get as much as $3.5 billion from sale of state-owned assets in the fiscal year ending June 30, but local investment companies believe the three planned sales by June 30 may be a little over-zealous.

HBL & UBL Report Decline in Full-Year Profits

Habib Bank Ltd., the country's third largest bank, reported a 14.2 percent fall in profits to Rs.10.84 billion for the year ended December 31, down from Rs.12.7 billion the previous year. United Bank Ltd. reported an 11.3 percent fall to Rs.8.4 billion down from Rs.9.47 billion in 2006.

The decline in profits came as a result of the tightening of provisioning regulations by the State Bank of Pakistan forcing the two banks to account for bad loans on their balance sheets. This is not likely to affect the banks' profitability in coming months as banking spreads are expected to be around seven percent and credit momentum is expected to pick up after the general elections.

S&P Launches Three Indices to Track Islamic Stocks

Standard & Poor's has announced the launch of three new benchmark indices designed to help investors track the performance of more than $20 trillion of Shariah compliant equities. The three new indices --- S&P LargeCap World Sharia, S&P SmallCap World Sharia and S&P UK Sharia --- cover 26 developed markets.

The S&P LargeCap and SmallCap indices together measure the performance of more than 4,500 Shariah compliant equities with an adjusted market capitalization of $18.05 trillion. The S&P UK index includes 301 companies domiciled in the United Kingdom, representing an adjusted market cap of $1.98 trillion. Constituents of the indices must have a float market cap of more than $100 million and a minimum annual value traded of at least $50 million. 'S&P's Shariah index series provides investors with the ability to slice and dice an expanding array of countries and regions by size, style and sector,' said Alka Banerjee, VP of Index Services at Standard & Poor's.

Microsoft's Hostile Bid for Yahoo

Microsoft has made an unsolicited $44.6 billion or $31 per share bid for slumping internet pioneer Yahoo, prompting the US Justice Department to say it would like to review any antitrust implications. The bid is 62 percent above Yahoo's sagging stock. Yahoo's final quarter profits had fallen 23 percent to $205 million.

Yahoo's board of directors has rejected the offer saying the deal undervalues it. Yahoo wants at least $40 a share according to Wall Street Journal. Yahoo is in talks with AT&T and Rupert Murdoch's News Corp.

Industry analysts predict Yahoo will negotiate a final sale to Microsoft, or risk relinquishing control of its search engine plus a big chunk of its advertising to rival Google. The announced deal would make it the largest tech deal ever.

The Dilemma of Organizational Hierarchies --- Roffey Park Institute Report

Roffey Park Institute is a UK based management training and research body. The Institute's annual Management Agenda Report covers issues relating to organizational development and change and is based on the responses of managers to a set of survey questions.

In its 'Effect of Hierarchy' segment the 2008 report finds that while 82 percent of board directors thought their organization's leadership was good or excellent, only 52 percent of middle managers felt the same way. While 37 percent of board directors declared morale in their organization to be high, only 9 percent of middle managers agreed. Only 26 percent of board directors said they believed the values espoused by their organization were properly reflected in day to day working, while a whopping 75 percent of junior managers refuted that claim.

Source: Roffey Park Institute Management Agenda Report 2008

BOOKS

Extraordinary Circumstances: The Journey of a Corporate Whistleblower

Cynthia Cooper
Available@ amazon.com
Hardcover US$18.45

WorldCom whistleblower Cynthia Cooper was one of Time Magazine's persons of the year in 2002. She is the former Vice President of Internal Audit at WorldCom. In her gripping new book, Cooper tells how she stood up to two of the most powerful executives in America at the time --- WorldCom CEO Bernie Ebbers and CFO Scott Sullivan and how she blew away Sullivan's smokescreen.

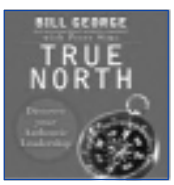
As she worked her way through a maze of misplaced accounting entries, Cooper came across jargon like Scott Sullivan's 'rule of 10' which was unheard of in accounting, but one that he used to justify dubious transactions. Another such term 'prepaid capacity' was used to justify movement of large dollar amounts from the income statement to the balance sheet. As Cooper dug deeper, false entries were revealed with controller David Myers finally admitting that the entries had no support. What followed was the biggest bankruptcy in corporate history.

Cooper's story is bleak and humorous at the same time as when she recounts Bernie Ebbers' unsuccessful attempt in court to exonerate himself of the fraud because he didn't understand all that accounting jargon.

True North: Discover Your Authentic Leadership

Bill George David Gergen & Peter Sims
Available@amazon.com
US$18.45

True North is a 2007 bestseller and follow-up to Bill George's 2003 bestseller *Authentic Leadership*. The book is based on interviews between George, a Harvard Business School professor, and over 125 leaders including David Gergen, presidential advisor to Richard Nixon, Gerald Ford, Ronald Reagan and Bill Clinton; Starbucks CEO Howard Schultz; Sir Adrian Cadbury; and Ann Mulcahy of Xerox.



The book demonstrates that leaders who create humane organi-zations and genuinely care about employees and customers not only create better workplaces, but that caring translates into greater commitment and loyalty for the organization. And these successful leaders in turn can also have a life outside of work.

For the kind of leaders that Bill George wants to breed, The New York Times says, '… the strongest leaders, Mr. George argues, have a deep desire to serve a greater goal beyond making money.'

Activity-based Cost Management: An Executive's Guide

Gary Cokins
Available @ amazon.com
US$20.97

Managerial accounting is now transitioning into managerial economics, reveals author Gary Cokins, a worldwide expert on activity-based cost management. With technology at our disposal, ABC/M will provide not only a more accurate picture of a company's costs but also the critical information needed to make better decisions in line with a company's defined strategy.

Instead of allocating resources companies can begin tracing and assigning them based on the real, measurable cause-and-effect relationships within an organization.

PEOPLE

ARAMEX'S WINNING STRATEGY

Fadi Ghandour, co-founder and CEO of Aramex, a home grown express delivery and logistics service, whose web-based global network cut costs and allowed him to take on the biggest in the business.

Fadi Ghandour
CEO, ARAMEX

When Fadi Ghandour founded Aramex in Amman, Jordan in 1982, as a provider of wholesale express delivery service, DHL was the only courier company working the Middle East and North Africa (MENA) region and Pakistan. Aramex established an independent network of offices in the Middle East becoming the regional delivery arm for FedEx, UPS and Airborne Express in the US and aiding them in moving out of their domestic market. Ghandour's vision was to create a 'FedEx of the Arab world'. Fifteen years later Aramex became the first international Middle Eastern company to be listed on the Nasdaq.

In 2002, as Aramex was celebrating its 20th anniversary, it was approached by Abraaj Capital, the largest private equity firm in the Middle East, to go private through a $65 million delisting from Nasdaq. In 2005 Aramex was sold through an IPO on the UAE stock exchange. The company went public again and is now listed on the Dubai Financial Market (DFM) with a $1.2 billion market cap. Today, Aramex's services include international and domestic express delivery, freight forwarding, logistics and warehousing, publication distribution and catalog shopping. Its annual revenues stood at $189 million in 2004 with 3,900 employees and 200 locations in 35 countries.

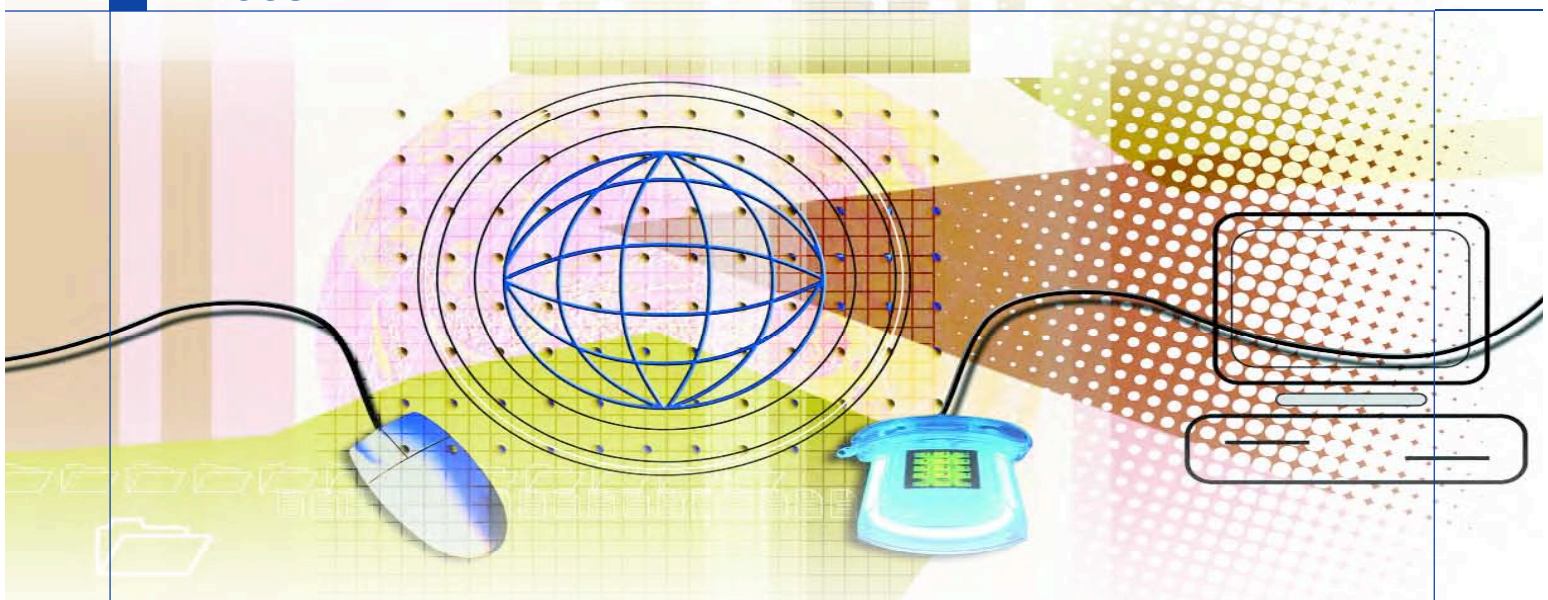
ARAMEX'S WINNING STRATEGY

Aramex's winning strategy was to expand beyond its traditional demographic in a fragmented market, and positioning itself through acquisitions and alliances to become a global brand. In 2003 Aramex co-founded the Global Distribution Alliance (GDA), a global alliance of 40 leading logistics providers with combined revenues of $7.5 billion in 220 countries that leverage each other's specialized markets.

Aramex has built its business on a knowledge based strategy, using local technology and its people as its main assets. Initial alliance with FedEx and Airborne Express provided Aramex with a wide knowledge base, such as Airborne's tracking system that Aramex brought on-line in the region. Ghandour believes that in a global marketplace talent has become 'mobile'. Therefore, hiring and retaining top talent should be a priority for successful organizations.

Ghandour also believes that as a public company Aramex is accountable to its shareholders so that they know what is going on inside the company.

'Corporate governance is not only governing for shareholders, it's actually governing internally,' he has said in an interview. 'If the people in your organisation don't feel that you're transparent, don't feel that they have ownership, not only physical - (i.e. shares) - but ownership of the future of the company, they're not going to stick around.'



WHAT IS WEB 2.0

The term **Web 2.0** suggests a new version of the World-Wide Web and refers to changes in the ways software developers and end-users use webs. Web 2.0 became popular after the first O'Reilly Media Web 2.0 conference in 2004. According to Tim O'Reilly, CEO of O'Reilly Media, Inc., (What Is Web 2.0: Design Patterns and Business Models for the Next Generation of Software, 2005) Web 2.0 can be visualized as a set of principles and practices that tie together various sites that demonstrate some or all of those principles. Some of those guiding principles are:

- The Web as Platform
- Users control their own data
- Architecture of Participation
- Software above the level of a single device
- Harnessing Collective Intelligence
- Leveraging the power of the 'Long Tail'*
- Data as a Driving Force

Web 2.0 websites allow users to do more than just retrieve information. Using the Web as a Platform, users can exercise control over the data on the site. The Architecture of Participation encourages users to add value to the site as they use it (e.g. Wikipedia). If DoubleClick was Web1.0, GoogleAdSense is Web 2.0. If mp3.com was Web 1.0, Napster is Web 2.0. If content management systems and personal websites were Web 1.0, wikis and blogs are Web 2.0.

One of the most highly publicized features of Web 2.0 is blogging. A blog is simply a personal home page in diary format which relies on RSS* technology. It allows users to not just link to a page but to subscribe to it and be notified every time that page changes.

Database Management is a core element of Web 2.0. Another feature of 2.0 is that it is no longer limited to the PC platform. A good example is the iPod/iTunes combination which brings web content to multiple portable devices. Viral Marketing forms a big part of Web 2.0. Viral marketing drives recommendations directly from one user to another.

Critics of Web 2.0 call it a second bubble (referring to the dot.com bubble of 1995–2001) and *Bubble 2.0* suggesting that too many Web 2.0 companies attempt to develop the same product with a lack of business models.

* *The distribution and inventory costs of web based businesses such as Amazon.com and Netflix allow them to realize significant profits out of selling small volumes of hard-to-find items to many customers, instead of only selling large volumes of a reduced number of popular items. The group of persons that buy the hard-to-find items is the customer demographic called the* ***Long Tail****.*

* ***RSS*** *was developed in 1997 from the convergence of Dave Winer's Really Simple Syndication and Netscape's Rich Site Summary.*