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FACT PACKED ANNUAL REPORTS

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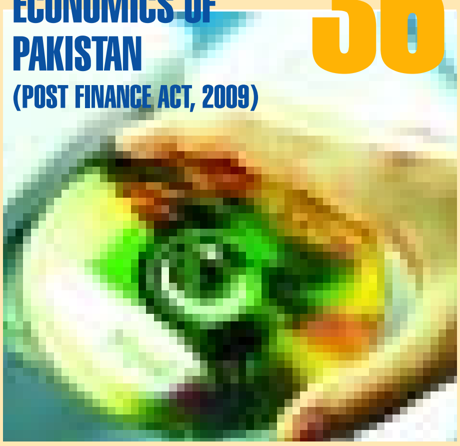
(POST FINANCE ACT, 2009)



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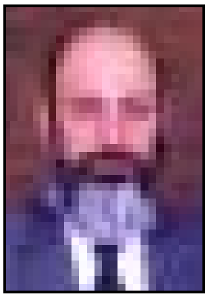
CONDUCTING AN INVESTIGATION FOR MISCONDUCT

Editor's Letter

FACT PACKED ANNUAL REPORTS

As a result of the financial jugglery of the past few years, the four most dreaded words an auditor can hope to hear are "Where were the Auditors?"

Whenever a company fails, whether it's Enron or Satyam, or the perpetrators of the current financial crisis, the first issue that comes up is the 'expectation gap' between the outside auditors' perceived responsibility and the auditors' argument over the purview of the job they were hired to perform.



Post Sarbanes-Oxley there's greater awareness of the importance of transparency and disclosure in financial reporting. Investors are now demanding more information on business operations and strategy, in non-technical language they can understand, and companies are including more details than ever. The trend is also shifting towards narrative reporting.

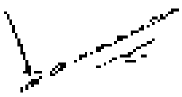
After all has been asked for and done, what investors eventually look for is the auditor's report to see whether it approves of the company statements. Seasoned investors turn first to the auditor's report.

As a surveyor of countless annual reports over the years my instinct is to look for clarity, information and viability in company reports. Hence, transparency, compliance with disclosure requirements, and going concern clauses become the bedrock of an authentic external auditor's report.

As for searching for facts in annual reports and sifting fact from fiction, clearly the tone is set by the management of the audit organization. For an objective and independent analysis to come about, auditors must base their reports on the larger interest of all those who rely on their reports, including the audit of the last footnote disclosure that an investor might rely on to value stocks. A true and fair view!

As for bridging the expectation gap, though this may not be part of the auditor's job, it augurs well for the accounting profession to rise up to the investing public's trust in it. We have a strong auditing profession and auditing framework in our country.

From top management, the company's auditors and its stakeholders want full ownership of the numerical presentation in their annual reports, and an unwavering commitment to maintaining strict internal controls.



Adnan Zaman

President's Page

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Since assuming the office of the President of The Institute of Chartered Accountants of Pakistan during September 2009 I have had the opportunity to interact with all the stakeholders – members in practice and in industry, government functionaries, educators, students, and the executives of the Institute. As a result of these interactions I have gained a good understanding of their needs and aspirations.

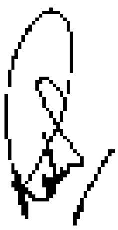
I am happy to inform you that a number of important changes are on the anvil. I would like to avail this opportunity to share some of these developments with you:

- The MOU signed with the Federal Board of Revenue for tax audit will provide our practicing members with a new product besides addressing the issue of shortage of training opportunities for our students. I am aware of the challenges that our practicing members would face in this regard, however, I am confident that like our counterparts in Turkey and India where the said experience has been very successful, they would be able to surmount these challenges.
- The education system is currently being reviewed to ensure that it is in line with International Education Standards of IFAC. Further, developing quality study material for our students is receiving our close attention.
- For continual professional development of our members the use of technology is being contemplated and it is proposed to offer online programs in collaboration with the Virtual University.
- A CFO Forum is being planned for our members working in trade and industry.
- We hope to be 100% compliant with IFRS in the not-too-distant future. This would open new doors for members desiring to work abroad.

The current issue of the Pakistan Accountant is on the contents of the financial statements. This issue is very close to my heart as I have been responsible for "The Best Corporate Report Awards" competition since its institution in 2000.

It goes without saying that a company's annual report is a source of essential information for all the stakeholders. Its contents, therefore, must facilitate users' understanding of not just the company financials but also the long term sustainability and success of the business while providing some measure of the company's corporate accountability at the same time.

It is the responsibility of senior management to run a company and deliver results to not only the shareholders who have contributed hard earned money in the hope of better returns but to all the stakeholders at large. The crux of the matter is the communication between management and stakeholders. The annual report is the medium through which this communication takes place. The more open and informative this communication is the greater companies would be able to engage stakeholders and ultimately rally their support.



Abdul Rahim Suriya

JOIN THE DISCOURSE

This issue's topic is:

MIDDLE MANAGEMENT HAS NO TIME FOR CREATIVITY OR QUALITY IMPROVEMENT?

According to a recent article in the McKinsey Quarterly, managers across industries generally spend most of their time doing administrative work and holding meetings when they should be focusing on coaching their staff and on constantly improving quality.

Are you one of those managers who think of themselves as cogs in a system that leaves little room for creativity or quality control?

COMMENTS

Any successful manager cannot even afford to think of being a cog in the system as a really viable system is in itself inevitably complex and integrated, leaving no room to relax in the age of accelerated technological advancement and innovative approach.

The holding of meetings affords the opportunity for cohesive interaction, both horizontally and vertically, and ensures the achievement of an 'A class'. These tools shape the manager as a role model for impressive and lasting results as compared to 'spoon- fed' coaching for his staff.

Rafi Hyder
Karachi

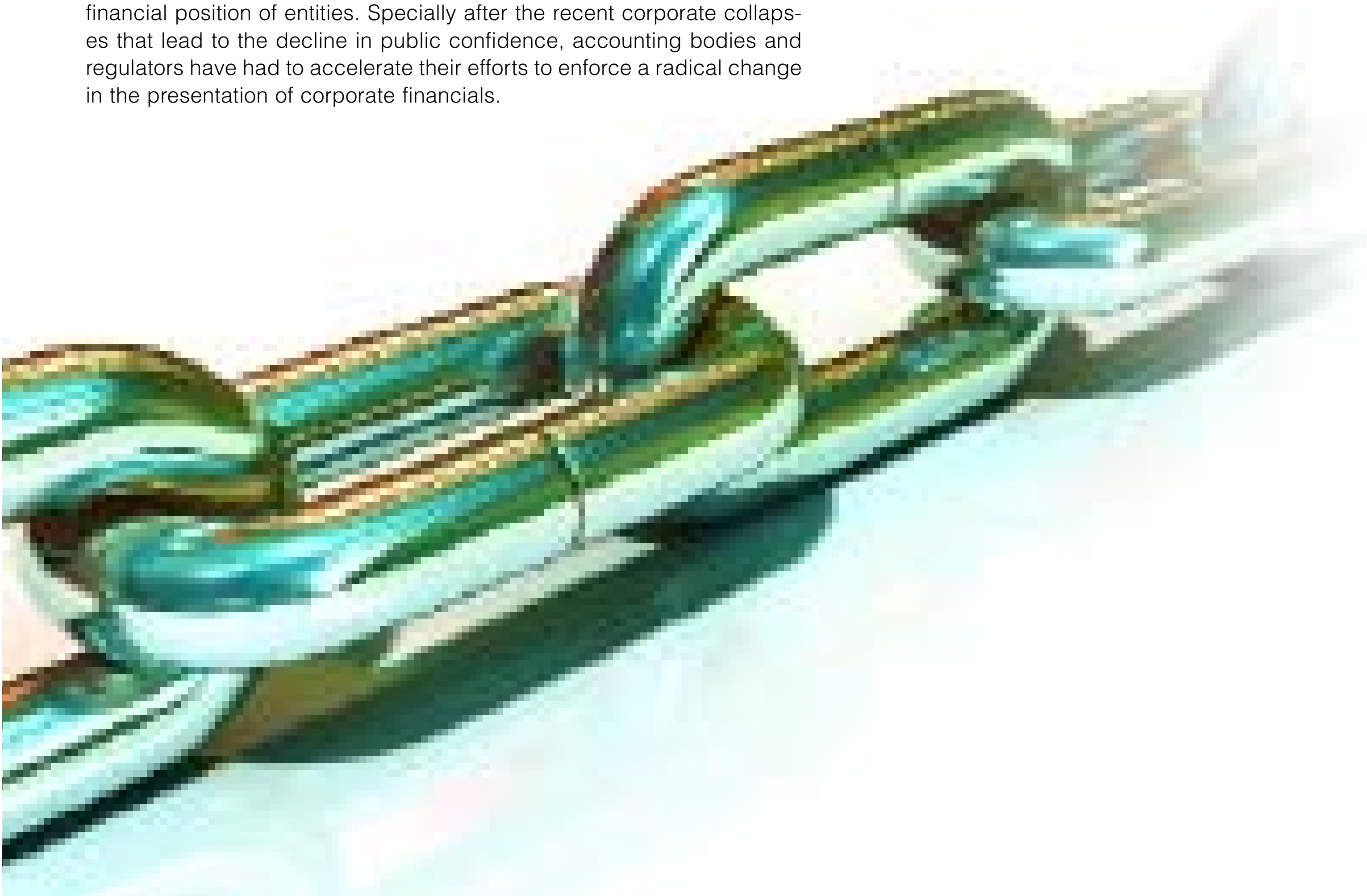
Members are requested to send in their comments with their name, town and membership number, via email in care of asad.shahzad@icap.org.pk with the word 'DISCOURSE' in the subject heading.

Responses will be edited for purpose of clarity and space.

MISSING! Information from Annual Reports

Abdul Aziz FCA

A burning topic these past few years has been the missing links of information from annual reports as regulators, accounting bodies, investors and all other interested parties have been trying to find a way to present annual reports in a manner that provides more and more details of the financial position of entities. Specially after the recent corporate collapses that lead to the decline in public confidence, accounting bodies and regulators have had to accelerate their efforts to enforce a radical change in the presentation of corporate financials.



However, all the efforts are actually aiming to present the historic data in a more meaningful way to gain interested parties' confidence on the affairs of the company for the previous period. In fact the interested parties are more interested in the current global economic scenario to understand whether the entity will be able to sustain the current financial situation and what will be the chances for improvement or, otherwise, deterioration not only of the current financial health of the entity, but also the overall business prospects at that point in time.

Simply speaking the reports and disclosures given in annual reports are no where even close to the presentations that corporate executives provide to the Board of Directors, or that which the senior management provides to chief executives. The main reason is the difference in the objective of both the presentations. Historically, annual reports are meant to understand what companies have done in the preceding financial year. The balance sheet and profit and loss analysis provides information about the financial health of the company, but they fail to inform the interested parties about the future growth strategies or the looming threats to the company's operations/business performance.

A simple analysis of the information that annual reports present, reveals:

- Income statements are the summaries of earnings and expenses adjusted with non-cash items.
- Balance sheets are the lists of assets, liabilities, and equity and a balance sheet date.
- Cash-flow statements are really a revision of the income statement that presents more information about exactly how much cash was generated and spent.
- The historical data with 5 year comparison becomes useless and incomparable after changes in the direction of the business owing to technological development in the industry.

Unless several annual reports are compared there is no way to reconstruct the economic and business strength of the reporting entity from just a single annual report. Annual Reports have become corporate "works of art" with more emphasis on presentation instead of real time information stakeholders need to understand the future of the company.

The following information should be included along with the regular details in the annual reports for the benefit of the existing and prospective investors:

ENVIRONMENTAL/ECONOMIC ENVIRONMENT SCAN

Companies face tremendous volatility in foreign currency values, commodity prices and interest rates. Although all the major post balance sheet events related to currency fluctuations and its impact on the annual reports are taken care of in the disclosures, yet a major concern over the leading currencies' own strength is never considered.

The new levels of risk and uncertainties and unprecedented volatility of certain assets must be highlighted. For example, recently real estate business in most parts of the world has taken a nosedive. The construction companies have stopped, or at least slowed down their projects, labor has been sent back home, banks have reduced further lending and all these factors together have raised the prospect of whether historical cost is the most useful measure of the value of various assets of these companies and whether users need additional information on asset measurements. There also has been an increase in the sources of future economic benefits not measured and reported.

ROLE OF FOREIGN CURRENCY

Companies face tremendous volatility in foreign currency values, commodity prices and interest rates. Although all the major post balance sheet events related to currency fluctuations and its impact on the annual reports are taken care of in the disclosures, yet a major concern over the leading currencies' own strength is never considered.

What happened to the US dollar under the current economic turmoil in the US economy? The companies depending or trading mostly in US dollars were highly exposed to the fluctuating dollar. The financial statements only provide impact of the currency exchange rate fluctuations but fail to recognize the threat of a major variation in the currency strength in short- to mid- term periods that may become a going concern issue for the companies heavily depending or trading in a particular currency.

The subsequent to the balance sheet date complex financial transactions and instruments are very common in present day economy. All of these factors have created concern about whether annual reports provide users with sufficient information for decision making. A global review of the major currencies that the reporting entity is using would be a useful tool for the stakeholders to understand future risks and growth prospects of the entity.

TECHNOLOGICAL DEVELOPMENT

The pace of technological development increases the risk that products or production facilities will either become obsolete or may take advantage of such a development to produce more efficiently. A new brand of Apple in response to the Blackberry has seriously underscored the growth variance in Blackberry future sales and that potential decline cannot be calculated by the historical trend of past periods. The information of technological development that affects a particular industry plays a vital role in assessing the current assets of the reporting entities.

NON MONETARY ASSETS

Disclosure of the non monetary information may change the value of the non monetary assets. For example, when goodwill is recognized in a business combination, the future economic benefits will change with the changes in customer base, managerial skills, research capability and future prospects. These are neither separately measured nor are they reflected in annual reports. These intangible unmeasured assets have great importance in an economy increasingly dependent on expertise and data and technology, particularly an economy in which an expanding service sector does not rely on fixed assets as the primary generator of revenue.

SHORT TO MID TERM PLAN

All corporate executives are aware of the fact that Boards of Directors are becoming increasingly interested in finding out the 3-5 years plans of their companies. They are rigorously monitoring the planned commitments and measuring the success of the CEOs and other senior executives by their capabilities to at least meet the mid-term plans they promise stakeholders. The plan and its monitoring is not only key to ensuring future growth of the entity but also provides a valuable tool to find out reasons for the variances in actual results versus planned commitments.

However, when annual reports are developed stakeholders only compare the reporting period's performance of the company versus last year's results, while the Board is blaming senior management for not taking full advantage of the growing market as planned in the beginning of the year. The comparison of the actual results of say, two preceding years (or several previous periods) would give a better picture of the company's performance in the current year (comparing previous periods). Similarly, while the comparison may drop the company from the list of profitable organization, while the Board is appreciating company's performance and the investments made in the future growth of the company.
A comparison of the actual results with the plan/budget of the same period with explanation of the major variances will be a real help for the stakeholders to understand the financial stability of the reporting entity.

INTERNAL AUDITORS' REPORT

How about a report from the internal auditors to provide their views on the corporate governance and control environment of the reporting entities? The external auditor's report is always a part of annual reports and these reports provide the external auditor's opinion about the financial statements of the entities. The internal auditor's report, that is kept confidential, actually provides in-depth knowledge of the corporate governance issues. Those stakeholders who are not part of the management that runs the day to day affairs of the company will find the internal auditor's report a useful tool to identify potential risks that may arise if corporate governance is an issue in the reporting entity.

Accounting bodies are doing a lot of research to improve the financial statements and an effort to segregate the business and financial assets/P&L shows their commitment to provide meaningful information to stakeholders. However, unless the accounting bodies step into the shoes of the boards of directors, the real information and disclosures will always leave stakeholders with unanswered questions.

The million dollar question at the end of the day is who validates the information given in the Annual Reports? The financial statements included in the annual reports are duly audited, but not the entire annual report that may include information based wholly on the judgment of the management of the company. In fact, the annual report is the main source for stakeholders to understand the reporting entity's business and the financial statements are just a portion of the annual report that provide the historical financial information.

Making Corporate Reports Less Complex and More Relevant

Many people point to the increasing length and detail of annual reports – and the regulations that govern them – as evidence that we have a problem. Others are more worried that reports no longer reflect the reality of the underlying businesses, with key messages lost in the clutter of lengthy disclosures and regulatory jargon.

There is a need to refocus them on their primary purpose: providing investors with information that is useful for making their resource allocation decisions and assessing management's stewardship.

The Financial Reporting Council (FRC), the UK's independent regulator responsible for promoting confidence in corporate reporting and governance, has published a discussion paper arising from its project on reducing complexity in corporate reporting.

The paper's title - ***Louder than Words: Principles and Actions for Making Corporate Reports Less Complex and More Relevant*** – is intended to remind all of those involved in corporate reporting that it is what we all do in practice that affects the quality and readability of corporate reports.

The paper seeks to address growing concerns about the complexity of corporate reporting. The paper recommends a commonsense approach to reducing complexity based on eight guiding principles – four for better communication in reports and four for improving the quality and effectiveness of regulations. It also recognizes that there is no easy solution and that change will only happen if all of those involved in corporate reporting make a concerted effort.

The proposed eight principles for reducing complexity:

REGULATION SHOULD BE:

Targeted – to provide relevant information that meets important user needs

Proportionate – limiting constant change in regulation by intervening only when an area is high risk and change will bring obvious benefit

Coordinated – regulators should understand what other regulators are doing in a particular area

Clear – regulations should be simple and user friendly

COMMUNICATION IN REPORTING SHOULD BE:

Focused – important messages, transactions and policies should be highlighted

Open and honest – reporting should give a balanced explanation of results

Clear and understandable – reporting should use plain language

Interesting and engaging – reporting should get the point across and hold the reader's attention.

The paper also makes five calls for action where the FRC believes further investigation may lead to opportunities for reducing complexity. These are:

1) Cash flow and net debt reporting: could this be better aligned with user needs such as by including a net debt reconciliation?

2) Wholly owned subsidiaries reporting requirements: could we find ways to reduce the reporting burden such as by reducing the filing or disclosure requirements?

3) Cut clutter: could preparers reduce immaterial information (with the support of regulators) that may be undermining the quality of reports?

4) Disclosures: could we overhaul the process for creating disclosures and provide guidance about when they can be deleted as not relevant?

5) IFRS: could we improve usability through logical organization and clearer articulation of the desired outcomes for each standard?

Source: Financial Reporting Council (FRC), UK, October 2009

Annual Reports: Reverie VS. Fact

Saifuddin Adeeb *FCA*

In the opinion of auditors the financial statements of the major failing, flailing and falling entities in the global financial meltdown, dated a few months previous to the crisis that hit hard and consigned the entire economic infrastructure in US and Europe to doom, put on display fair view, with IFRS duly adhered to, in terms of, inter alia, fair value accounting.

The CEOs and CFOs, in the entire derivative chain, were sizably patted and rewarded in the form of performance bonuses and so on, for showing a great bottom line and an affluent balance sheet.

Only a few months had passed when it transpired that what was claimed to be something enormous was, in fact, nothing. As billions of dollars went down the drain, it was revealed that the real value of collaterals was way below what it was shown to be.

While auditors had obeyed both accounting and auditing standards, yet in so far as the task of auditors and the value generated by their effort went, it signified that there was something inherently wrong, and that the statutory scope of the auditor's task had to be made more relevant to the needs of the stakeholders.

THE LACK OF USEFULNESS

As his equipment went off a skydiver parachuted down to the middle of a paddy filed. Wriggling his way out of the ropes, he saw a man approaching. The skydiver asked the man, "Where am I?" The man replied, "You are in the middle of a paddy field." The skydiver immediately retorted. "You must be an accountant." The man replied, "Amazing! How did you know?" The skydiver snapped, "From your answer. It was prompt, it was accurate, and it was useless."

In my view this joke illustrates the ennui and irrelevance, in certain respects, of the audit function.

TIME RELEVANCE

History has its own significance but there has to be much more to audited financial statements than meets the eye. Numerical history alone is of little help to stakeholders in ascertaining the propriety of their investment decisions; hence, the market speculation as to the real worth of the entity and, consequently, of the investment.

More historical financial data shall indeed provide appreciable value for the stakeholders and control stock market conjectures. If stakeholders have access to a real or near to real set of statements in the annual reports of the company, duly authenticated and commented upon by statutory auditors, it would greatly help with investment decision making with more substantive comparisons within industry.

PROPERTY, PLANT AND EQUIPMENT [PPE]

Generally speaking, fixed assets represent a most significant, steady and distinct item in the entire set of financial statements of an industrial undertaking. There would be only some entities which have all-inclusive fixed assets documentation that supports the numbers on the balance sheet. In a large number of cases, these only characterize year-after-year opening balances carried forward, with additions put in and deletions put out, without having a catalog of fixed assets, duly connected with the control accounts.

I have always found myself bewildered with the misplacement of narrative, in the audited accounts, as to the collaterals of PPE and other assets offered to lenders. These ought to be reflected in the notes in relation to PPE or other pertinent assets and not with notes on the long-term loans. For a layperson it is misleading that all these assets are unfettered and free of encumbrance which is not the fact. The encumbrances, being impediments to ownership, need to be mirrored in fixed assets note, either in lieu of or in addition to the note under the long-term loans head.

EQUITY

Another misnomer for a regular reader is that the balance sheet, presented in an accounts form, begins with Equity. The first item which by and large appears under this head is authorized or nominal share capital of the entity which is not equity. This must be taken out of the balance sheet and needs to be placed at some other appropriate position in the notes to the accounts.

INTELLECTUAL PROPERTY [IP]

There is yet another issue of manifestation of IP on balance sheet. There are entities which hold IP valuing hefty sums of money. Nonetheless, these are not recognized, appraised, or echoed in the accounts.

The brand value of Coca Cola, IBM, Microsoft, Nokia, Nike, Intel et al. must run in billions and surely find their way in to their respective financial statements. But that is not the case with all published accounts. There is no denying that IP throw up and, in the main, add substantively to revenue generation. The non-existence of an IP in the financial statements would be an irrefutable understatement of the worth of the entity. In globally renowned entities' accounts the IP appears as a single largest balance sheet item. Our accountants need to do a lot in this sphere.

BUSINESS PRAGMATISM

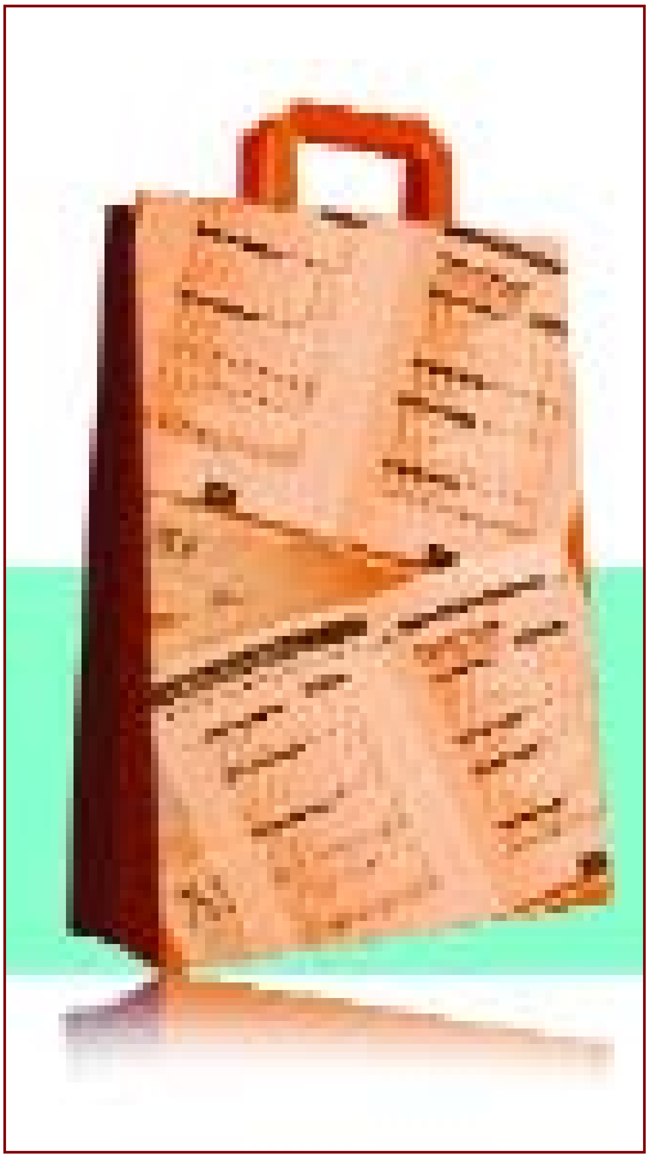
Perhaps the greater need is, besides making the accounts relevant to current rather than historical times, for some authenticated professional comment on the viability and progress of the entity's business performance in the foreseeable future. It cannot be suggested that auditors provide an unequivocal view like they do in case of conventional financial statements. Nonetheless, some kind of independent and expert review of the financial statements, made more currently relevant, would certainly give more credibility and recognition to the statements.

THE REGULATORS

ICAP, in conjunction with SECP and other regulators, has to take a lead in initiating a turnaround effort to reflect at least the property, plant and equipment and IP, at values, which are pertinent to current times. Additionally, it would be worthwhile, if auditors' statutory duty were to include drawing some commercial sense out of the financial statements as well as commenting on major commercial decisions of the entity being audited.

CORPORATE GOVERNANCE

The pragmatic review of the Code of Corporate Governance shows that there is a need to modernize this instrument. This is not to suggest that the current Code holds no value. It can be updated to add more benefit for the good governance of corporate entities.



REVENUE SHARING

Stakeholders would want to have their fair share of the pie. A mere pictorial presentation of who got what from the total revenue inflow is not sufficient. There has to be more to it with the auditors' view on the distribution of revenue amongst diverse stakeholders. This should be reflective of skillful corporate planning and should be capable of showing if there were better ways of putting together the proceeds allocation.

CORPORATE SOCIAL RESPONSIBILITY [CSR]

In this part of the world, CSR is a subject that has not so far been credited the awareness it deserves. The corporate entity's role in community and social development is too significant to be overlooked and must be evaluated in the annual report.

RESOURCE UTILIZATION

The efficiency with which resources are exploited for productive use is one more aspect to consider. Business is not just about producing, selling and making profit. It is also about the efficient utilization of the enterprise's resources. The auditors' comment in this regard would give more worth to an annual report.

BRING MEANING TO THE BUSINESS

The annual report should underscore the purpose of the business venture. Self-analyzing annual reports, besides gaining approval of stakeholders, would bring substantive good to the economy by providing investors with meaningful financial and business knowledge.

PERCEPTION AND REALITY

There is a wide gap between the layman's perception and understanding of an annual report. There are certain assertions and presentations that are complex even for professionals. To expect a regular user of financial statements to understand them these must be translated in to narratives.

INTERNAL CONTROLS

For me, the Internal Control Review by auditors is of the highest significance. At a time when the blame for every corporate failure is being laid at the doors of the custodians of controls, an effective internal audit function can save the entity from corporate failure.

LOOKING BEYOND AUDIT COMMITTEES

Khursheed Kotwal FCA

The author is Corporate Finance Director with Unilever Pakistan Limited. She has recently been appointed member of the Audit Committee of ICAP.

INTRODUCTION

Looking Beyond Audit Committees is an area where Pakistan should now be directionally heading, but before we do that let us see how the Audit Committees have functioned and worked for the past few years, and whether the audit committees have served a useful purpose in the governance of our corporate entities?

THE AUDIT COMMITTEE

The Audit Committee relationship is like a three legged stool where one leg represents the management, the other the external auditors, and the third the Audit Committee members. Internal Audit, if effective, adds a fourth leg. The legs have to be of the same length or the stool will tumble over. There has to be a constructive working relationship amongst the parties.

All these stakeholders play a critical role in reviewing the financial statements, assessing the adequacy of internal controls, reviewing the risk management framework, and in sharing business information openly with each other. Audit Committees are looking in depth at the financial statements to see if they are in accordance with IFRS and statutory requirements. They assess whether business prudence is being exercised by the management in accordance with the accounting standards and, where necessary, proper disclosures are made for potential liabilities on account of litigation or dispute with tax authorities. Audit Committees also get involved in reviewing material transactions, and changes in company policies and procedures.

Audit Committees are spending a lot more time challenging and questioning management on business and financial judgement and reviewing material information. A lot more diligence is being exercised. External auditors are also bringing important issues like significant adjustments resulting from the external audit to the attention of the Audit Committees. These committees have become substantially more active, diligent, knowledgeable and powerful and also have direct access to the external auditors.

PAKISTAN'S CODE OF CORPORATE GOVERNANCE

Let us examine how different Pakistan's Code of Corporate Governance (CCG) is from say, the NYSE listing requirements and understand whether there is anything relevant for us, and if besides these comparisons there are any other areas in CCG which can be strengthened:

1) In the CCG the Executive Directors should comprise not more than 75% of the board. If 3/4 of the Board are executive directors can a board be really independent from management? The NYSE requires that independent directors must comprise a majority of the board.

2) As per the NYSE requirements the Audit Committee should comprise solely of independent directors, whereas as per the CCG majority directors should be non executive and the Chairman should, preferably, be non executive.

3) Another difference is that the Board comprised of the non executive directors must meet, without the management, in regular executive sessions. The CCG, on the other hand, only requires the Audit Committee to meet without executive directors.

4) As per the listing requirements of the NYSE director's compensation must be the sole responsibility of the Audit Committee members. Again CCG is really silent in this area, except that the Audit Committee should review material transactions. Of course, as per the Companies Ordinance the Chairman's and Executive Directors' remuneration has to be approved by the shareholders.

5) The NYSE gives shareholders the opportunity to vote on all stock

option plans. Again there is no such requirement under the CCG.

OTHER AREAS THE CCG COULD LOOK INTO:

a) Directors' qualification and at least 1 to 2 members of the Audit Committee to be financially literate are areas where changes to our Code can be considered.

b) Is the Internal Auditor really independent and giving more independent feedback to the Audit Committee? Although the CCG gives the Head of Internal Audit access to the Audit Committee, scope does exist for defining a dual reporting line (say to the Head of the Committee and the Chairman of the company) or making his role more independent. Career and succession planning of the Internal Auditor and his team are important considerations.

c) Some best practises include that the Audit Committee give a report to the shareholders for the areas reviewed and the work done, along with the financial statements. At the AGM the Chairman of Audit Committee should also present the details of the scope of work completed and should be able to satisfy shareholders' questions.

At least in reputable companies, CCG is well embedded into the corporate culture; there exists room for further re-enforcement to make the roles of non executive directors and Audit Committee more independent.

OTHER COMMITTEES

Like in other countries many committees can be formed to assist the board of directors like nomination committee, ethics committee, corporate governance committee, remuneration committee, and health & safety committee.

The question here is if so many committees will overburden companies? Will they stifle business performance? Do we have enough experts committed to spending time? Do we need so many elaborate structures in Pakistan?

EXECUTIVE REMUNERATION

The most controversial topic these days is that of global executive compensation. Let us see what is happening in some industrialized countries.

REMUNERATION ISSUES

ING Barring a Dutch Bank was propped up by a government bailout. It was difficult for the Board Chairman to justify the bonuses and previous payouts amid wide public scorn and anger. The Chairman made a moral appeal to senior staff at his firm to pay back the bonuses they received a few weeks ago.

There is no doubt that the executive pay at banks around the world will change given the state aid they have received and the blame for the financial crisis heaped upon them.

Let's look at another case. Volvo, the Swedish truck maker, said that according to the benchmarks their executives were underpaid in relation to their competitors. The company wanted to raise the ceiling for performance based pay. In the fourth quarter the company declared a loss and more than 16000 layoffs. The backlash was swift and the company was forced to rescind the proposal.

Jack Welch, former CEO of General Electric, was apparently being paid a king's ransom to serve as part-time consultant, and a pension package which included picking up the tab for a Manhattan apartment, room service and satellite TV at four homes and continued lifetime access to company facilities and services available to him prior to his retirement. This was all revealed during his divorce.

Although there are just a handful of such cases, there are companies like Apple whose shareholders have pushed through a *nay* on 'pay proposals' despite the board members advocating for it.

WHAT IS PAKISTAN'S NEED?

The question really is that while these Committees existed why and how did the situation of excessive payments arise? From Pakistan's perspective we have not heard of any major remuneration related issues.

One can have as many committees as possible but the issue to consider is whether they will merely be rubber stamping. Is there a real need for these separate committees and regular meetings? Clearly, learning from the events of the afore-mentioned companies, and to avoid the same mistakes, an operating framework can help though the structures need not be as elaborate.

There is no denial that setting of pay and severance pay is a delicate matter and the task can be done more independently, including the use of industry benchmarks. Variable pay can be made more performance based with maximum five performance measures including cash, cost control and customer measures etc.

Should companies change their executive compensation plans in response to current political and market pressures? Should more disclosure regarding the remuneration be considered as areas which require independent assessment? Independent Committees would be more sceptical to pay rise. Hence, the balance will need to be kept so as not to stifle business performance or growth ambition. Likewise over exposure to risk taking can also be minimised by the independent persons.

FLEXIBILITY OF BOARDS

First some of the afore-mentioned suggested areas to make the Board and Audit Committees more independent and effective should be considered. Also it should be left to the discretion of the independent Board to meet separately without the executive directors and decide whether to have a separate formal remuneration committee or whether the Audit Committee can competently and independently handle review of remuneration. Under the law, the scope of work should be clearly defined for the areas that should be reviewed like mentioned before for executive remuneration.

Similarly for the governance committee, ethics committee, health & safety committee some legal scope of work or areas where the non executive directors should apply their judgement can be defined. Flexibility should be given to independent boards to strike the right balance based on a needs basis.

CONCLUSION

We have to face the fact that all of this, including the Audit Committee management, and compiling information is extra work as is the administration cost for holding meetings. Previously the listed/unlisted company's income tax rates were different. Surely if a company is complying with so many requirements it should have some tangible benefit by making at least a 5 % differential in the tax rates.

These are solely my personal views and not of the Audit Committee or company I represent.

Latest Trends in Content and Design of Annual Reports

10 MOST POPULAR ANNUAL REPORT FEATURES Based on the Report on the Best Practices in Annual Report Communications

1 INFORMATION ACCESSIBILITY

A solid annual report will make the following information readily accessible:

(a) ticker symbol; contact name, address, phone and e-mail; share performance; earnings & dividends; five-year financial and operating data; income statements, cash flow, and balance sheets; & product/market summaries.

(b) executive management contact information, which sends out the message that the company wants to encourage bilateral communications with stakeholders.

As an aside color coded sections help investors flipping through annual reports to quickly find the information they want.

2 REPORT NARRATIVES

An annual report is like a yearbook—it should take readers through all aspects of the company's business while giving more weightage to the company's financial success and brand. The content of the annual report must give a clear picture of where the company is heading.

The report narrative's style needs to establish a tempo from page to page that keeps investors moving through the book while generating an emotional response. Readers need to understand how vital the company is to the world, its customers, employees, communities, etc. They need to know that the organization is special.

Most narratives today are produced in full color. At the minimum spot color is recommended.

The transition from report narrative to financials should be smooth in order to maintain consistency.

3

REPORT FINANCIALS

There's nothing worse than transitioning from a beautifully designed report narrative to a Financial Statements section that looks like it was printed on newspaper.

Great Report Financials use:

- color coded charts and graphs that contribute to understanding;
- easily readable fonts with lots of white space for readers' notations;
- a second Table of Contents to break up and list the financial material;
- key messages from the Report Financials summarized for readers on a page or two.

A broad range of financial and metrics tables should be spread within the report financials and throughout the report. Tables often display facts more effectively than text.

4

DESIGN

The design of the annual report should be highly effective in getting the company's message across to investors. Even serious companies are now doing things differently in order to create a distinct and lasting impression.

Title Cover

Report covers can't appear as if they were simply formed out of stock artwork. More companies are becoming highly creative in their cover treatments employing artists to paint company relevant scenes, or building lifestyle stories around the company's customers.

Inside Front Cover

Most companies don't make enough use of their reports' inside front covers. This space can be used to include company thumbnails, fold out financial tables, and even recaps of the firm's accomplishments in the preceding years.

It's always important to summarize what the organization is doing today, where it's doing business, and how it's changing. Consider putting this information on the inside front cover for easy discovery.

Theme

Theme should be unique. Something that catches an investor's attention before the report is even opened and encourages them to read each page of the book from start to finish. The report should have visual diversity from page to page while maintaining a consistent style.

5

CONTENT

Content that describes what makes a company unique is highly valued. Otherwise, the annual report fades quickly from readers' memories.

A two-page spread is typically most appropriate for content about the organization's interactions with, and responsibilities to, the communities of which it is a part.

Language

Language of an annual report should ideally be in editorial style, professional yet personal.

When dealing with technical or industry-specific terminology, it may be worth including a small glossary or appendix that defines and describes the terms used.

6

LETTERS TO SHAREHOLDERS

The worst reports have Letters to Shareholders which consist of a photo of the CEO or President, a page or two of text, and reproduced signature at the bottom.

Strong Shareholder Letters should offer unique content not found in the rest of the report. They should convey a sense of personal, one-to-one communication to readers. The tone should be conversational and the goal should be to build a relational bridge with readers.

The report narrative's style needs to establish a tempo from page to page that keeps investors moving through the book while generating an emotional response. Readers need to understand how vital the company is to the world, its customers, employees, communities, etc. They need to know that the organization is special.

7 SELL THE COMPANY STORY

Everybody loves a good story especially when it talks about the real world results achieved by the company. The human element has become essential in company reports since everyone recognizes the contribution of the people behind the organization.

Instead of merely talking about process improvements such as reducing variable costs by 30%, make it more real and concrete in people's minds. Mention how a warehouse manager at one of the factories found a way to reduce shipping weight and materials costs and saved the company a lot of money.

8 EXECUTIVE PROFILES

More than ever before, shareholders want to know if they can trust a company's Board. Include a nice summary of the Directors' profiles providing their business background and length of term on the current board.

9 EMPLOYEE INFORMATION

To build a balanced annual report it is important to showcase the rank-and-file employee population since they're an important stakeholder base. It is good for investors to know that management is working hard to build strong employee morale.
Let readers know how employees' unique skills and talent help to distinguish the organization from others.

10 GIMMICKS

There's something special about holding a tangible, physical piece of media in your hands. Regular content for CDs/DVDs supplementing annual reports include organizational videos, PowerPoint presentations, commercials, broadcast news coverage etc.

Annual Corporate Reporting In Pakistan

Muddassar Mehmood ACA

Worldwide events in the corporate sector in recent years have increased the need for transparent and comprehensive annual reports. Owing to the ever increasing role of regulators (Securities and Exchange Commissions, Central Banks etc.) preparers of annual reports are putting more energy and time in to preparing their reports.

According to a survey conducted by the American National Investor Relations Institute, more than half of the 200 companies surveyed said they were simply wrapping up their annual 10-K regulatory filing in a few pages of additional information and calling it their annual report.

In Pakistan Section 233 of the Companies Ordinance, 1984 requires every company to send a copy of its financial statements so audited together with a copy of auditor's report and director's report to every member of the company. Section 236 of the Companies Ordinance, 1984 elaborates the requirements of a director's report. Further, the Code of Corporate Governance also lists down the contents of director's report of listed companies and also requires that all listed companies shall include a statement of compliance with best practices of the Code of Corporate Governance in their annual reports.

It is a fundamental right of shareholders of a company, who are not involved in the ordinary course of business, to get maximum information from the management in annual reports.

I have carried out an analysis of 40 annual reports of listed companies in Pakistan and have observed that out of annual reports of forty companies:

- Six companies disclosed company strategy
- Ten companies gave company profile
- Only five companies gave details regarding management structure
- Nine companies gave Statement of value addition
- Four companies provided Vertical and Horizontal analysis

Although The Institute of Chartered Accountants of Pakistan and

Although The Institute of Chartered Accountants of Pakistan and the Institute of Cost and Management Accountants of Pakistan have played a very positive role in improving the quality of annual reports through the introduction of the 'Best Corporate Report Awards' initiative, a lot more needs to be done to put more structured and useful information in annual reports in Pakistan.

Following information needs to be included or detailed more in annual reports:

- Management Structure and changes therein during the year
- Corporate Social Responsibility initiatives
- Risks involved in businesses
- Future Prospects / outlook
- Material agreements entered into during the year
- Segment-wise information (profile, business report & outlook of each segment)
- Customer Relations management
- Supplier Relations management
- Research & Development
- Human Resources
- Company's technical details
- Details regarding competitive position of the company

Usually only financial managers are involved in the preparation and compilation of annual reports in Pakistan. However, the need is for teams of financial, technical, marketing and HR experts of the company to be involved in the preparation of annual reports so that information available to users has the concurrence of the strategic team players of the company and the annual report represents a fair position and analysis of current and future prospects of the company.

The users of annual reports are getting well-versed day by day and demand more structured and comprehensive information. Regulators also watch out for every bit of information and disclosure made by companies and keep a record of the information. Under these circumstances preparers of annual reports have a vital role to play in presenting fact-packed annual reports.

Good annual reports in Pakistan mostly include the following:

- Company Information
- Mission & Vision Statement
- Company Strategy / Strategic Objectives
- Governing Principles / Core Values
- Performance Reviews
- Ratio Analysis / Key Figures / Years in brief / Historical Performance Review
- Director's Report & Details regarding Board of Directors
- Chairman' Review / Chief Executive Review
- Information on Management Committees
- Pattern of Shareholding
- Statement of compliance with Code of Corporate Governance
- Statement of Ethics & Business practices
- Review Report to the members on Statement of Compliance with Code of Corporate Governance
- Auditor's report to the members
- Financial Statements
- Notice of Annual General Meetings

IFRS 7 Risk Management Disclosures

Valuable information for the users of Financial Statements

Goind Ram Khatri FCCA
Audit Manager Financial Services with Deloitte Dublin, Ireland.

BACKGROUND OF IFRS 7 AND ITS IMPLEMENTATION IN PAKISTAN

Given the competitive and volatile market conditions, users of financial statements are increasingly interested in knowing the risks an entity is exposed to as well as the competency of management to mitigate or manage these risks. To support this objective, the International Accounting Standards Board issued IFRS 7 *Financial Instruments: Disclosure*s ('IFRS 7') for implementation for accounting periods beginning on or after 1 January 2007. The Securities & Exchange Commission of Pakistan vide its SRO 411(1)/2008 adopted IFRS 7 for non-banking companies for accounting periods beginning on or after 28 July 2008.

IFRS 7 replaces IAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions* and disclosure requirements covered under IAS 32 *Financial Instruments: Disclosure & Presentation.*

This article explains the disclosures regarding the exposure to the risks arising from financial instruments, practical implementation of the standard and also the benefits which Pakistani companies can obtain from experience of IFRS 7 implementation in Europe since its first adoption in 2007.

RISK MANAGEMENT DISCLOSURES

All financial instruments are exposed to one or a combination of three types of

financial risks: credit risk, liquidity risk and market risk. IFRS 7 requires quantitative disclosures in the form of numerical data as well as qualitative disclosures such as the reasons for the exposure to different types of risks and an entity's objectives, policies, and procedures to manage these risks. The numerical disclosures should use the data presented to the key management personnel. 'IAS 24: Related Party Disclosures' defines key management personnel as *'those persons having authority and responsibilities for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity'*. For many entities in Pakistan key management personnel may just mean the Board of Directors.

CREDIT RISK

Credit risk is the risk that one party to a financial instrument will cause a financial loss for another party by failing to discharge its obligation.
For many companies in Pakistan, the types of financial assets exposed to credit risk might include trade receivables, bank balances, over the counter investments, such investment in open ended funds or deposits with financial institutions.

THE DISCLOSURES REQUIRED INCLUDE:

- Total amount exposed to credit risk at the reporting period end without taking into account any collateral held. If an entity holds collateral, it should disclose the nature of the collateral as well as its fair value;
- The credit quality of financial assets that are neither *past due* nor impaired. IFRS 7 does not define the term credit quality. However, in the business world it generally refers to credit rating determined by credit rating agencies such as Standard & Poor's, Moody's or Fitch Ratings;
- Aging of financial assets that are not impaired but past due at reporting period end;
- Analysis of financial assets that are individually determined to be impaired together with factors considered in determining impairment; and
- When financial assets are impaired by credit loss, a reconciliation of impairment allowance made.

Example 1 illustrates how the above

Example 1 illustrates how the above requirements may be applied in practice.

EXAMPLE 1 - CREDIT RISK DISCLOSURES

Company's credit risk arising on its financial assets is principally attributable to its trade receivables and balances held with banks. The company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

The company's credit control department monitors its credit exposure to counterparties through their credit ratings and by periodically assessing the financial reliability of customers and limiting its exposure to any one party to avoid significant concentrations of credit risk. The department periodically reports directly to the Board of Directors.

The company's exposure to credit risk is limited to the carrying amount of trade receivables and bank balances presented on the face of the balance sheet. Included in the trade receivables as at 31 December 2009, are balances of Rs. XXX (2008: Rs. XXX) which are past due but not impaired. The age analysis of these balances is as follows:

	2009 Rs.	*2008 Rs.*
Less than 1 month	xxx	xxx
1-3 months	xxx	xxx
3-6 months	xxx	xxx
Over 6 months	xxx	xxx
Total	xxx	xxx

The company does not hold any collateral or any other credit enhancement instruments in relation to trade receivables.

An impairment provision is recorded for all receivables that are past due over 6 months, together with any other individual balances where the company has objective evidence that it will not collect the amount due from the particular customer. The impairment provision is written off when the company expects that it cannot recover the balance due. Subsequent repayments, in relation to amount written off, are credited directly to income statement under the heading other income. Movement in the impairment provision for trade receivables during the year was as follows:

	2009 Rs.	*2008 Rs.*
Balance as at beginning	xxx	xxx
Provision for the year	xxx	xxx
Written off during the year	xxx	xxx
Amount recovered	xxx	xxx
Balance at year end	xxx	xxx

The credit quality of financial assets that are neither past due nor impaired is assessed by reference to external credit rating agency.

Credit ratings of such financial assets are given below:

	2009 Rs.	*2008 Rs.*
AAA	xxx	xxx
AA	xxx	xxx
A	xxx	xxx
BB	xxx	xxx
Unrated	xxx	xxx
	xxx	xxx

LIQUIDITY RISK

The Standard identifies three types of market risk: interest rate risk, currency risk and other price risk. IFRS 7 requires a sensitivity analysis either separately for each type of risk or collectively for market risk as whole.

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. In addition to general disclosures, IFRS 7 also requires a contractual maturity analysis of financial liabilities on an undiscounted cash flow basis, which often differs from the amount included in balance sheet. Examples for undiscounted cash flows include:

- Gross finance lease obligations, before deducting finance charges. For instance the principal amount payable under a lease contract is Rs. 100,000 and lessee is required to pay interest of Rs. 15,000 over the lease term. Interest payable is not yet recorded in the books of lessee. The amount required to be disclosed under liquidity risk is the gross amount of Rs. 115,000.
- Gross loan commitments.

Example 2 gives a template for liquidity risk disclosures required by IFRS 7.

EXAMPLE 2- LIQUIDITY RISK DISCLOSURES

Company is exposed to liquidity risk arising primarily from the maturity of short-term and long-term debt obligations and trade and other payables.

The company's policy is to ensure that sufficient resources are available either from cash balances or undrawn bank facilities to ensure all obligations can be met as they fall due. Additionally, the company monitors balance sheet liquidity ratios against internal requirements and maintains adequate debt financing plans.

The following table has been drawn up using the *undiscounted* cash flows of financial liabilities and the earliest date on which the company can be required to pay.

	On demand Rs.	Up to 1 year Rs.	1 to 5 years Rs.	Over 5 years Rs.
As at 31 December 2009				
Fixed rate debt	xxx	xxx	xxx	xxx
Floating rate debt	xxx	xxx	xxx	xxx
Trade and other payables	xxx	xxx	xxx	xxx
Total	xxx	xxx	xxx	xxx

	On demand Rs.	Up to 1 year Rs.	1 to 5 years Rs.	Over 5 years Rs.
As at 31 December 2008				
Fixed rate debt	xxx	xxx	xxx	xxx
Floating rate debt	xxx	xxx	xxx	xxx
Trade and other payables	xxx	xxx	xxx	xxx
Total	xxx	xxx	xxx	xxx

MARKET RISK

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Standard identifies three types of market risk: interest rate risk, currency risk and other price risk. IFRS 7 requires a sensitivity analysis either separately for each type of risk or collectively for market risk as whole.

Where an entity chooses to disclose sensitivity analysis for each type of market risk it should disclose the methods and assumptions used in preparing the analysis. Disclosure is also required as to how profit or loss and equity would be affected by changes in relevant risk variables which are reasonably possible at the reporting date. In determining a reasonably possible change in the relevant risk variable, an entity should consider its economic environment and the time frame involved in the assessment.

Where collective sensitivity analysis is prepared for market risk, an entity is required to disclose methods used in preparing such analysis together with limitations that may result in the information not fully reflecting the fair value of the assets and liabilities involved.

Example 3 illustrates currency risk disclosures required by the standard.

EXAMPLE 3- CURRENCY RISK DISCLOSURES

Currency risk arises from certain financial assets and financial liabilities that are denominated in a currency other than the functional currency of the company. Foreign exchange rate exposures are managed within approved policy parameters utilizing Foreign Currency Forward Contracts.

The carrying amounts of the company's foreign currency denominated assets and liabilities at the reporting date are as follows:

	Gross amount exposed to foreign currency risk	Foreign Currency Forward Contracts	Net amount exposed to foreign currency risk
As at 31 December 2009			
British Pounds	xxx	xxx	xxx
US Dollars	xxx	xxx	xxx
As at 31 December 2008			
British Pounds	xxx	xxx	xxx
US Dollars	xxx	xxx	xxx

If the US dollar and British pound appreciate 10% and 5% respectively, with all other variables held constant, then:

- Company's profit for the year ended 31 December 2009 would decrease by Rs.xxx (2008: decrease by Rs.xxx).
- Other equity reserves would decrease by Rs.xxx (2008: decrease by Rs.xxx) mainly as a result of the relevant changes in the fair value of available-for-sale investments.

The company has the following open forward contracts:

As at 31 December 2009

Buy currency	Sell currency	Forward rate contracted	Fair value
			Rs.
Xxx	xxx	xxx	xxx
Xxx	xxx	xxx	xxx
			xxx

As at 31 December 2008

Buy currency	Sell currency	Forward rate contracted	Fair value
			Rs.
Xxx	xxx	xxx	xxx
Xxx	xxx	xxx	xxx
			xxx

Similar disclosures are required for interest rate risk and other price risk.

COMPARATIVE DISCLOSURES

First time implementation of IFRS 7 is a challenging task for both the companies preparing their financial statements as well as auditors who verify them. It requires significant investment of time, appropriate planning and training and streamlining of information generating channels or systems.

By virtue of paragraph 38 of IAS 1, an entity is required to disclose comparatives for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements. Therefore, entities adopting IFRS 7 for the first time are required to provide relevant disclosures for the prior period presented in the financial statements.

IFRS 7 IMPLEMENTATION IN EUROPE

IFRS 7 is applicable in Europe to all listed entities preparing their consolidated financial statements. The Financial Reporting Review Panel (FRRP), an independent organization in the UK with a role to ensure compliance of the financial information published by public and large private companies with relevant accounting requirements, has recently published its annual report summarizing the disclosure deficiencies identified as part of their review of selected financial statements. Some of the IFRS 7 disclosure deficiencies identified are given below:

- 'Boiler plate' risk management disclosures - not necessarily relevant to the operations of the company.
- Absence of disclosure regarding age analysis of financial assets that are past due but not impaired.
- Use of discounted cash flows in maturity analysis instead of undiscounted cash flows.
- Omission of the disclosure regarding concentration of risks.
- A reconciliation of the changes in an allowance account for impairment for each class of financial assets was not produced by most of the companies.

The above findings indicate that although it was the second year of IFRS 7 implementation in Europe, some of the main disclosure requirements are either fully omitted or not properly followed by all entities. The FRRP report is available for public access at: http://www.frc.org.uk/frrp/press/pub2039.html.

Companies in Pakistan may wish to use this as a starting point to make them well equipped to fully comply with the relevant requirements of IFRS 7.

CONCLUSION

First time implementation of IFRS 7 is a challenging task for both the companies preparing their financial statements as well as auditors who verify them. It requires significant investment of time, appropriate planning and training and streamlining of information generating channels or systems. However, IFRS 7 will certainly add value and improve the quality of financial statements by providing the users of financial statements with valuable information which may influence their economic decisions.

CHALLENGES IN ACHIEVING CONVERGENCE TOWARDS FULL IFRS IN PAKISTAN

The objective of this article is to discuss the variations of disclosures in IASs/ IFSRs & Companies Ordinance, 1984 and ICAP's action plan towards full compliance with full IFRS.

Department of Technical Services, ICAP

A financial reporting system supported by strong governance, high quality standards, and sound regulatory frameworks is a key to economic development. Indeed, high quality standards of financial reporting, auditing, and ethics underpin the trust that investors place in financial and non-financial information and, thus, play an integral role in contributing to a country's economic growth and financial stability.

THE BENEFITS OF GLOBALLY ACCEPTED INTERNATIONAL STANDARDS

Globally consistent and uniform financial systems provide cost-efficiencies to business and greater safeguards to the public. The public is entitled to have confidence that, regardless of where a business activity occurs, the same high quality standards will be applied. It is widely recognized that investors will be more willing to diversify their investments across borders if they are able to rely on financial information based on a similar set of standards. Thus, adherence to international standards, such as those developed by the International Accounting Standards Board (IASB) can ultimately lead to greater economic expansion.

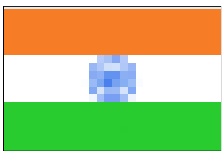
As countries increasingly commit to converging national standards with International Financial Reporting Standards (IFRS), there is a need to ensure that international convergence is approached in a systematic and, where possible, consistent way across jurisdictions. It also has made it necessary for interested parties, such as the international and national standard setters, and international regulators, to understand the challenges in adopting and implementing the international standards so that they can be addressed at an early stage.

IFRS are used in many parts of the world, including the European Union, Hong Kong, Australia, Russia, South Africa, Singapore and Pakistan. Approximately 100 countries require, allow, or have a policy of convergence with IFRS. Countries such as Japan, the United States and Canada have active programs designed to achieve convergence with IFRS. China's Accounting Standards Committee has announced that convergence is a fundamental goal of its standard-setting program. There is undoubtedly a global movement toward convergence.

To some extent, the EU gave global convergence a kick-start when the EU mandated that EU companies with securities listed on an EU exchange prepare their consolidated accounts for all fiscal years beginning on or after January 1, 2005, under IFRS as adopted by the EU. For the most part, the EU has adopted IFRS as promulgated by the IASB, but there have been some exceptions.

TARGET DATES FOR CONVERGENCE TO IFRS IN OTHER ASIAN COUNTRIES

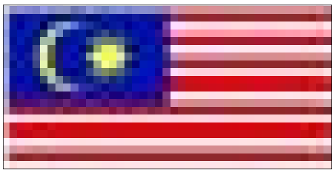
INDIA



Indian accounting standards will converge fully with the IFRS by 2011, as decided by the Institute of Chartered Accountants of India (ICAI). ICAI has

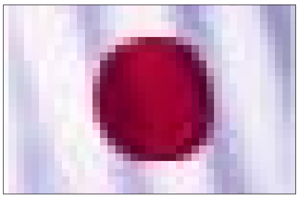
Accountants of India (ICAI). ICAI has decided that its accounting standards will be fully in line with the IFRS from April 1, 2011, and is working towards that direction.

MALAYSIA



Malaysian Accounting Standards Board (MASB) in August 2008 has announced their plans to bring Malaysia to full convergence with the IFRS on January 1, 2012. They believe that in terms of financial reporting, Malaysia will no longer lag behind other countries.

JAPAN



Japan is seeking to eliminate the differences between Japanese GAAP and IFRS on or before June 30, 2011.

REVIEW OF PRACTICAL IMPLEMENTATION ISSUES OF INTERNATIONAL FINANCIAL REPORTING STANDARDS BY UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT (UNCTAD) – *AN IFRS CASE STUDY*

The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) conducted additional studies and reviews to gain further insight into the challenges faced by developing countries and countries with economies in transition in meeting international requirements for high-quality and adequate standards with a view to developing guidance on good practices. Accordingly, three country case studies covering Pakistan, South Africa and Turkey have been prepared for consideration by the twenty-fourth session of ISAR.

The main practical implementation issues identified in the case studies include:

- practical implementation issues in the areas of regulatory framework;
- enforcement; and
- technical capacity-building

The objective of these case studies is to draw lessons learned in the practical implementation issues of IFRS and share these with member states that are either implementing IFRS or that intend to do so in the future. The country experiences presented in the case studies indicate that each country has initiated the introduction of IFRS into its financial reporting system at a different point in time. Pakistan started introducing IASs issued by the IASB as early as the 1970s.

The case studies of Pakistan and South Africa show the pioneering and leading roles of professional accountancy organizations in introducing IFRS into the economies of both countries. Though a number of years have passed since IFRS were introduced in the countries on which the case studies were conducted, none of them is currently in a position to assert that financial statements prepared by companies listed in its jurisdiction are in full compliance with IFRS as issued by IASB. In Pakistan, efforts are underway to accomplish this goal by the end of 2010.

The case studies demonstrate the critical role that professional accountancy organizations play in the implementation of IFRS. As discussed in the case studies of Pakistan and South Africa, one dimension of this role is facilitating communication between the national professional body and other stakeholders on the one hand and IASB on the other.

As discussed in the case study of Pakistan, providing preparers with disclosure checklists on IFRS is an example of the positive roles that professional associations play. Furthermore, professional accountancy organizations also facilitate training geared towards keeping their members updated on new technical developments in the area of IFRS.

The case studies of Pakistan and South Africa provide good examples of how enforcement authorities such as securities and exchange commissions and financial reporting monitoring panels could contribute to more consistent application of IFRS by sharing their findings and enforcement decisions with a view to assisting preparers avoid wrong application of IFRS by learning from the experience of other preparers.

The case studies provide useful insights into various practical challenges pertaining to institutional development, enforcement and technical issues that member states are facing in implementing IFRS. The country case studies also present various solutions that the respective countries are applying to resolve these challenges. It shows that implementation of IFRS is not a one-time process but rather an ongoing exercise that requires sustained efforts by all stakeholders.

ACCOUNTING FRAMEWORK IN PAKISTAN

In Pakistan we have adopted all IASs/IFRSs except for IFRS 1 'First-time Adoption of International Financial Reporting Standards'. All listed companies other than banks and DFIs are required to comply with all IFRS. The Council of The Institute of Chartered Accountants of Pakistan has agreed to bring the financial reporting requirements provided in various local laws including the Companies Ordinance, 1984 in harmony with the International Financial Reporting Standards (IFRS) issued by IASB.

In this respect, paragraph 16 of IAS 1 'Presentation of Financial Statements' requires that:

"An entity whose financial statements comply with IFRSs shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with IFRSs unless they comply with all the requirements of IFRSs".

Once IFRS 1 is notified, the companies making full compliance shall provide a note in their financial statements to this effect as follows:

"The financial statements of company have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board."

SECP and ICAP are working together to ensure that Pakistan becomes fully compliant with IFRS and to enable them to issue becomes fully compliant with IFRS and to enable them to issue unreserved compliance by the end of 2010 for public interest entities. Main issue in converging towards full IFRS is that there are certain conflicting requirements which exist between IFRS and Companies Ordinance, 1984. In order to achieve an unreserved compliance with IFRS, it is essential to remove these inconsistencies. The Institute has already proposed certain amendments to SECP in the Companies Ordinance, 1984 in order to align the requirements between IFRS and Companies Ordinance, 1984.

We will have to expedite our process of convergence towards full IFRS as is evidenced from above that all other countries are moving towards full IFRS convergence within the next two to three years.

VARIATIONS OF DISCLOSURES IN IASs/ IFRSs & COMPANIES ORDINANCE, 1984

Following are the disparities that exist between IFRS and Companies Ordinance, 1984 and suggested changes required to be made in the Companies Ordinance, 1984:

1. AMENDMENT IN SECTION 234

1.1 NOTIFICATION OF IFRSs

Section 234 of the Companies Ordinance, 1984, sets out contents of financial statements and provides requirements to prepare financial statements in accordance with notified IFRS. In order to achieve unreserved compliance with IFRS, the procedure for notification of IFRS should be replaced with a power for deferment / exemption. The use of this power would be mostly in rare circumstances. The procedure for notification does not add any value as the IFRS is issued after due deliberation and the exposure drafts of all the standards are always reviewed by ICAP and comments are sent to IASB.

1.2 CHANGE OF NOMENCLATURE

In view of the fact that the definition of the term IFRS includes International Accounting Standards (IASs) and is recognized as such around the world. The term 'International Accounting Standards' used in Section 234 and elsewhere in the Companies Ordinance, 1984 should be changed to 'International Financial Reporting Standards'.

1.3 REVISED TERMINOLOGIES FOR CONTENTS OF FINANCIAL STATEMENTS

The revised IAS -1 requires that a complete set of financial statements comprises:

(a) a statement of financial position as at the end of the period;
(b) a statement of comprehensive income for the period;
(c) a statement of changes in equity for the period;
(d) a statement of cash flows for the period;
(e) notes, comprising a summary of significant accounting policies and other explanatory information; and
(f) a statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively, or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

An entity may use titles for the statements other than those described above.

In view of the above it is suggested that the terminologies which are currently used in section 234 or elsewhere in the Companies Ordinance, 1984 relating to the contents of financial statements should be deleted and reference to the term "financial statements" should be given as defined in IFRS.

1.4 ADDITIONAL COMMENTS IN SECTION

Section 234(1) also includes following comments which are no longer relevant:

"……..that every item of expenditure fairly chargeable against the year's income shall be brought into account and, in case where any item of expenditure which may in fairness be distributed over several years has been incurred in any one financial year, the whole amount of such item shall be stated, with the addition of the reasons why only a portion of such expenditure is charged against the income of the financial year."

The principles of charging expenditure to year's income and capitalization are clearly laid down in the applicable financial reporting framework and we consider that they do not need to be specified by law.

2. SECTION 235 – SURPLUS ON REVALUATION OF FIXED ASSETS

Section 235 of the Companies Ordinance, 1984 contains two provisions which are in conflict with the requirements of IAS 16 'Property, Plant and Equipment'.

According to section 235 "the surplus on revaluation of fixed assets may be applied by the company in setting off or in diminution of any deficit arising from the revaluation surplus of any other fixed assets of the company". Where as IAS 16 allows the decrease to be recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Further section 235 requires Surplus on Revaluation of fixed assets to be shown in the balance sheet after Capital and Reserves whereas paragraph 37 of IAS 16 requires that if an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus.

In this regard para 41 of IAS 16 requires that:

"The revaluation surplus included in equity in respect of an item of property, plant and equipment may be transferred directly to retained earnings when the asset is derecognised. This may involve transferring the whole of the surplus when the asset is retired or disposed of. However, some of the surplus may be transferred as the asset is used by an entity in the form of depreciation. In such a case, the amount of the surplus transferred would be the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Transfers from revaluation surplus to retained earnings are not made through profit or loss."

The only other matter which is dealt with in section 235 is the

The only other matter which is dealt with in section 235 is the distribution out of surplus on revaluation. According to section 249 of the Companies Ordinance, 1984:

"no dividend shall be paid by a company otherwise than out of profits of the company".

As the surplus on revaluation is credited directly to equity and is not allowed to be part of 'Profit for the year' by IAS 16, the issue of its distribution as dividend never arises. The other provisions of section 235 are more or less in line with requirements of IAS 16.

Based on the above, section 235 should be withdrawn. Simultaneously with the withdrawl of section 235, disclosure requirement of surplus on revaluation of fixed assets given in the Fourth Schedule, the Fifth schedule, and the SRO 45(1)/2003 also need to be withdrawn.

3. SECTION 237 - 'CONSOLIDATED FINANCIAL STATEMENTS'

3.1 CONSOLIDATION IN PRIVATE LIMITED COMPANIES

At present section 237(1) requires all holding companies including unlisted and private to prepare consolidated financial statements in accordance with the requirements of Fourth Schedule. In practice, SECP has been granting exemption to companies on filing of an application under section 237 (8), but the companies go through the same process every year.

Although there is no distinction given in IAS 27 'Consolidated and Separate Financial Statements' between public and private entities as it provides exemptions from consolidation of financial statements subject to conditions laid down in paragraph 10, as under:

"A parent need not present consolidated financial statements if and only if:

(a) the parent is itself a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;

(b) the parent's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);

(c) the parent did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market; and

(d) the ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use that comply with International Financial Reporting Standards."

In order to align the consolidation requirements with IFRS, section 237(1) needs to be amended.

3.2 DIFFERENCE IN REPORTING PERIOD OF SUBSIDIARIES

There is difference in the provisions of section 237(2) and IAS 27 regarding the reporting dates. Paragraphs 22 and 23 of IAS 27 are reproduced hereunder:

22 *The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall be prepared as of the same date. When the end of the reporting period of the parent is different from that of a subsidiary, <u>the subsidiary prepares, for consolidation purposes, additional financial statements</u> as of the same date as the financial statements of the parent unless it is impracticable to do so.*

23 *When, in accordance with paragraph 22, the financial statements of a subsidiary used in the preparation of consolidated financial statements are prepared as of a date different from that of the parent's financial statements, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the parent's financial statements. <u>In any case, the difference between the end of the reporting period of the subsidiary and that of the parent shall be no more than three months.</u> The length of the reporting periods and any difference between the ends of the reporting periods shall be the same from period to period."*

In contrast section 237 (2) states that "Where the financial year of a subsidiary precedes the day on which the holding company's financial year ends by more than three months, such subsidiary shall make an interim closing, on the day on which the holding company's financial year ends, and prepare financial statements for consolidation purposes."

It is clear from above that IAS 27 requires subsidiary's financial statements to be prepared for the same date as that of parent for consolidation purposes unless it is impractical to do so without making interim closing.

Based on above, section 237 (2) needs to be deleted.

4. SECTION 84 - ISSUE OF SHARES AT DISCOUNT

Section 84 (4) of the Companies Ordinance, 1984 'Issue of shares at discount', refers to disclosure of amount of discount that has not been written off. As the current accounting standards require the discount on issue of shares to be shown as a deduction in equity and such discount is not written off, the above disclosure has become redundant.

Other than above there are also inconsistencies between IFRS and Fourth Schedule. All disclosure requirements of Fourth Schedule are already adequately covered in IFRS except for some disclosure requirements which may be retained as they are not specifically covered in IAS/IFRS (Annexure A).

Annexure A'

COMPARISON BETWEEN FOURTH SCHEDULE & IAS/IFRS

Clauses of Fourth Schedule to be Retained

Fourth Schedule	Disclosure given in IAS/IFRS	ICAP Comments
PART I – GENERAL		
2(iii) "executive" means an employee, other than the chief executive and directors, whose basic salary exceeds five hundred thousand rupees in a financial year;		Not defined in IAS/IFRS. The definition may be retained.
3(i) Where determinable the capacity of an industrial unit, actual production and the reasons for shortfall; and		Not covered in IAS/IFRS. It may be retained.
3(ii) the general nature of any credit facilities available to the company under any contract, other than trade credit available in the ordinary course of business, and not availed of at the date of the balance sheet.		Not covered in IAS/IFRS. It may be retained.
5. Where any property or asset, acquired with the funds of the company, is not held in the name of the company or is not in the possession and control of the company, this fact shall be stated; and the description and value of the property or asset, the person in whose name and possession or control it is held shall be disclosed.		Not covered in IAS/IFRS. It may be retained.
PART II - REQUIREMENTS AS TO BALANCE SHEET		
LONG TERM LOANS AND ADVANCES 3(D) There shall be disclosed separately in respect of sub-head 3(A) (i) the maximum aggregate amount of loans and advances outstanding at any time since the date of incorporation or since the date of the previous balance-sheet, whichever is later. Such maximum amounts shall be calculated by reference to month-end balance.	Refer IAS 24.17 for disclosure of the nature and amount of related party.	Not required by IFRS. It may be retained.
CURRENT ASSETS 5(A)(ix) tax refunds due from the Government; and		The term 'tax refund' is not specifically covered in IAS/IFRS. It may be retained.
NON CURRENT LIABILITIES 8(A) Non-current liabilities shall be classified under appropriate sub-heads, duly itemized such as: (i) long term financing; (ii) debentures; (iii) liabilities against assets subject to finance lease; (iv) long term Murabaha; (v) long term deposits; and (vi) deferred liabilities.	IAS 1.54(m-p) relating to non-current liabilities Refer IAS 1.55 for presentation as additional line items. Refer IFRS 7.14 for Collateral, IFRS 7.25 for Fair value and IFRS 7.31 for nature and extent of risk arising from Financial Statement Refer IAS 17.31 for Disclosure of Finance Lease. Refer 12.81(g)(i) for Disclosure of Deferred tax liability and 19.120-120A for Disclosure of Defined benefits plan	The terminologies of 'debenture', 'long term deposits' and 'long term Murabaha' are not covered in 1.54 but 1.55 allows to present additional line items or headings. These terminologies may be retained.

Fourth Schedule	Disclosure given in IAS/IFRS	ICAP Comments
8(C) Long-term deposits shall be classified according to their nature.	Refer IAS 1.54(m) for presentation of finance liabilities as above IAS 7.24 for Disclosure and IG 31 of IFRS 7	The term 'Deposits' not specifically covered. It may be retained.
CURRENT LIABILITIES 9(A) (i) Trade and other payables, which shall be classified as: (a) creditors; (b) Murabaha; (c) accrued liabilities; (d) advance payments; (e) payable to employee retirement benefit funds; (f) unpaid and unclaimed dividend; and (g) others (to be specified, if material);	Refer IAS 1.60 for Current /Non-current Distinction as defined above IAS 1.54(k-m) relating to non-current liabilities	Requirement to disclose Murabaha, accrued liabilities, advance payment and unpaid dividend are not specifically covered but Para 55 of IAS 1 allows companies to present additional line items or headings. Para 71 of IAS 1 specifies some examples of Current liabilities. Specific Line items may be included.
PART III - REQUIREMENTS AS TO PROFIT AND LOSS ACCOUNT		
2(A) The turnover and showing as deduction there from trade discount and sales tax.	Refer para 82 of IAS 1	IAS 1 does not require disclosure of deduction of trade discount and sales tax from turnover. It may be retained. Rest of the disclosure requirements of profit and loss account adequately covered in IFRS
2(F) The aggregate amount of auditors' remuneration, showing separately fees, expenses and other remuneration for services rendered as auditors and for services rendered in any other capacity and stating the nature of such other services. In the case of joint auditors, the aforesaid information shall be shown separately for each of the joint auditors.		Not covered in IAS/IFRS. It may be retained
4. The following shall be stated by way of a note, namely:__ (i) The aggregate amount charged in the financial statements in respect of the directors, chief executive and executives by the company as fees, remuneration, allowances, commission, perquisites or benefits or in any other form or manner and for any services rendered, and shall give full particulars of such aggregate amounts separately for the directors, chief executive and executives together with the number of such directors and executives, under appropriate heads, such as: (a) fees; (b) managerial remuneration; (c) commission or bonus, indicating the nature thereof; (d) reimbursable expenses which are in the nature of a perquisite or benefit; (e) pension, gratuities, company's contribution to provident, superannuation and other staff funds, compensation for loss of office and in connection with retirement from office; (f) other perquisites and benefits in cash or in kind stating their nature and, where practicable, their approximate money values; and	Refer IAS 24.16, IAS 19.120A (g) and IAS 24. 16 pertains to disclosure of information about defined benefit plan.	Only value is required to be disclosed in IFRS. No specific requirement is given in IFRS for mentioning the number of directors and executives during the period. It may be retained.
4(ii) In the case of sale of fixed assets, if the book value of the asset or assets exceeds in aggregate fifty thousand rupees, particulars of the assets and in aggregate: (a) cost or valuation, as the case may be; (b) the book value; and (d) the sale price and the mode of disposal (e.g. by tender or negotiation) and the particulars of the purchaser.	Refer IAS 1.98(c) for disclosure of disposal of item of PPE and IAS 16.68 to 72 for recognition of gain /loss on disposal of fixed assets.	No limit of book value is given in IFRS. This clause may be retained. No specific requirement is given in IAS 16 to disclose the mode of disposal. It may be retained.

Source: Technical Services Department, The Institute of Chartered Accountants of Pakistan

Conducting an Investigation for Misconduct

Athar Hussain Zaidi FCA and Saima Batool

Investigating for evaluating misconduct or violations of rules and regulations is a necessary, but unpleasant, job for most human resource professionals, fraud examiners and law experts. Investigations should be conducted whenever there are serious complaints about workplace problems, including rule or policy violations (such as violating the safety or harassment policy), misconduct (such as falsifying records or reports), or criminal acts (such as stealing). In addition, at times the professionally managed organizations should be prepared to investigate lesser problems, even without a formal complaint, like rumors or suspicions of rule violations or wrongdoing.

The consequences of investigations that are not fair or thorough can be very serious and extensive. If your termination or disciplinary decisions are based on flawed investigations, they may trigger employee lawsuits for defamation, discrimination, harassment, or wrongful termination. In fact, even the accused wrongdoer may sue when an investigation is handled poorly or the decision appears unfounded and of no *locus standi*. Significantly, courts tend to punish employers that do not conduct thorough investigations respecting the legal procedure laid down in this behalf. In addition, employee morale may suffer if employment decisions appear unfair or arbitrary because the process was not thorough or objective.

So in order to help prevent these problems and ensure an effective investigation, the following elements are suggested to be part of your investigative process:

1. THE INVESTIGATOR SHOULD BE A TRAINED SENIOR PROFESSIONAL AND OBJECTIVE IN HIS APPROACH

The qualifications and demeanor of the person conducting the investigation will influence the perception of fairness. Ideally, the person should have special training and experience in human relations, employment law, conflict resolution and fraud examinations. In developed countries such as USA many employers rely on their internal human resource professionals or senior security officers in this role. However, an outside investigator may be appropriate if the issues are particularly sensitive or legally complex. (Note that where an outside investigator is used, certain disclosure requirements have to be complied with under the Fair Credit Reporting Act, as amended by the Fair and Accurate Credit Transactions Act of 2003 of USA) In addition, some states in America, such as California, require that third-party investigators be licensed by the state. Unfortunately, in developing countries, the enquiry officer is usually appointed from amongst the staff who may not have the ability and skill to do the job. The only requirement in the industrial labour laws of Pakistan is that the enquiry officer should not be of the rank below the person who is being investigated.

2. WRITTEN PROCEDURES

Specific procedures should be established which must be followed by supervisors and managers conducting investigations. The written procedures should address each step of the process and provide guidelines for fact finding (including choosing and interviewing witnesses), proper documentation of the investigation steps and the facts revealed, protection of confidentiality, and communication of results.

3. A TIMELY PROCESS

Investigations should be completed as quickly as possible after a complaint is filed, the misconduct is observed, or the alleged incident occurs. Normally, no more than a few days should elapse between each step in the process; ideally, the investigation should be completed within five to ten days. Of course,

investigations that involve complicated issues like harassment or theft or stealing company property and information may take longer.

4. CAREFUL FACT-FINDING

The investigator should begin by gathering as many facts as possible about the problem, either by interviewing the complaining party, or if no one made a complaint, by interviewing people who may be involved or who may have witnessed the problem. As a general rule, the investigator should talk to any person who may have information that would either prove or disprove that the alleged conduct occurred. To obtain as much detail as possible, the investigator should ask probing and open-ended questions that do not suggest the answer. Interviews should focus on the specific facts of what happened (like when, where, and who was involved) and preserve confidentiality by addressing only the details that the particular person would know. In addition, the tone of each interview should be professional, and everyone interviewed should be reminded that the organization will not retaliate, or tolerate retaliation, against anyone for participating in the investigation.

5. DOCUMENTED RESULTS

All steps in the process should be recorded and documented in writing. Written records, properly compiled, aid everyone's memory and can be invaluable in demonstrating, to employees and, if necessary, to a court, the fairness of the investigation and ultimate decision. Since these records may be used in legal proceedings, the information recorded should be limited to facts disclosed and behavior observed and should not include any speculation about what happened.

Once the investigation is complete, management should evaluate the evidence and make a decision. Although most managers and human resource professionals worry about making the "perfect" decision, neither employees nor the courts expect legal perfection.

6. FINAL DECISION AND COMMUNICATION

Once the investigation is complete, management should evaluate the evidence and make a decision. Although most managers and human resource professionals worry about making the "perfect" decision, neither employees nor the courts expect legal perfection. Rather, they expect a rational decision based on a thorough investigation.

In fact, courts generally do not second-guess employer actions, even when later proven wrong, if management acted fairly and in good faith. Therefore, you do not have to meet a strict rule of evidence "beyond a reasonable doubt", as for a criminal offense, in order to make a proper employment decision. As a last step, all appropriate parties should be informed of the decision. This communication can be used as an opportunity to underscore the fairness of the process. However, to prevent defamation claims, you should be careful to limit dissemination of the information to those who have a legitimate need to know.

Management Delusion and a Piece of Advice for CEOs

Tariq Jamil FCA

Management Delusion is a universal stipulation for many senior management executives who are generally away from their businesses and the market areas in which they operate. This is a self-centred and self-righteous mindset which has brought down many successful businesses to a position where they have had to fight for survival.

For achieving continued success in any business, it is extremely necessary for senior management to make it their mission to keep a watch on what is happening at the grassroots levels of their vast businesses by talking to staff at all levels, and most importantly, to their customers.

Customers are the source of income for any business and we need to see how much time the senior management spends on finding out the satisfaction level of their customers and what their customers want. A usual tired and worn-out response is, "We are too busy." But what could be more important than your customers?

Business jargon is yet another aspect of Management Delusion. Most senior executives use business lingo that is alien to their listeners and does not really impact the improvement of business. In most cases, such meaningless words and expressions are used to appear smarter than their colleagues and to confuse the audience. These words, expressions, clichés are mostly invented by dubious consultants and business writers and picked up by the speakers to promote their originality.

To my mind, the senior management has to alienate itself from this delusion and get out of their cosy board rooms and listen to what is actually going on. CEOs and senior executives spend too much time in their offices instead of getting out and reaching out to branches, directly interacting with the sales force and the customers to get an insight of real issues so they can make decisions and implement solutions. Management must understand that 'no customer' means 'no business', and no business means no comforts of plush offices. What would give management more time for staff and customers is the installation of sound management controls and proper delegation. This is the prerequisite for a healthy and progressive management.

Jargons are described as words that confuse. These are usually reinvented by those who assume they gain increased ranking and respect for their outstanding knowledge. Mystifying the client with jargon does not satisfy the client's need. If during discussions or analysing reports, the client encounters unknown jargons or expressions and is unable to understand the information presented, then what is the sense in paying for advice that is not clear and is used only by a consultant seeking to expand his reputation.

Remember there is nothing new in business. Business in its most simplistic form is either manufacture of products, or the rendering of services which are marketed at a profit and those profits employed to create a secure and growing company. This is a simple definition that anyone in business can understand. Beware of those who attempt to transform basic business principles into absurd slangs. It is better to stick to basics that everyone in the company can understand and, where required, create your own principles and systems that suit your particular business. We all know that theory never sold a thing, or paid a creditor, or managed a production line. Nevertheless, it does not mean that one should close one's eyes and reject every thing or any thing new. You need to be aware of or look for latest developments in business theory subject to a condition and understanding that in reality there is little that has not been tested before. You may apply one or two new business ideas not tested before giving due consideration or tailoring to your requirements, and they are bound to bring some value to your business.

The best advice to CEOs would be to follow a policy of look and listen, and converse with the average member of staff and seek his or her neutral opinion of the CEO. Most comments might not be favourable. You might even find some employees asking - who actually is the person in charge? It is a common failing that as an individual rises up the corporate ladder it is deemed unnecessary to talk to the workforce. Contact with employees, on whose shoulders rests so much, is ignored while the CEO distances himself from the real business of corporate life. Sheltering himself behind the company hierarchy will certainly ensure that he will lose touch with what is really happening on the ground. The idea projected by the CEO and his team that they have a fairly good idea of what is going on is absurd. Talking to the workforce and giving them the opportunity to vent is essential for staff morale. When a CEO fails to embrace a policy of regular contact with all members of his team, then, regrettably, the seeds of disaster are sown since it is team effort that will ultimately bring success to the business.

Being aware of staff problems does not mean satisfactory solutions will always be achievable, but at least the employees will be able to draw some consolation that theirs is not a lone voice lost in the corridors of corporate indifference. Every CEO should heed this warning. Failure to listen to your staff will mean you will fail without sympathy. Your success or failure is in your own hands, providing you realise that regardless of how smart you think you are, you are nothing without your team. You cannot sacrifice the livelihood of your workforce, which is the lifeline of a business, at the altar of so called 'snob value'. There is more chance of them surviving without you than you without them.

For noticeable success of a business traditional acumen suggests that the CEO and the senior management must operate as a dynamic team, i.e. a team that not only understands its own business but also of the competition, its market share, and what can be done to position itself to further gain or penetrate. Again, the team should be able to identify the potential of each leader of the business unit or segment and exploit it to achieve the business targets. There should also be an announced policy on goal setting and goal achievement awards for each team leader and his team. The team must realize that sufficient benefits for their efforts in achieving the target of the relevant business unit or segment will be awarded. A transparent system will make the leader and his workforce operate as a well-knit team with a sense of ownership and belonging.

A STUDY OF CORPORATE GOVERNANCE PRACTICES OF PAKISTANI LISTED COMPANIES

Abdul Jabbar Kasim

A recent study on Good Governance Practices of listed companies in Pakistan shows that most of the Company (s) Under Review (CURs) have not embedded best practices in their sphere/domain of corporate functions.

While prima facie the compliance certification, as produced in the annual report of the CUR, gives an idea that they are compliant, yet study and feedback reveal some interesting facts. The ground reality is that either these companies have not given importance to the code or they fail to understand the underpinnings. Regulators aiming listed companies need to take cognizance of the situation, else the ignorance is likely to persist at the cost of the investing public.

Internationally, besides ensuring code compliances, companies have specially focused on: balance of the Board, separation of Chairman and CEO role, Board evaluation, formation of Committees (Audit Committee in particular), Risk Committees and Succession Plan. This focus is unfortunately lacking in case of Pakistani listed companies. More often companies appear defensive on many counts. In their context, business and commercial pursuits leave little time for attention to good governance practices.

In a pilot project undertaken by the Institute of Business Administration (IBA) final year MBA students were required to get feedback on compliance with good governance practices by local listed companies, with particular emphasis on areas related to Board composition, separation of the role of Chairman and CEO, Board evaluation, and Committees formation. While the study was limited to 11 listed companies[1], yet it has given some meaningful insight into practices vis a vis code of corporate governance.

FEEDBACK

The objective was also to familiarize the students with how listed companies perform while discharging their responsibilities vis a vis the focus and implementation relating to Corporate Best Practices. The purpose was to review practices of CURs to assess how they measure up to best practices standards. Information was collected based on a questionnaire and interviews with senior executives of the companies. Students were given the latitude to select listed companies for the task/assignment. This report is the outcome.

It is a general impression that local listed companies follow the Code of Corporate Governance per se, yet the intrinsic spirit is absent. This is corroborated by feedback from the study which reveals that it is primarily a 'box tick' approach. The corroborating information and analysis underline the need to improve substantially on best practices in our corporate sector.

LISTING CODE

Securities and Exchange Commission of Pakistan (SECP) through a circular (March 2002) has directed all stock exchanges to seek compliance with the Code of Corporate Governance (CCG) through listing regulations. SECP directives work to ensure applicabildirectives work to ensure applicability of the Code such that in the process, listed companies in Pakistan show and demonstrate resilience with regard to best business practices.

EXECUTIVE DIRECTORS

In case of Balance of Board, for example, CCG has not significantly emphasized representation of Independent Directors (IDs) in the composition of the board. The Code states that Executive Directors (EDs) i.e. working or whole time directors are not more than 75 percent of the elected directors including the Chief Executive. It means that in a board of 12, there can be 9 EDs, which by and large is evident in the board composition of listed companies.

EDs' membership on board, as permissible under the code for listed companies, incidentally goes in favour of companies intending to keep outsiders at bay. Majority of CURs are largely dominated by executive directors, with a few exceptions showing independent directors on the board, and all independent directors in the case of one company. This is a legacy of Publicly Owned Enterprise.

As opposed to EDs and Non Executive Directors (NEDs), IDs bring fresh thinking and independent judgment through presence on the board, and in the process giving stakeholders and minority shareholders assurance that their rights will be protected. EDs, more often than not, represent employers' interest on the board and are operationally focused. As such companies believing in best practices need to do away with this option.

IDs' presence on the board more often keeps the executive management on their toes. Many companies have sought to benefit from IDs' wealth of experience, independence, reputation and expertise on their boards. In one international study a company with 8 IDs on a board comprising10 won the highest corporate governance rating.

On the separation of the role of Chairman and CEO, CURs mostly seem to have separate roles for both positions. The feedback indicates that, by and large, the most senior director is elected Chairman of the Board of Directors, except in the case of one company (private group) where the sponsor director, and not the senior director, was Chairman. Whether this separation of roles has enabled board Chairs to work independently is debatable.

A balanced Board, constituents emphasize, means no one group dominates the Board resulting in transparent decision making. Some codes have gone one step further by underscoring that directors be independent on two counts: independent as to the company, and independent as to the interest they represent. These are directors representing for instance institutions or significant* shareholders.

KEY AREAS

The questionnaire covered the following areas:

- Board Composition
- Succession Plan
- Directors' Participation
- Audit Committee Audit Charter
- Statement of Business Ethics

The concept of Audit Committee and its responsibility is kind of murky, as the study indicates. So much so that in case of one company (financial sector) the Chairman of the Board is also the Chairman of the Audit Committee and Risk Management Committee. Furthermore, an outsider, not an elected director, is a member of the Audit Committee. In three cases in the study, the CEO of the company is also a member of the Audit Committee. These instances run contrary to the spirit of Best Business Practices.

The study also aimed to get an insight into Succession Plan of listed companies, as also required under the CCG. The feedback reveals that listed companies have not given much attention and weight to this area. Except for one company (multinational) no other company has any plan worth mentioning. It appears that sponsor directors and owner managers do not consider this an issue of consequence. International best practices focus keenly on this aspect and successful companies have strictly adhered to it.

INTERNATIONAL BEST PRACTICES

Corporate governance advocates and shareholder activists particularly emphasize on formation of independent boards and the separation of duties of Chairman and CEO, and presence of a robust Audit Committee. This emphasis is due to the fallout of many companies due to lax responsibility at the top. In this realm regulators and supporters of corporate governance have blamed the boards for setting bad examples.

SEPARATION OF ROLES

Whether or not the roles of Chairman and Chief Executive are combined, some codes require that the Board should identify a senior independent non-executive director of a board in the annual report to whom concerns may be conveyed.

Chairman's contribution can be meaningful and effective if he devotes time and effort and also has the necessary experience and wherewithal, else the CEO and executive management will dominate. An effective Chairman will keep each individual member focused on his key responsibility. Chairman should also ensure that the Board receives information that is not just historical, or bottom line and financial, but information that goes beyond assessing the quantitative performance of the enterprise and looks at other performance factors while dealing with any item on the agenda.

AUDIT COMMITTEE

In almost all codes throughout the world emphasis on Audit Committee (AC) is paramount. The codes do emphasize terms of reference for the Audit Committee, yet companies look beyond this for gaining stakeholders' confidence.

Most international companies have a well spelt out Audit Charter, giving a rundown of purpose, membership requirement, authority, meetings, limit on outside membership, compliance oversight responsibilities, delegation and meeting agenda etc.

Incidentally in Pakistan, audit committees have come into being as a mandatory requirement. Although the CCG does provide the terms of reference for audit committees, yet it is silent in many respects. Examples cited about membership of audit committees of listed companies in Pakistan show that these committees are overlooked. In some cases the composition of the committee is questionable. As a result companies miss out on the benefits of an audit committee.

Most audit committees in Pakistan comprise board members who do not have a technical or financial background. Audit committees in Pakistan have failed to seek outside help.

committees in Pakistan have failed to seek outside help. However, most codes permit hiring experts and consultants should the members lack experience and expertise.

Globally, top management and boards of directors are being held accountable for identifying, managing, and monitoring company risks. Audit committees need to oversee accurate financial reporting and disclosure and help sustain regulatory compliance, strengthen internal controls, and improve risk management. Increasing stakeholder expectations, along with the desire to make better use of organizational monitoring and risk management, call for audit committees to organize resources in the best possible manner.

SUCCESSION PLAN

Good governance is essential for the long-term survival and success of an institution and depends greatly on the skills, experience and knowledge of its directors.

The revised UK Combined Code clarifies and highlights amongst other areas important responsibilities of the board which interalia include *setting the company's strategic aims to ensure that necessary financial and human resources are in place for the company to meet its objectives and review management performance.*

The importance of a Succession Plan for key executives of a company cannot be overemphasized. Almost all constituents mandated that a Succession Plan be in place to be reviewed annually by the Board and revised when needed to. International companies have special nomination committees assigned with the task to create plans for efficient and smooth running of the company.

CONCLUSION

This study and other studies (conducted by the writer of this report) have highlighted that majority of listed companies have failed to grasp a true understanding of the Code of Corporate Governance. It may owe to the fact that Pakistani listed companies are family owned and managed and limited to the interest of owners only. Ownership structure and Board composition in Pakistani listed companies present the weakest areas in governance.

Board Composition: Independent Directors

Board composition of listed companies warrants special attention. An ideal composition is the maximum number of independent directors, the issue being how to bring them on board. In Pakistan board members are elected by shareholders and if the majority shareholders (usually the sponsors' directors) are willing to, they bring independent directors on the Board.

Audit Committee Composition and Criteria

The CCG presents no qualification criteria for audit committee membership. Corporate governance codes in the US and also in Malaysia and Singapore, require that at least one member of the audit committee should be finance professional since the bulk of audit committee responsibilities center around fairness and transparency of financial statements.

Board Directorship Standards

There is also a strong need to set a criterion for qualification for membership on the board and various committees. While the Companies Ordinance, 1984 and Code have set criteria, yet key ingredients with respect to relevant experience and qualification are missing. International companies believing in best practices require relevant qualification and experience of the industry/sector for intake of board members. The scope of the nomination committee covers all such considerations for nomination of senior board members.

The writer has been involved in some Corporate Governance Rating assignments. Interestingly, some public (unlisted) companies have taken an initiative for obtaining rating on Corporate Governance. One of these companies improved its score (on a scale of 10) from 7 to 9. While such rating is not mandatory, yet it can provide clues as to what improvements are required and how to create an enabling environment for good governance.

The role of Chairman lacks requisite dynamism and is largely ceremonial (there have been instances where boards have averted responsibility for company's dismal performance) whereas in Malaysia, Singapore and Indonesia, to name a few Asian countries, the Chairman of the board of directors has to demonstrate a decisive leading role. In Malaysia for instance, the qualifying requirement for Chairman is to have served as a board member for at least seven years.

Admittedly there is also a lack of activism and support on the part of corporate governance activists and shareholders in Pakistan, as such there is little momentum to gear the local environment towards best practices. Simultaneously there is a lack of trainers. This need was also underlined in the last South Asian Federation of Accountants (SAFA) conference. How many listed companies hold orientation courses for directors as required under the Code every year? The answer may not be encouraging.

Along with regulators, business schools in Pakistan and professional institutes like The Institute of Chartered Accountants of Pakistan (ICAP) and the Institute of Cost and Management Accountants of Pakistan (ICMAP) need to take initiative to fill in the void.

The near collapse of the global financial sector serves as a good example of bad judgment, greed, and lack of responsibility at the top. We have not reached the stage of a 'stress test' yet, but we need to start aiming at a best practices culture in order to avoid that scenario.

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[1] *Meezan Bank Limited; United Bank Limited; Atlas bank Limited; JS Bank Limited; Standard Chartered Bank; Glaxo Smith Kline; Abbott Pakistan Limited; Sanofi Aventis; Pakistan State Oil; World Call Limited; Lucky Cement Limited*

** shareholders able to exercise majority of votes for the election of directors.*

Abdul Jabbar Kasim
has served as CEO and as board member on various leasing companies and has also held board position as a nominee director. His work on Corporate Governance has been published.

Economics of Pakistan

(Post Finance Act, 2009)

Mohammad Ashraf FCCA

The *economics* of Pakistan are among the best performers in terms of absorption of the shocks of global credit crisis. The bureaucracy only acts on the directions from the World Bank and IMF on the premise loan conditions. One wonders who is more informed about the affairs of Pakistan – Messrs. IMF/World Bank or our Ministry of Finance and its independent machinery, the Federal Board of Revenue and State Bank of Pakistan, with unaligned goals. The justification for this "yes sir" state of affairs is nothing but the direct loans obtained by the institutions instead of through Ministry of Finance.

'OTHERS' IN BUDGET STATEMENT

The hidden concept of 'others' spread all over the revenue and expenditure statement can be found in direct tax revenue, indirect tax revenue, current expenditure, defense affairs and services and development expenditure. On the revenue side, its total comes to PKR22.6 billion and on the expenditure side its total comes to PKR629 billion. Surprisingly there are two more 'others' under the head of Current Expenditure amounting to PKR492 billion.

Out of PKR2,482.3 billion estimated revenues, our dependency over external receipts amounts to PKR510.4 billion, that is, 20% to justify this state of affairs. If only one of the 'others' amounting to PKR409.5 billion is removed from current expenditure our dependency to the external receipt would be PKR100 billion. The public sector accounting statement must be adopted by the Government while presenting the revenue and expenditure statement. It must contain the notes to the accounts.

BALANCE OF PAYMENT

As a blessing in disguise, our exports fell much short of our imports. Consequently, our balance of payment was managed by a finance manager in a manner similar to the concept called working capital management. Under this concept, the deficient balance of payment was financed by selling the nationalized units and foreign loans.

Through Finance Act, 2009 the income tax rates were increased to 4% while excise duty was slapped on import related services provided by the port and terminal operators. All these measure were meant to curb the increasing difference of balance of payment. This policy is in line with the policy adopted by the 17 countries of G20.

INFLATION

Surprisingly, our inflation level was showing a downward trend but the immature brunt of fiscal policies has diverted us to the path of cost push inflation as our sensitive Price Index for the first week of August, 2009 has registered 0.46% growth.

The major contributors of this cost push inflation are carbon tax and increase in electricity prices. Presently, only 10 countries in the world have imposed carbon tax and are riddled with the problem of cost push inflation. One wonders about the rationale for this oligopolistic environment, but it is good to see that new entrants are showing up in the market.

ELECTRICITY TARIFF

The motto of the corporate world is to maximize shareholders' wealth and this theory becomes a problem when basic utilities like electricity are privatized wherein the Government becomes the shareholder. Therein lies the basic conflict of interest – Government as shareholder, or under obligation to discharge its basic duty.

Continual increase in electricity prices is nothing but a means to hide the inefficiencies of electricity companies who failed to unearth the theft of electricity. These companies are now adopting the easier option of apportioning the cost of theft over the users bound to pay the electricity bills.

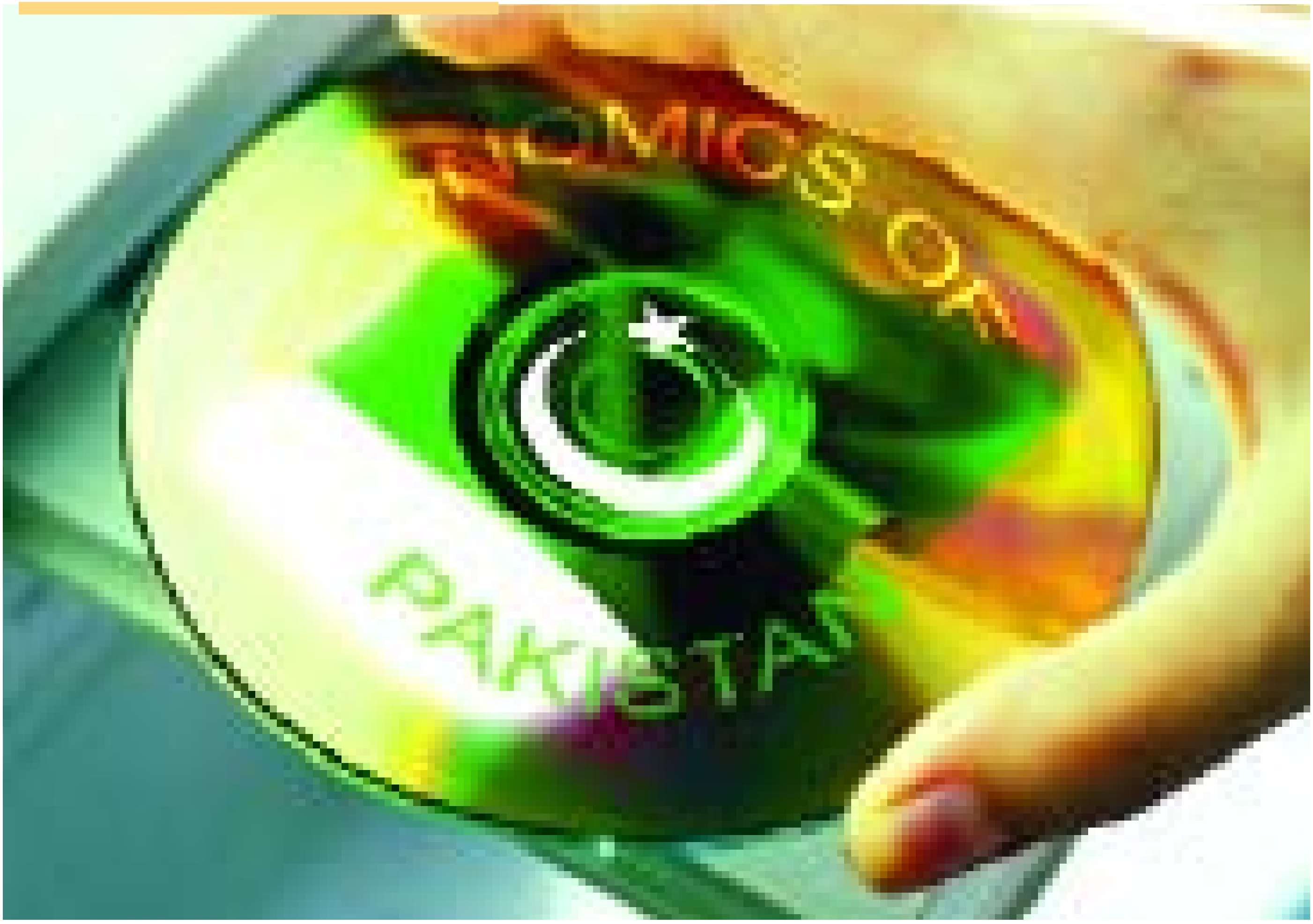
Further, news items also appeared in the print and electronic media whereby the Government failed to pay the dues of IPPs and adopted the easier option of allowing rental based electricity at much higher prices. However, according to a more recent news item, the IPPs are now allowed to increase the unit prices in order to equate the same with rental projects.

All the above steps have led the way to cost push inflation. The time to time increase in per unit prices has led to increased cost for manufacturing sector while home consumers are paying more unit charges in total even after having less electricity.

Further, in order to encourage the alternate energy projects a 90% initial allowance has also been introduced apart from the exemption provided in clause 132 of Part I of the Second Schedule.

INTEREST RATES

State Bank of Pakistan has kept interest rates unnecessarily high even at times of downward trend of inflation. The uneven monetary policy was evident from the non-reconciled variation in three months, six months and one year interest rates which were announced during the last quarter.



There was no mechanism to check the interest rates charged by the banks from consumers of credit cards and other small loan product holders. For instance, in case of credit cards, the service charge ranges from 1.25% to 2.5% which is charged from credit or debit card merchant at the time of transaction while the monthly rate charged to credit card customer on accumulated balance varies from 3% to 3.5%.

SBP officials have never tried to study the mechanism of interest rates prevalent in other developing and developed countries, for instance, how the interest rates offered to consumers are kept close to LIBOR etc. and why in Pakistan the interest rates on a specific foreign currency (the US$) are higher than the rates offered in the US itself.

Further, State Bank of Pakistan's monetary policy is designed to save the banks' profits from lower profit margins at the cost of economic activity in the country, though in the name of saving the funds of deposit holders. Currently, the banks are enjoying excess liquidity but are not providing funds to consumers at lower rates on the premise of high risk and uneven quarterly monetary policy.

BROADENING OF TAX BASE

There are two conflicting FBR benchmarks in respect of broadening of tax base – increasing the number of taxpayers and increased quantum of revenue target. The Income Tax Ordinance, 2001 and Sales Tax Act, 1990 prima facie contain varied tax rates based on the famous principle of inequity in our tax system when haves are taxed at lower tax rates while the have-nots are taxed at higher tax rates. It seems that FBR is not serious in increasing the quantum of revenue as they failed to take following measures in direct taxes.

Description	Current Rates	Highest Normal Rates
Commission	10%	25%
Interest	10%	25%
Dividend	10%	25%
Prize	20%	25%

Further, the Finance Bill contained a provision regarding approval of non profit educational institutions by the Director General but surprisingly the amendment was dropped in Finance Act. Federal Board of Revenue must realize that the policy of audit of existing taxpayers instead of encompassing new sectors into the tax net would only create chaos.

Moreover, the inequity in our tax system is not only restricted to this area but is spread all over the tax regime. For instance, the withholding tax rates of supplies are 3.5% assuming that the margin of small suppliers were equal to large suppliers. Adam Smith would have been in a better position to opine over this inequity.

The public is asking for clarification of the following contradictory economic policies:

1) Reduction in inflation with increase in electricity prices and imposition of carbon taxes

2) Lowering interest rates by monitoring the interest rates up through KIBOR [Treasury Bills] on reduction of inflation.

3) Providing fiscal space by increasing the pressure of collection of taxes of previous years, when revenue authorities all over the world are allowing taxpayers to pay taxes in installments to generate economic activities.

Economists doubt the outcome and targets of these measures.

THE WORLD MAY BE RUNNING OUT OF FUEL

The world is facing a risk management problem on an unprecedented scale

Muhammad Saad Faridi ACA

When M. King Hubbert, a geologist at Shell, predicted in 1956 that oil production in the United States would reach its peak and begin to decline in or around 1970, no one took him seriously. How could they? No one had heard of a declining production. Things took a rather unexpected turn when in 1970 the production in US did reach its peak and started to decline, thus creating a gap between production and supply which continues to grow to date. King Hubbert might not have imagined that his theory would one day create two distinct schools of thought, one believing that the world's oil reserves and consequently their supply are not far from reaching a status of maturity and thus will bring about an irreversible supply shortfall, while the others, though not denying the eventuality, insist that it will not happen for a long time.

Whether or not his views were a fallacy, people continue to debate. But there is a growing sense of realization that the resources will not last forever and there might be a shorter period of time available to come up with a solution than most people believe. This realization is increasingly apparent from the measures being taken to find an economically feasible and viable solution for the long term. In the sea of information available on the two fronts, it is difficult to establish who is right.

LET'S SUMMARIZE SOME OF THE BASIC FACTS:

(i) The nature of this resource is such that it cannot regenerate, thus pointing towards the undeniable; it will finish at some point in time. When? is a matter of opinion.

(ii) What is inside the earth cannot be estimated with 100% accuracy. The available estimates are best judgments based on years of experience and research. Some times these estimates are based on statistical techniques which might be far from reality.

(iii) The biggest reserves are the easiest to find. The trend of discoveries over the year show the pattern that the mega-discoveries have all been made, at least on land, and the only unexplored areas remaining are either difficult to explore or impossible with the current technology. The last mega- fields were discovered in the 1960s and 1970s. Since then discoveries have been of much smaller size.

(iv) Reliable data on some of the biggest fields in the world are not available and / or cannot be independently verified.

(v) The rate of consumption has grown at unprecedented speed over the years and is unlikely to slow down significantly. While the worldwide consumption was 3.4 billion tons per day in 1997, it stands at 4.0 billion tons per day in 2007 (an almost 18% increase). According to the Energy Information Administration projections, the world demand for energy will increase by

57% between 2004 and 2030[1]. So far, the excess capacity of OPEC countries has managed to keep up with the increasing demand. However such excess capacity is disappearing very rapidly.

(vi) The current reserve-to-production ratio estimates that the current reserves would last for at least 40 years at current production rate[2]. There is a problem with this scenario as it assumes that the production rate will remain constant until the last barrel is produced. In practice, however, it becomes increasingly difficult to produce oil from a field as it depletes. What it means is that with the passage of time, even at the current estimation of the remaining reserve, the production rate will decline.

(vii) Most people pin their hopes on the Middle East which is reported to have reserves which could last for around 80 years. However, the Middle East provides around 32% of the total production whereas the remaining oil comes from other geographical locations such as the North Sea, Russia, African Sub-Sahara, most of which are already in the decline phase[3].

The graph below shows production profile of countries each producing in excess of 1 million barrels per day (excluding Middle East & Russia) representing around 36% of the total world production.

(viii) Reserves estimates published by various agencies are revised quite frequently on the basis of new data and techniques. A look at the reported reserves position shows an increasing trend. However, if the corrections made to the previous estimates are actually back dated (i.e., to the years when the reserves were first reported rather than the year in which correction is made), it depicts a declining trend of reserves[4].

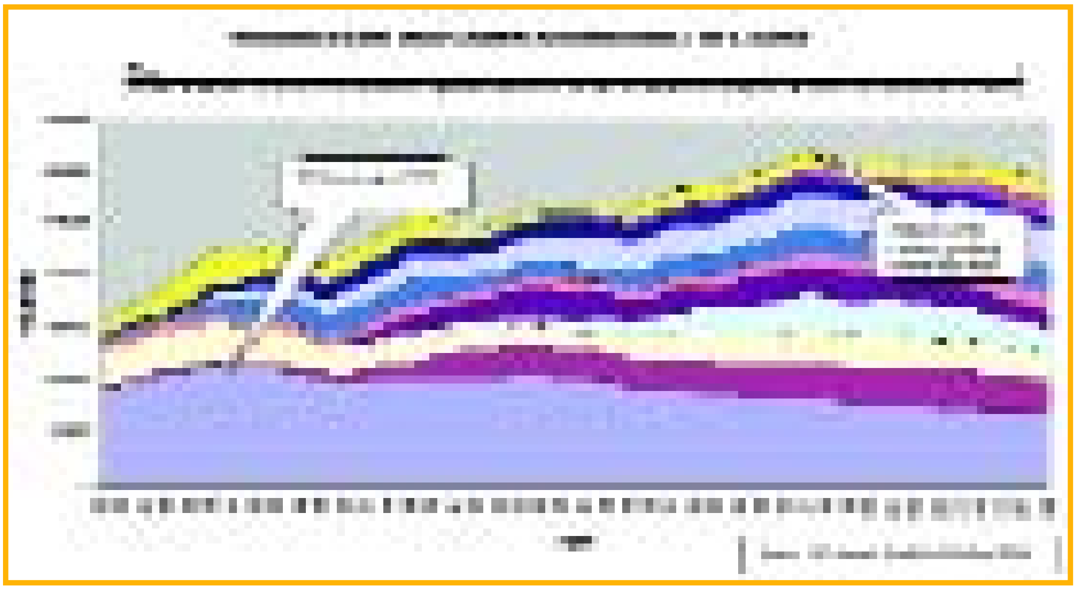
(ix) In the past, the spare capacity of OPEC countries could help stabilize world oil prices. However, with growing demand, the spare capacity has reduced from 10 million barrels per day to only 2.5 million barrels per day. This means that the world oil supply is finding it difficult to catch up with the demand side and is more prone to price fluctuations due to limited capacity than before[5].

RECENT DEVELOPMENTS

The sharp rise in oil prices in the past 4 to 5 years has resulted in important political changes. The power of the national oil companies has increased manifold and their governments are making efforts to increase their influence over the supply. Alliances amongst various countries have been made to magnify the influence while such influence is increasingly being used to renegotiate old contracts with a larger share of profit for the governments. This trend is not without reasons.

As the resources run out, such countries find themselves in an urgent need to take as much share of the profits as they can. The situation is apparent from the fact that certain high consumption countries are providing technical expertise and capital to the oil producing countries for the exploration and extraction of oil only in return for a steady and committed supply of oil to them. Such desperate measures were unthinkable a decade ago. But a growing realization of the inevitable is forcing countries to take such measures in order to ensure long term supply security.

The largest unexplored potential at present is perhaps the arctic region which is estimated to have reserves of 90 billion barrels of oil and 1,670 TCF of natural gas[6]. Accordingly in recent times, the countries close to the arctic region have been making efforts to investigate the shoreline of their countries in order to prove that they extend under the sea surface thereby giving them the opportunity to extend their claim on sea waters under the United Nations laws. However, it is noteworthy that even if it is assumed that the reserve potential of arctic region is correct, it will meet the world demand of oil for less than 3 years at current consumption rate. What is more alarming perhaps is that it is estimated that these reserves represent a quarter of the undiscovered reserves of the world.



The recent downturn in world economy has helped ease the pressure in oil prices which saw a dip from $150 per barrel to $40 per barrel. However, after a period of severe decline, oil prices have started to pick up momentum. This trend reminds of the prediction made by one of the supporters of the Hubbert school of thought, that closer to the world oil peak production, the world will see frequent cycles of price fluctuations and recessions. In the haze of uncertainty surrounding the fluctuations in prices one thing is certain: nobody knows for sure why they are behaving so erratically.

APOCALYPSE NOW?

It may all sound too apocalyptic, particularly if one sees the predicted years of world oil peak production (which range from 2010 to 2020 while some claim that the peak oil has already happened in 2005-06!). However, one must bear in mind that it does not mean a complete closure of oil production but that beyond this point the world production will start to decline which will thus widen the gap between demand and supply. Even if the undiscovered oil reserves in the arctic region or in ultra deep offshore region are found, they will be very expensive to extract and may be feasible only in a very high price scenario.

For developing countries like Pakistan, the price might be too much which will mean even more severe shortfall of energy. With dwindling resources, the producing countries will prefer allied countries for supply in which case the political alliances mentioned above will come into play. Foreseeing such a scenario, US and Europe are already extending their efforts to discover a viable alternative as quickly as possible. A recent study sponsored by the United Nations identifies that the global investment in renewable energy in 2007 increased by 60% compared to 2006.

Of course whoever will discover the solution first will hold the key to the new energy future which is why a sharp surge in R&D is evident in recent years. One also has to bear in mind that it is not just about the discovery of the solution but also the means of its implementation which is required. Assuming that the discovered alternative is a novel idea, it will require a massive upgradation of the infrastructure. The time required for the whole process might be longer than what is available, thus bringing about a sense of urgency.

THE OTHER SIDE OF THE STORY

A large number of industry experts believe that the situation is exaggerated by the so called Peak Oilers. The world has seen many ups and downs in the oil supply and whenever the price goes up or down there are prophesies of doom and gloom. However, the world has so far managed to keep pace with consumption. There were times when today's easy oil would have been thought impossible to extract, yet the advancement in technology has made it possible. We can rely on human ingenuity to come up with solutions when the going gets tough. Their claims are primarily based on the following arguments:

1. The peak oilers' claims are subjective and are not backed by concrete data.

2. There have been many predictions in the past regarding the potential timeframe in which the world oil production will reach its peak. However, with the passage of time the eventual doom date keeps moving forward. There is therefore no reason to believe it will continue to do so in the distant future.

3. The peak oilers base their calculations on the current level of technology and do not consider future advancements which might make possible what is considered impossible now.

4. The geopolitical situations have worsened in the past and straightened out subsequently. Therefore, the current geopolitical situation will also eventually improve thus removing the impediments for production.

5. The recovery rate of reserves has improved from 25% to 35%. There is still a lot of oil out there which is considered unrecoverable at the moment but may eventually be recovered.

It was not long ago that the oil companies struggled to operate in water 600 meters deep. Now they operate in depths of 6000 meters. It shows that technological advancement driven by world demand is opening up new frontiers which were unthinkable before. A spate of recent discoveries such as BP's giant oil find in the Gulf of Mexico and Anadarko and Tullow's discoveries in West Africa have proved that if the price is right and there is enough world demand, the industry will find a way to discover the unknown reserves. Take the example of Petrobras' recent discovery of sub-salt reserves which is one of the largest in several decades and is definitely the largest reserve under development today. The discovery was made under 6000 meters of water, and layers of sand and salt which would have been impossible to explore a decade ago. Yet, the demand for oil, the right price, and human ingenuity combined to make it possible.

THE PAKISTAN SCENARIO

The energy situation in Pakistan is undoubtedly alarming. Even more alarming is the fact that the urgency required to tackle the situation is nowhere to be seen.

Some action points which, in the author's opinion, should be carried out without any further delay are as follows:

SHORT TERM

1. The Ministry of Petroleum and Natural Resources should be converted to Ministry of Energy. The focus of the ministry should be energy sources and not just petroleum sources. They will thus be the focal point of all the energy resources and could therefore develop a consolidated energy policy comprising of renewable and non-renewable energy resources. This will also give an impetus to the national oil companies to gradually evolve into true energy companies rather than to restrict themselves to petroleum resources.

2. Pakistan currently utilizes only 16%[7] of its hydel potential. There is an urgent need to develop consensus over the political issues involved in the development of hydel projects.

3. Foster partnerships with international oil companies (IOCs) operating in Pakistan and extending this partnership to other countries where such IOCs are working. It will provide a springboard to the NOCs for a quick and easy access to the international market.

4. Under the auspices of the Ministry of Energy and in collaboration with downstream and upstream industry, a joint comprehensive study should be carried out to identify the loopholes in the existing infrastructure together with the potential for renewable sources of energy while also capturing the demand side. The report should be made public so that entrepreneurs can take clues from such a study and venture into areas which could provide the much needed energy requirements of the country.

5. A comprehensive energy policy based on the findings of the above study should be made.

6. A mass media campaign should be carried out to bring awareness amongst people as to how they can save energy. The campaign should educate people not just about the looming crisis but also the simple and effective ways through which they can conserve energy.

7. Make local governments stakeholders in the oil and gas projects in Balochistan in order to ease the security concerns and capture vast low risk areas.

8. Increase exploration activities in the offshore areas as a single major discovery can open up new frontiers for Pakistan.

MEDIUM TERM

1. Coal is the fastest growing fuel in the world for six consecutive years[8]. Pakistan is reported to have large coal deposits which could replace the oil imports and potentially resolve the electricity crisis in particular. There is therefore a need to exploit the coal potential of the country while keeping in mind the carbon footprint of this energy resource.

2. Instead of consorting to load shedding, the government should implement quotas at mass level. This will require investment in upgradation of facilities to install equipments in each electricity meter to trip the power supply if it exceeds the quota. This will encourage people to manage the resource in an effective manner and not waste it only because they can afford to.

3. Special regulations should be made for corporate buildings to conform to environmental laws thereby reducing energy consumption.

4. Expedite the partnership with producing countries to build pipelines for the transportation of oil and gas.

5. Develop infrastructure for LNG re-gasification and supply.

6. Foster public-private partnership in this project since it is on a scale which will be difficult to manage by the government alone.
7. Have faith in local talent and encourage research on finding a suitable solution for our country specific needs. Oil companies should develop partnership with research institutes/universities by providing their funding requirements in return for example, for the rights over discovery.

8. Legislate and explore the unconventional hydrocarbon resources.

LONG TERM

1. Increase the share of renewable energy in the total energy supply of the country. The European Union plans to have 25% of its energy requirements met through renewable resources by 2025 while Pakistan plans to have only 2%[9] of its energy needs met with renewable sources by that time.

2. The renewable energy sources are expensive and cannot be implemented at a mass scale without government assistance or incentives. They require heavy capital expenditure upfront while the recovery is slow. The government should therefore encourage the existing industry either through fiscal benefits or softer term loans to set up power producing units from renewable energy. Industrial units should also be encouraged to set up their own small power generation plants (microgeneration) and afterwards fiscal benefits may be provided to such units on the basis of energy consumption curtailed by them.

3. Renewable energy is often available at locations which are far from the actual residential or industrial locations. The government should therefore extend the infrastructure to such carefully selected areas and encourage the private sector to set up power plants in those areas.

The above do not represent an exhaustive list, but they present a daunting task. This shows the magnitude of work on hand, the resources and planning required, and the scarcity of available time.

CONCLUSION

While the overall energy situation is at best hazy, there are enough grounds to be worried. The question is, what if these concerns are real? This is a big 'if' to handle. The world needs to manage this risk at a scale never seen before. For smaller countries like Pakistan, this new challenge has the potential to surpass all others. In short, the world cannot continue to operate without a Plan B.

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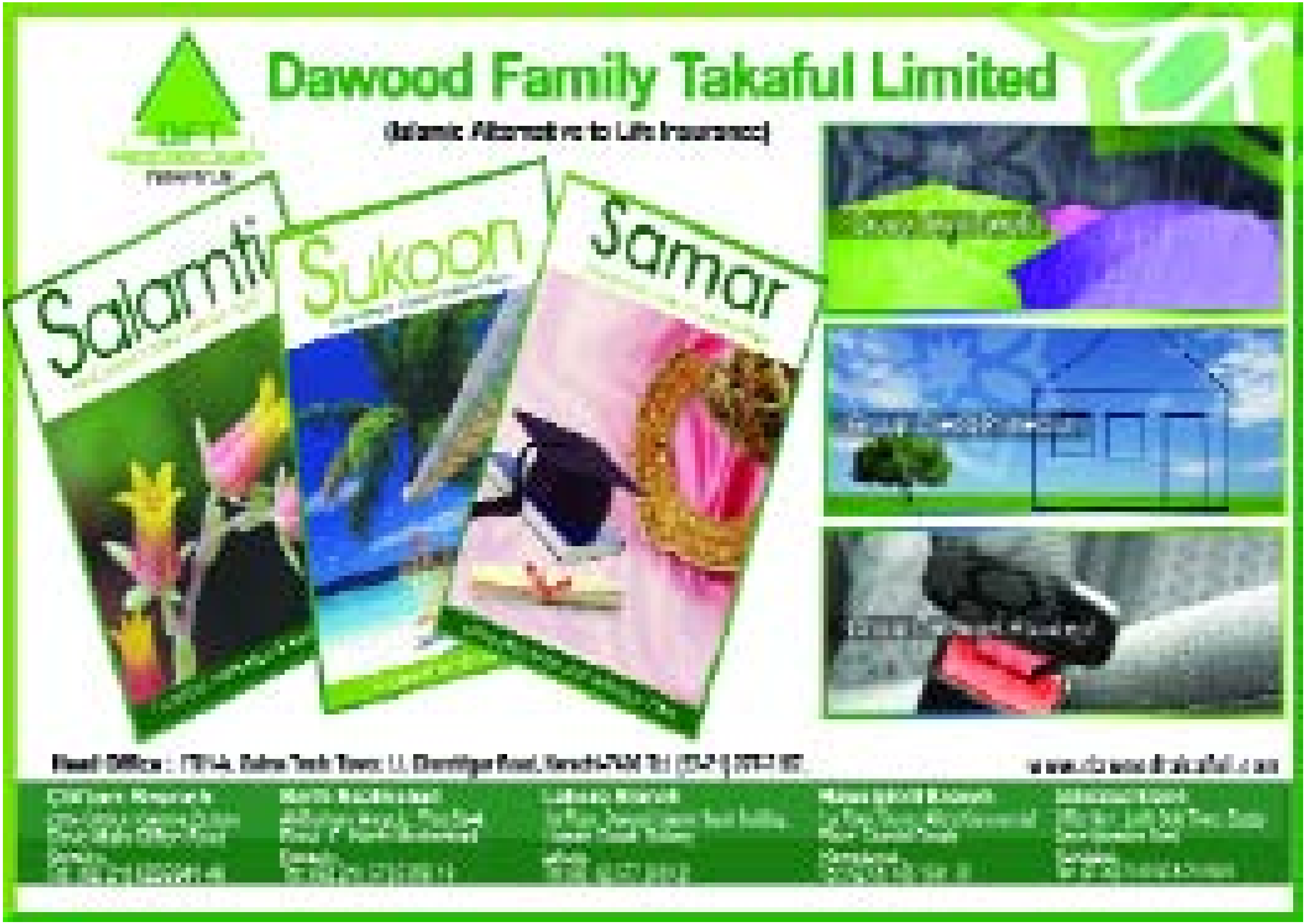
[1] International Energy Outlook, 2007 published by Energy Information Administration (EIA)
[2] British Petroleum: Annual Statistical Review, 2008
[3] British Petroleum: Annual Statistical Review, 2009
[4] Collin J Campbell: End of Cheap Oil, Scientific American, March 1998
[5] John Hess, Newsweek March 2008
[6] Arctic landgrab; by Jessa Gamble: Scientific American, January 2009
[7] Mukhtar Ahmed: Presentation delivered at Woodrow Wilson International Center for Scholars, June 2006
[8] BP Annual Statistical Review 2009
[9] Mukhtar Ahmed: Presentation delivered at Woodrow Wilson International Center for Scholars, June 2006

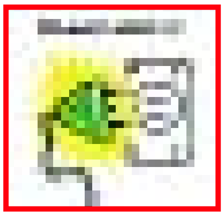

Dawood Family Takaful Limited
(Islamic Alternative to Life Insurance)
Salamti
Sukoon
Samar

A Public Service Message from ICAP Research

Energy Bites

Did you know?

- ☞ A mobile phone charger utilizes 3 watts per hour, when left plugged.
- ☞ A mosquito repellent consumes 5 watts per hour.
- ☞ A TV on standby consumes 6 watts per hour.
- ☞ A refrigerator consumes 1.3 to 4 units daily depending on its size, make and model.
- ☞ Printers can take as much power as 660 watts.



Life is uncertain. So why shouldn't be the supply of electricity to our homes and businesses? The power crisis is looming large. What was first just a curse for the people of Karachi has now infested the entire country. Officials from concerned ministries brazenly tell the public that there is a demand supply gap of a staggering 5000 MW and that they are doing their best to control it.

The government is setting up various hydel projects, rental power projects, independent power projects (IPPs) and renewable alternative power generation projects. However, all these are long run solutions. For most of us, Monday mornings are a unique shade of blue especially if the Electricity gods have been unhappy with us the night before. And what best way to vent out our frustration than to curse the electric supply company and/or the government for the power crisis. But have we ever stopped to consider that it might be as much our fault as the state's or the electric supply corporation's?

Why is the energy gap increasing day by day? Agreed, that the power crisis is largely due to the structural and administrative inefficiencies on the part of the concerned authorities, but we also have to play our part as conscious and responsible consumers.

Energy conservation is nothing new. It is common knowledge that the resources we have are scarce and exhaustive, yet we do nothing to conserve them. We let our appliances running, can't live without an air conditioning unit running 24/7, and do not bother to check whether there are power leakages in our surroundings. Yet we decry frequent load-shedding.

By incorporating a few simple changes in our lifestyles we could make a whole lot of difference. By taking an initiative now we could leave a better safer world for our future generations.

- Use appliances efficiently to conserve electricity. Unplug them when they are not in use.
- Our food was sufficiently cooked and reheated before microwaves were invented. Avoid using microwaves unnecessarily when cooking and reheating can be done conventionally.
- Set the thermostat of cooling and heating devices at reasonable temperatures. Set them comfortably high or low, not excessively.
- Turn off the lights when you leave a room. If your lights have a dimmer switch, dim the lights whenever possible.
- Use sunlight to your advantage during the day and turn off artificial lighting.
- Switch off the TV from its main power source and not just use the remote control to switch it off. It still uses energy when on standby mode.
- Switch off cell phone chargers and electrical mosquito repellents from the mains after use so that they do not consume power.
- Use ceiling fans instead of air conditioners as far as possible. You will also save a lot on electricity bills.
- Replacing the metal blades of a fan with fiber blades can save twenty percent energy overall.
- If air conditioning is a must it is better to install split air-conditioning rather than centralized air-conditioning. Split air-conditioning will only cool specific areas where cooling is needed. Besides this, cleaning the filter of air conditioners leads to quick cooling while at the same time ensuring efficient use of electricity.
- Use energy savers in place of conventional light bulbs and tube lights. Though they are a bit more expensive than conventional bulbs they last longer and save up to 70% energy.
- Use small refrigerators if you have a small family.
- Dust your lamps and light fixtures with the power off. Even a thin layer of dust can reduce light levels.
- Computers and particularly laser printers can really run up your power bills. Keep your printer turned off, when not in use.
- Use hairdryers sparingly and do not use the maximum heat setting. This way you will not only save energy, but your scalp will thank you!
- Thaw, or partially thaw, frozen foods in the refrigerator before cooking.
- Last, but most important is that we make a conscious effort to educate ourselves and our children about playing our part in conserving energy and keeping utility fares within budgets.

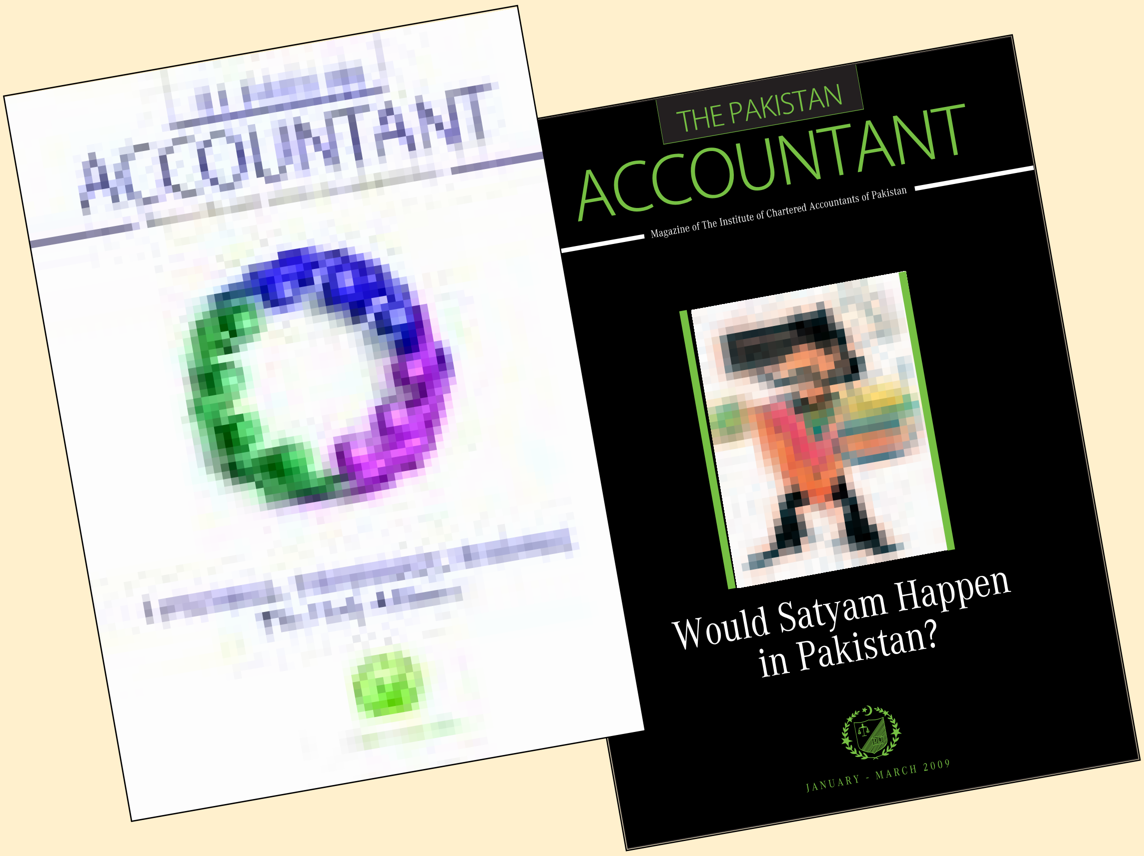
Life is really simple only if each of us did our part right. Remember, You Have the Power!

NOTE:

As part of their initiative to educate consumers on the production, consumption and conservation of electrical energy, The Karachi Electric Supply Corporation (KESC), has started a voluntary program. To become a part of this important initiative and for more information, please log on to www.powertoconserve.com.pk and do your part.

Source: ICAP Research Department

IN HOUSE



THE NEXT THEME FOR ***THE PAKISTAN ACCOUNTANT*** IS:

When Business Stands Still

Why do successful businesses lose momentum? What are the most common causes of business failure? It is not just macroeconomic factors like the recent global credit crisis that bring companies down, though in Pakistan we have felt the repercussions of this crisis as well as our 'war on terror' in the form of rapidly declining FDI and portfolio investment.

But there are more underlying and far reaching reasons like poor strategy and organizational design that threaten companies in these times of scarce resources and dwindling revenues. As local businesses scramble to survive ***The Pakistan Accountant*** invites you to share your views on the causes of their stagnation, and your proposals for turnaround strategies.

Please send in your articles on the above theme at
email asad.shahzad@icap.org.pk
latest by December 15, 2009.

Strategy Is Success

In 1996 Michael Porter wrote *What is Strategy?* in which he argues that industry rivals can easily copy a firm's operational effectiveness, but they can not copy its strategic positioning -what distinguishes it from the rest.

The essence of strategy is choosing a unique and valuable position rooted in systems of activities within the firm that are much more difficult to match. These are the 'core competencies' which form the basis for a firm's competitive advantage. This concept has been popularized by Gary Hamel and C.K. Prahalad since 1991.

For example, Toyota has a core competence in the production of high quality cars at a lower delivered cost which primarily vests in the company's production and materials management functions. McDonald's has a core competence in managing fast food operations. The company has profited by leveraging its core competence in foreign markets where local competitors lacked similar skills.

Porter argues that four broad attributes of a nation —- factor endowments, domestic demand conditions, related and supporting industries, and domestic rivalry —- combine to shape the environment in which local firms compete and achieve international success.

For instance the sophistication of domestic customer demand forces local firms to upgrade their quality and innovate. Scandinavian customers helped push Nokia of Finland and Ericsson of Sweden to invest in cellular phone technology long before other developed nations.

Strategy is formulated in the context of the competitive environment in which the firm operates. There are two ways in which strategy can enable the firm to cope with competition:

One is Porter's 'outside in approach' which stresses that the firm must first adapt to its environment and then change strategies to position itself in that environment.

From a defunct refrigerator factory in China's Qingdao province to the No.3 global appliance brand behind Whirlpool and GE, by 2005 Haier had over $12 billion in worldwide sales.

Facing intense competition and price wars in the domestic market Haier followed a nontraditional expansion strategy of entering the developed markets of Europe and the United States as a niche player before venturing into neighboring Asian markets. Haier's international strategy is built on large volume product sales with a well established overseas distribution network and after-sales service network.

Lenovo, China's largest PC maker, while arguably the best known brand in China was virtually unknown in the rest of the world. In 2004, over 90 percent of Lenovo's revenues came from China. That changed when in December of the same year Lenovo acquired IBM's PC division for

$1.75 billion. The first challenge for Lenovo was building a more efficient supply chain for components used in the manufacturing of desktop and laptop computers.

By 2006, with 20,000 employees operating in 138 countries, Lenovo needed a global marketing and branding strategy to extend its global reach. The company introduced a Lenovo-branded product line and supplied all of the computer equipment to run the 2006 Winter Olympics in Torino, Italy.

Another way strategy can help the firm to cope with competition is through Hamel and Prahalad's 'inside out approach' which stresses the need to change the rules of the game by changing the competitive environment.

The domestic strategy of Aldi and Lidl, the two largest discount supermarket chains in Germany with 30 percent share of the retail market was simple: to offer a limited assortment of high quality basic food items at the lowest possible price.

Both discounters have applied the same philosophy to their international operations. Their strategy is to eliminate all the extras and to focus on what is necessary. The two supermarket chains generally charge some 30 to 50 percent less for groceries than ordinary supermarkets by keeping store operations simple with minimum staffing and a decentralized distribution system.

According to Porter generic strategies help businesses achieve a particular kind of competitive advantage, for example, cost leadership in the case of Aldi and Lidl, and a creative deployment of organizational resources and capabilities as in the case of Haier and Lenovo. The decision to adopt a particular kind of strategy provides the business with the right environmental fit and thus, successful competition with rivals.

International strategy is changing in a post credit crisis world. Asia's emerging economies are leading the world out of recession and the region's consumers are replacing consumers in developed countries. Multinational companies (MNCs) are considering it a viable strategy to focus on these economies. The most successful MNCs are reorganizing their business models to suit Asia's high-growth markets.

LG Electronics India expects 15 percent growth in 2009 and believes India is not as badly affected by recession. Microsoft India recently showcased a host of custom-made offerings for the Indian market. Philips is also following up on a strategic decision to increase its presence in emerging markets by focusing on healthcare which is considered a recession proof industry.

Sun Microsystems has made a strategic business decision to strengthen its presence in fast-growth markets such as China and India. To closely align sales with key growth areas it has created a business division focusing on emerging markets sales region, which includes Latin America, Greater China, India and Russia, Balkans, Africa, the Middle East, Turkey and Greece.

An article in the McKinsey Quarterly* suggests that even the most sophisticated multinationals must change significantly to realize Asia's growth potential due to the region's diversity and size. To meet the challenge, global companies will have to organize themselves regionally to coordinate strategy and use resources in the most efficient way while at the same time targeting the tastes of consumers on a very local level.

** McKinsey Quarterly online, Think regionally, act locally: Four steps to reaching the Asian consumer, September, 2009.*

NFC Award to be Announced Shortly

The National Finance Commission met with Finance Minister Shaukat Tarin on October 29 to conclude their discussions on the vertical and horizontal distribution of the federal divisible pool. The NFC agreed on multiple criteria for distribution of resources among the Federation and Federating Units leaving aside the sole criterion of population. The Finance Minister said the provinces had agreed to the distribution of resources on multiple criteria of population, poverty, revenue generation, area backwardness etc.

Currently the provinces receive 49 per cent of the divisible pool while the federation receives 51 per cent. The NWFP Government has aggressively pleaded its case while Punjab has shown flexibility over multi-factor criteria, the Minister added. The Commission observed that the federation and provinces would have to gear up resources to meet their growing fiscal needs and decided to hand over collection of capital value tax in the next award to the provinces.

The next NFC meetings are scheduled to be held in Karachi on November 18 and 19.

Doing Business 2010: PAKISTAN

World Bank Doing Business Report 2010 has reported no improvement in ease in doing business in Pakistan and we continue to be ranked at 85 in the world among 131 countries.

Pakistan's ranking in starting a business seems to have improved by 17 points and we are ranked at 63 in the 2010 report as compared to 80 in 2009. Starting a business in Pakistan requires 10 procedures, takes 20 days, and costs 5.8 percent of income per capita. Pakistan's ranking in ease of closing a business stood stagnant at 56 in 2010 with no improvement.

Pakistan's ranking in protecting investors has also shown a decline and we have been ranked at 27 in the new ranking as opposed to an earlier ranking of 25. On a scale of 0-10 on the investor protection index Pakistan's rankings are: 6 on extent of disclosure index; 6 on extent of director liability index; 7 on ease of shareholder suits index; and 6.3 on strength of investor protection index.

Pakistan's ranking in ease of paying taxes has recorded a decline of 17 percent from a ranking of 126 in 2009 to 143 in 2010. Pakistan's ranking on ease of trading across borders has dropped and we are ranked at 78 in the new report as against the earlier ranking of 75. Our ranking in ease of enforcing contracts has declined by one point with a new ranking of 158 in the world as against the earlier ranking of 157. Enforcing contracts in Pakistan requires 47 procedures, takes 976 days for enforcement, and costs 23.8 percent of the claim amount.

Ben Bernanke Calls on Policy Makers to Reduce Large Trade Deficits

US Federal Reserve chief Ben Bernanke has called on policy makers in the US and Asia to address the issue of large US trade deficits with developing countries which, according to the Fed, remain a threat to the global economy.

In his comments prepared for delivery to a San Francisco Fed conference on Asia Bernanke said, "To achieve more balanced and durable economic growth and to reduce the risks of financial instability, we must avoid ever-increasing and unsustainable imbalances in trade and capital flows."

Asian economies have rebounded strongly from the crisis, with annualized growth rates in double digits expected in China, Hong Kong, Korea, Malaysia, Singapore, and Taiwan. Bernanke has also urged Asian leaders to build better pension systems and to increase government spending, and the Obama administration to address the US budget deficit in order to rebalance global economic growth.

EU on Road to Uneven Recovery

In a study for European Union finance ministers in October, the Bruegel* research group has set out a sequence of steps for an economic recovery for the European Union: first recapitalize and restructure the banks, then start cutting budget deficits and only then tighten monetary policy.

In another report in October the EU monetary affairs commissioner, Joaquín Almunia, said eurozone countries had suffered more than necessary in the crisis because they had failed to address deep-seated economic imbalances during the good times.

While Germany, with excessive current account surpluses, had failed to stimulate domestic demand, France had entered the crisis with a high structural deficit of 3 percent of gross domestic product. Italy, Spain, Greece and Ireland all face an alarming rise in their debt levels.

Christian Noyer, Governor Bank of France has warned that long-term interest rates would rise if eurozone countries do not get their deficits under control. That in turn would raise the cost of debt service and reduce economic growth.

* Bruegel is a Brussels based think tank contributing to the quality of economic policy making in Europe

Is The US Outsourcing Away Its Competitive Edge?

In a recent article* in the Harvard Business Review, Gary P. Pisano, researcher and Professor of Business Administration at Harvard Business School, says that outsourcing of development and manufacturing work to low-cost locations abroad has resulted in 'a damaging deterioration in the collective capabilities that serve [US] high tech.' This includes not just suppliers of advanced materials, production equipment, and components, but also R&D know-how, advanced process development and engineering skills, and manufacturing competencies.

According to Pisano and his HBS colleague Willy Shih, the United States 'has lost or is in the process of losing the ability to manufacture many of the cutting-edge products it invented.' These include the batteries that power electric and hybrid cars, light-emitting diodes (LEDs) for the next generation of energy-efficient lighting, critical components of solar panels, advanced displays for mobile phones and new consumer electronics products like Amazon's Kindle e-reader, and many of the carbon fiber components for Boeing's new 787 Dreamliner.

On the other hand, data from the American National Science Board's 2008 Science and Engineering Indicators, reveals that on a value-added revenue basis the U.S. continues to have the largest share of global markets in high-tech manufacturing industries —- aerospace; computers and office machinery; communications equipment; pharmaceuticals; and scientific instruments. The U.S. share in communications equipment increased by more than 20 percentage points as Japan's share plummeted, and the U.S. doubled its share in computers and office equipment, although it was overtaken by China in 2003.

* Pisano, Gary P.,The US Is Outsourcing Away Its Competitive Edge, Harvard Business Review, October 2009

KPMG Partner Compares Lehman Case to BCCI

According to the Financial Times, Lehman Brothers' sudden collapse has made it a test case for regulators and administrators around the world, none of whom have worked on anything of this complexity and importance.

Eddie Middleton, the KPMG partner in charge of Lehman's Hong Kong operations, says 'the nearest comparable case' to Lehman is Bank of Credit & Commerce International (BCCI) in Pakistan though 'Lehman is much more complicated' than that.

Eddie Middleton is the man who was originally moved to Hong Kong from London to help with the winding-up of BCCI, the Pakistan-based global bank forcibly shut down by regulators in 1991. KPMG declared the last of 14 dividends from BCCHK (the part it wound down) 10 years ago but issues related to the job are still pending.

In 1982 BCCI was operating 400 branches in 78 countries with assets in excess of USD20 billion making it the 7th largest private bank in the world by assets. At the time of its formal liquidation in 1991 BCCI paid $10 million in fines and forfeited all $550 million of its American assets which, at the time, was the largest single criminal forfeiture ever obtained by federal prosecutors.

TEST YOUR INVESTMENT KNOWLEDGE

When you don't pay the balance on your credit card, the interest compounds. This means that:

a Interest is calculated based on your credit card balance

b No interest accrues

c Interest is calculated based on the money you owe combined with the interest you owe

d There is a flat interest rate applied to the balance on your card

Blink: The Power of Thinking Without Thinking
Malcolm Gladwell

How do we make decisions – good and bad – and why are some people so much better at it than others? That's the question Malcolm Gladwell asks and answers in the follow-up to his huge bestseller, *The Tipping Point.*

Gladwell says that what we think of as decisions made in the blink of an eye are much more complicated than assumed. Drawing on cutting-edge neuroscience and psychology, he shows how the difference between good and bad decision-making has nothing to do with how much information we can process quickly, but on the few particular details on which we focus.

Using examples Gladwell reveals how we can become better decision makers in our homes, our offices, and in everyday life.

Price: $17.13 @ amazon.com

Competing on Analytics: The New Science of Winning
Thomas H. Davenport and Jeanne G. Harris

Organizations have more information at hand about their business environment than ever before. But are they using it to "out-think" their rivals? If not, they may be missing out on a potent competitive tool.

In Competing on Analytics: The New Science of Winning, Thomas Davenport and Jeanne Harris argue that the frontier for using data to make decisions has shifted dramatically. Certain high-performing enterprises are now building their competitive strategies around data-driven insights that in turn generate impressive business results. Their secret weapon? Analytics: sophisticated quantitative and statistical analysis and predictive modeling.

Exemplars of analytics are using new tools to identify their most profitable customers and offer them the right price to accelerate product innovation, to optimize supply chains, and to identify the true drivers of financial performance. A wealth of examples—from organizations as diverse as Amazon, Barclay's, Capital One, Harrah's, Procter & Gamble, Wachovia, and the Boston Red Sox—illuminate how to leverage the power of analytics.

Price: $19.77 @ amazon.com

Handbook of CRM: Achieving Excellence through Customer Management
Adrian Payne

Customer Relationship Management is a strategic approach to managing customer relationships to increase shareholder value. *Handbook of CRM* gives complete coverage of the key concepts in understanding successful CRM.

The book contains clear and comprehensive explanations of key CRM concepts, full cases from major international businesses, references to further sources of information on every aspect of CRM, and templates and audit advice for assessing each company's own CRM needs and targets.

Adrian Payne is one of the first marketing thinkers in the field and the book is based on Cranfield Business School's internationally acknowledged research in the field of CRM.

Price: $33.86@ amazon.com

The One to One Manager: Real-World Lessons in Customer Relationship Management
Don Peppers and Martha Rogers

In *The One to One Manager*, authors Don Peppers and Martha Rogers, Ph.D., go behind the scenes to report on the challenges and solutions discovered by managers leading 1 to 1 efforts at organizations such as Xerox, General Electric, Oracle, First Union, Hewlett-Packard, USAA, Levi Strauss, and British Airways.

Filled with in-depth interviews with executives on the front lines of the 1 to 1 revolution the book examines the actual day-to-day issues involved in competing in a vast and rapidly expanding universe in which organizations and enterprises organize around customer needs. It is a universe in which companies compete at extreme velocity, racing to devise strategies that will lock in customer loyalty, raise profits, and avoid the trap of commoditization.

Among the pioneers of customer-focused business strategies profiled in this book is General Robert F. McDermott who transformed the United States Air Force Academy (USAA) insurance company from a firm mired in paperwork into an IT-savvy financial services institution dedicated to meeting customer needs.

Price: $15.95@ amazon.com

Le mot juste


Gustave Flaubert: The King of Words

In 1856 French novelist Gustave Flaubert wrote *Madame Bovary* and the world gasped. The novel was labeled an "outrage to public morals and religion" on account of its faithless heroine Emma Bovary. Flaubert was tried and acquitted on the charge and *Madame Bovary* became a literary legend.

In writing *Madame Bovary*, Flaubert examines the relationship between the written word and its effect on its readers. "If the effects of a symphony have ever been conveyed in a book it will be in these pages … I achieve dramatic effect simply by the interweaving of dialogue and by contrasts of character."

Flaubert was obsessively uncompromising about his writing, often spending all day to write a single sentence, and 'always searching for' *le mot juste* —- the right word. "By dint of searching, I find the right expression, which was the only one all along, and at the same time the harmonious one. The word is never lacking when one is in possession of the idea," he said.

Though few of us aspire to become professional writers all of us can benefit from writing sensibly. Business writing involves conveying complex ideas clearly and concisely to many people, up and down the hierarchy, at the same time. And herein lays the trouble. Most managers commit the mistake of making controversial announcements without first identifying their intended recipients. Hence, the tone of the memo or email may appear offensive to some. Managers are best advised not to ignore the realities of power. Your boss does not need to receive the entire thread of emails including the war of words between you and the sales manager.

A recent survey of 120 blue-chip American companies found that a third of employees wrote poorly, and businesses are spending more than $3 billion a year to correct this problem. Why does the right word elude modern managers? Perhaps because we don't think before we write. Remember what Flaubert said, "The word is never lacking when one is in possession of the idea."

The best communication takes place when you keep the other person's sensibilities and preferences in mind. Sincerity is a virtue in communication, so is showing respect. Apologize, and you can get away with murder.

Corporate jargon is one more hurdle managers need to cross. "The proposed merger is not even a remote feasibility." Say what? It means the merger is a bad idea.

In 2003 Brian Fugere, Chelsea Hardaway and Joan Warshawsky, three former consultants at Deloitte Consulting, released a software program called Bullfighter that works like a spell check with Microsoft Word and PowerPoint to search and eliminate what it calls *bullwords,* or jargon, in corporate documents. The program includes a 350 word bullword dictionary which suggests alternate terms.

To test the software, documents from a large sample of Dow Jones companies were evaluated and it was found that documents of companies in more financial trouble contained more corporate jargon. Fugere found that the language in Enron's documents "got progressively more obscure as they got deeper and deeper into trouble."

In May this year a US Defense Department letter advising American soldiers to think about taking out additional life insurance before being deployed to Afghanistan stated:

"The additional accident insurance cost for basic cover is less than a night out on the town for a few beers with your mates each month."

That caused a riot forcing Defense Personnel Minister Warren Snowden to make a statement to the press saying the message in the letter was important, though the wording "could have been better."

★★★★★★★

In matters of communication, precision counts.

There's an old story about Noah Webster, the man who wrote the dictionary. It is said that his wife once caught him in the pantry flirting with the cook. "Why, Mr. Webster," she said, "I'm surprised." "No, my darling," replied Mr. Webster. "I'm surprised. You're amazed."

**Le mot juste (lah mo zhoost) [French]*

Tax Evaders are Mentally Challenged?

In 1929 Victor Tranter, a University of London economist, presented one of the earliest studies of tax non-compliance in his book *Evasion in Taxation.* In the book Tranter describes various methods of tax evasion and avoidance in great detail and suggests that the state should deal with tax evaders by appealing to their sense of patriotism, educating them in the basics of civics, and utilizing the services of teachers, the clergy, and accountants. Another suggestion Tranter made was that "a department should be established to make a scientific investigation of the whole question of evasion."

Tranter claimed that those committing taxation frauds should be committed to mental asylums. According to Tranter," if the test is whether or not the individual has done a serious injury to the community and may possibly do so again in the future" then there is no logical reason why fiscal fraud should be left unpunished.

Al Capone, one of the biggest gangsters in history, murdered, kidnapped, racketeered and stole but could never be criminally charged because he always did business using front men and had no records in his own name.

The only way the government could bring Capone's criminal career to an end in 1931 was to arrest him on tax fraud charges. The lack of any reported income was the only act that could be used to convict him.

ANSWER

TEST YOUR INVESTMENT KNOWLEDGE

The correct answer is $\boxed{c}$ Interest is calculated based on the money you owe combined with the interest you owe

Compound interest refers to interest that accrues on the initial principal balance on a credit card and the interest you've already accumulated on that balance. When it comes to a credit card, compound interest means that the cardholder must pay interest on interest. This why credit card balances can balloon so quickly, particularly when cardholders fail to pay more than the minimum balance required by the credit card company.

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