



Monthly International News

Issue 01/ 2008

October 2008

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New IAASB Audit Practice Alert Focuses on Fair Value Accounting Estimates

To assist auditors in addressing the challenges of auditing fair value accounting estimates, the staff of the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board under the auspices of the International Federation of Accountants (IFAC), has released an audit practice alert. The alert was developed following consultation with the IAASB's Task Force on Fair Value Auditing Guidance, which is considering the need for new or modified guidance in light of current marketplace issues.

The purpose of the alert is to highlight areas within the International Standards on Auditing (ISAs) that are particularly relevant in the audit of fair value accounting estimates in times of market uncertainty.

James Sylph, Executive Director, Professional Standards, noted, "Recent events in some of the world's largest financial markets continue to call attention to the difficulties in establishing fair values. This Staff Audit Practice Alert responds to calls from the Financial Stability Forum and others for further guidance on the audit of fair value accounting estimates. I believe this alert will be relevant to auditors of entities of all sizes as they prepare for the next audit season."

The alert also directs auditors to the recently revised ISA 540 (Revised and Redrafted), *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, which was influenced by the changes in the credit markets during 2007. While not effective until audits of financial periods commencing on or after December 15, 2009, it includes guidance that is likely to be useful to auditors planning their 2008 engagements.

The practice alert, *Challenges in Auditing Fair Value Accounting Estimates in the Current Market Environment*, may be downloaded free of charge from the IFAC website (www.ifac.org). For more information on the other IAASB initiatives with regard to fair value, please visit <http://www.ifac.org/IAASB/ProjectHistory.php?ProjID=0080>.

<http://www.ifac.org/MediaCenter/?q=node/view/594>

Europe Avoids Suspension of Fair Value

European heads of state called on Saturday for modification of international accounting standards allowing some assets to be reclassified and avoid being subject to fair value rules.

However, the meeting, hosted by French president Nicholas Sarkozy and attended by Gordon Brown, failed to call for a complete suspension of fair value despite suggestions earlier in the week that it was the favoured option of the French.

The International Accounting Standards Board announced on Friday, before the summit, that it was willing to look at reclassification and would do so at a meeting next week. It may well have been the move that headed off a full frontal attack on what has become a highly controversial accounting principle.

Reclassification is not being viewed as a surrender by the IASB because the board's own statement anticipates that it will happen only on rare occasions. The board has also committed itself to looking at anti abuse measures, another indication that reclassification would be strictly controlled.

Before the summit there was a round of intense last minute lobbying on Friday including a direct call from the Association of British Insurers to leave fair value alone.

Saturday's statement, written jointly between Britain, France, Germany and Italy, said: 'We will ensure that European financial institutions are not disadvantaged vis a vis their international competitors in terms of accounting rules and of their interpretation. In this regard, European financial institutions should be given the same rules to reclassify financial instruments from the trading book to the banking book including those already held or issued.'

'We urge the IASB and FASB to work quickly together on this issue in accordance with their recent announcement.'

This morning Tory leader David Cameron has reiterated his dislike for fair value writing in the Financial Times: 'In the current crisis mark to market accounting is exacerbating a self fulfilling cycle of falling asset values and restricted lending. Regulators should work with their European counterparts to address this difficult issue.'

<http://www.accountancyage.com/accountancyage/news/2227535/europe-avoids-suspension-fair>

IASB Starts Work on Urgent 'Reclassification' Project

Work begins on modifying international accounting standards to allow for the reclassification of assets and avoid being subject to a fair value calculation. The work begins among IASB members and will go on all week as the board attempts to match work being undertaken by the US standard setter. Reclassification will allow some assets to be moved from 'held for sale' to 'held for investment' and avoid a fair value.

The IASB has said that the changes are to ensure international standards keep pace with accounting in the US and maintain a level competitive playing field. However, it has signaled that it expects reclassification to be rare and has committed itself to putting in place anti abuse measures.

The IASB's trustees have given their approval to a temporary suspension of the board's due process in order to get the changes through fast. Insiders have said that the board's focus remains on avoiding changes that would allow companies to improve their balance sheet position through 'accounting arbitrage'.

The US standard setter is thought likely to publish details of its own amendments today.

Earlier statements from FASB have been interpreted as a 'relaxation' of fair value, but opinion has now settled on the view that it formed only a clarification. Calls for the suspension of fair value have been vociferous, especially in the US where executives, politicians and bankers have joined together in demanding change.

So far, the standard setters have stood by the rules. There has been little discussion by opponents of what may replace the standard.

<http://www.accountancyage.com/accountancyage/news/2228058/iasb-starts-work-urgent>

US Accounting Regulator to Issue Fair Value Guidance

The US Financial Accounting Standards Board is today expected to issue final guidance on the controversial issue of fair value accounting amid the global financial crisis. The guidance from the board of the standard setter will clarify whether company assets are valued at cost or their market value – the so-called 'fair value' method.

Accounting regulators have come under pressure from bankers and political leaders in Europe and the US to drop fair value. Critics of fair value argue that it is exacerbating the global financial crisis by further depressing financial assets and making it harder for companies to access capital in markets where capital has evaporated. Supporters of fair value say the accounting rule makes company accounts more transparent and easier to compare.

FASB has decided to rework two sections of the draft document that was put out for public comment one week ago — but stuck to its guns regarding mandating companies to use significant judgment when valuing financial assets in inactive markets, according to CFO.com.

The guidance clarifies items contained in FAS 157, the accounting rule that governs how to measure assets and liabilities using the fair value method.

The FASB staff will slightly rework the language that defines an inactive market, but will stop short of giving a 'bright line' definition. FASB chairman Robert Herz commented that the definition will explain that owners of financial instruments will be required to drill down to the asset level —

as opposed to just assessing the market — to determine whether the market for that instrument is active.

<http://www.accountancyage.com/accountancyage/news/2228071/accounting-regualtor-issue-fair>

Accountants Need International Experience

Seventy-one percent of CFOs said international experience will be either somewhat or very necessary for accounting and finance professionals five years from now, according to a new survey of 1,400 U.S CFOs.

Recruiting company Robert Half Management Resources noted that the 71 percent was an increase from the 56 percent who answered the question the same way in 2002. In 2008, 24 percent of CFOs said international experience was very necessary and 47 percent said it was somewhat necessary. In 2002, 20 percent said it was very necessary and 36 percent said international experience was somewhat necessary.

"The accelerating pace of globalization and the impending U.S. adoption of International Financial Reporting Standards will continue to drive demand for accounting and finance professionals with international business experience," said Robert Half Management Resources executive director Paul McDonald. "Professionals who are bilingual and have had exposure to other countries' tax, compliance, legal and regulatory issues have a competitive advantage in the job market, particularly among the largest firms."

<http://www.webcpa.com/article.cfm?articleid=29524&pg=ros>

Indonesia, Malaysia Sign Investment and Trade Agreement

Indonesia and Malaysia had signed here on Wednesday the first Joint Investment and Trade Committee (JICT) agreement to improve trade and investment between the two countries. The Trade Ministers of the two countries signed the agreement on behalf of their countries.

"One of the issues discussed in the meeting is the re-examination of the border trade agreement reached in 1970. Both countries had agreed to revise the agreement as soon as possible," Indonesian Trade Minister Mari Elka Pangestu said here.

Both ministers also discussed problems on trade and investment cooperation, including a regulation to inspect Malaysia's ceramic exports to Indonesia, the Trade Minister said.

"Indonesia and Malaysia also agreed to discuss issues on countries of origin certification as long as it is based on the common effective preferential tariffs (CEPT) scheme for AFTA (ASEAN Free Trade Area)," Malaysian Trade Minister Muhyiddin Yassin said.

Both countries also talked about improving cooperation in services which benefit both countries, like tourism sector, Yassin added.

http://www.bilaterals.org/article.php3?id_article=13480

US Companies Unprepared for International Standards

Nearly half of U.S. companies have made no preparation to adopt International Financial Reporting Standards, according to a new survey.

IFRS and U.S. generally accepted accounting principles are in the process of converging. The Securities and Exchange Commission recently proposed a roadmap that would allow the largest U.S. companies to begin filing statements in accordance with IFRS in 2010, with most large public companies switching to IFRS by 2014. The survey by Protiviti, a consulting firm and subsidiary of accounting recruiter Robert Half International, shows that many companies are unprepared for the transition.

Nevertheless, more than 40 percent of the survey respondents said that if the SEC allows a choice between using U.S. GAAP and IFRS, their organizations would choose to switch to IFRS. More than 60 percent of respondents anticipate at least a moderate cost impact in transitioning to IFRS. Survey respondents included CFOs, who made up almost half of survey participants, along with CEOs, chief audit executives, vice presidents, controllers, and directors of finance and financial reporting.

Protiviti mainly conducted the survey at the 2008 Financial Executives International Summit, with additional responses gathered online from Protiviti KnowledgeLeader subscribers. A total of 75 executives participated in the study.

<http://www.webcpa.com/article.cfm?articleid=29578&pg=ros>

IFAC Opposes Any Suspension of Fair Value

The International Federation of Accountants (IFAC) has voiced strong opposition against what it sees as attempts to radically change or suspend the use of fair value accounting without proper due process.

The federation warns against making changes at a national or regional level which would 'exacerbate reporting differences' and further confuse financial markets, resulting in a lessening of confidence in financial reporting.

Fermín del Valle, IFAC president, said this would be 'exactly the opposite of what is required in current circumstances. Reducing transparency is not the answer...and it will not serve the interests of investors'.

IFAC believes the additional guidance from the International Accounting Standards Board (IASB) and the United States Financial Accounting Standards Board, as well as the International Auditing and Assurance Standards Board in its Staff Audit Practice Alert, *Challenges in Auditing Fair Value Accounting Estimates in the Current Market Environment*, 'has been very valuable and will contribute to the public interest through more consistent application of the standards'.

<http://www.accountancyage.com/accountancyage/news/2228661/ifac-opposes-suspension-fair>

ASEAN-Japanese FTA to Take Effect on December 1

A comprehensive free-trade agreement between Japan and the 10-member ASEAN will enter into force Dec. 1, beginning with Japan and countries that have completed domestic ratification procedures by the end of this month, the Foreign Ministry said Tuesday.

Japan on Wednesday will notify the Association of Southeast Asian Nations on the completion of its ratification of the ASEAN-Japan Comprehensive Economic Partnership Agreement, Japan's first FTA with a regional bloc. From the ASEAN side, Singapore and Laos have also finished their procedures.

Japan has been eager to catch up with China and South Korea amid an intensifying race for regional FTAs. The accord with ASEAN is not only an FTA for goods but also covers services and investment.

It will enable Japanese companies that are expanding their markets in Southeast Asia to reduce trade costs.

For example, the tariffs in place on Japanese exports from one ASEAN country to another will be removed.

In particular, electronics and automobile manufacturers will benefit as parts from various countries in the region can be assembled without tariffs being levied.

Japan will repeal tariffs on 93 percent of imports from ASEAN by value within 10 years of the deal taking effect. Meanwhile, six major ASEAN members - Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand - will eliminate tariffs on 90 percent of imports from Japan, including automobiles, within 10 years.

A more gradual tariff elimination table has been set for the remaining four ASEAN members with smaller economies - Cambodia, Myanmar, Laos and Vietnam.

The deal with ASEAN, signed in April, is Japan's eighth FTA, following bilateral agreements with Singapore, Mexico, Malaysia, Chile, Thailand, Indonesia and Brunei.

The government established a new ambassadorial post in charge of ASEAN affairs last Friday and appointed former Ambassador to Israel Yoshinori Katori to the job.

http://www.bilaterals.org/article.php3?id_article=13536

PCAOB Proposes Standards for Audit Risk

The Public Company Accounting Oversight Board has voted to propose seven new auditing standards related to risk assessment.

The proposed standards would supersede the board's interim auditing standards related to audit risk and materiality, audit planning and supervision, consideration of internal control in an audit of financial statements, audit evidence, and performing tests of accounts and disclosures before year end.

The proposed standards would establish requirements and provide direction on audit procedures, from the initial planning stages through the evaluation of the audit results. "An appropriate assessment of risk is the foundation of a high-quality audit," said PCAOB Chairman Mark Olson in a statement.

The proposed standards cover the auditor's responsibilities for reducing audit risk to an appropriately low level, audit planning and supervision, identifying and assessing the risks of a material misstatement, responding to the risks of a material misstatement, evaluating audit results, considering materiality in planning and performing an audit, and determining the sufficiency of audit evidence. The PCAOB is providing a 120-day comment period, ending Feb. 18, 2009.

<http://www.webcpa.com/article.cfm?articleid=29588&pg=ros>

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