

# THE MALAYSIAN Accountant

JOURNAL OF THE MALAYSIAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS



51st  
MICPA  
Annual Dinner  
& AGM



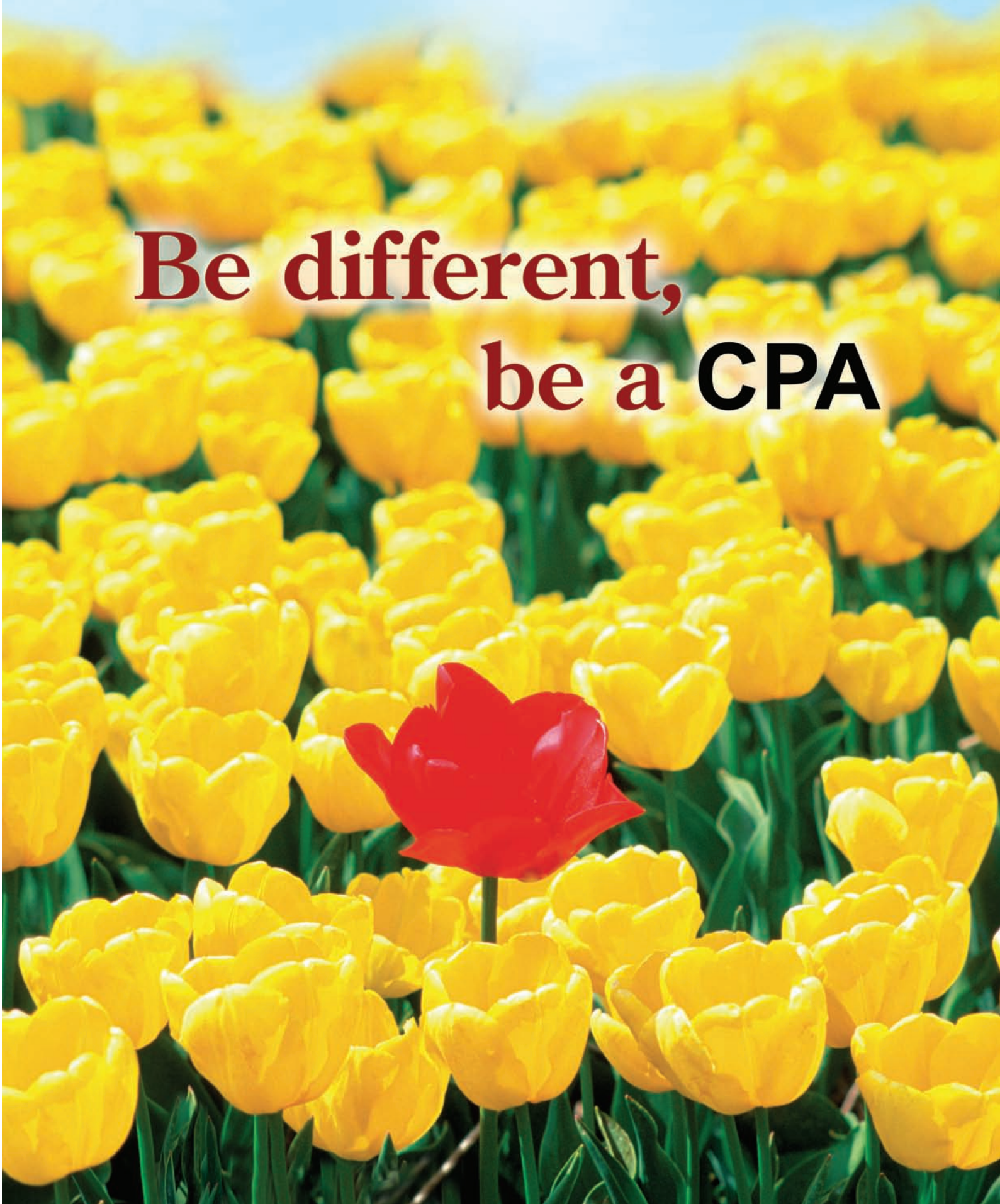
Recipient of Anugerah Presiden 2009: YB Senator Tan Sri Amirsham A Aziz





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# The Malaysian Accountant

June 2009

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## PERSPECTIVE

**I**t was a night of fellowship and camaraderie, a night when members of the accounting fraternity got together to celebrate the fellowship, as the dinner was themed. The event, which was graced by YB Dato' Wira Chor Chee Heung, Deputy Minister of Finance I, was attended by over 350 members, organisations and invited guests. It was truly a memorable night for members who took the opportunity to renew ties and form new ones.

The night also saw the presentation of the Anugerah Presiden 2009 to YB Senator Tan Sri Amirsham A Aziz, Chairman of the National Economic Advisory Council (NEAC). Tan Sri Amirsham who was admitted as a member of MICPA in June 1976 has in his career span made exceptional contributions to society and the accountancy profession.

Tan Sri Amirsham who was Maybank Berhad President and Chief Executive Officer from 1994 to 2008 has also contributed in many ways to the Institute including being featured in the MICPA's Corporate Video, *The World of a CPA*. This is the man who steered Malaysia's largest financial institution – the Maybank Group – into a valuable brand in the country.

In February 2009, Tan Sri Amirsham witnessed one of the most significant events of the Institute's history - the signing of the Memorandum of Understanding (MoU) between MICPA and The Institute of Chartered Accountants in Australia (ICAA) and was awarded Honorary Fellowship by the ICAA.

Readers would also be keen to note that YBhg Dato' Nordin Baharuddin and YBhg Dato' Ahmad Johan Mohammad Raslan were re-elected as President and Vice-President respectively at the Institute's Council Meeting. Earlier at the Institute's 51st Annual General Meeting, the President informed its members of the Institute's continued efforts to increase the Institute's financial resources for the purposes of investing in brand development and promoting the Revised MICPA Programme.

With the current economic downturn, there is naturally incredible pressure on prices and with the rising costs, it is becoming more and more important to get pricing strategies right. Check out the article inside that outlines the six pricing tactics that will help companies persevere through today's economic crunch.

Is Limited Liability Partnership (LLP) the way forward in the 21st century? The Companies Commission of Malaysia is proposing to introduce LLP, a new concept of business vehicle, which is a hybrid company-partnership with conventional partnership features and limited liability company privileges.

The intention of implementing LLP is to complement the existing ways and provide wider choice of doing business in the country. The LLP can help to spur the business environment and ensure that Malaysia remains an attractive location for business. Read the article inside to learn more about how the LLP can benefit companies in Malaysia.

The lifestyle section focuses on customer service, the lack of it in the country today. Essentially customer service, or rather good service is in steep decline and we, Malaysians are not being as vocal about it as we should be. Customers have their right to good customer service and if we don't get it, we must complain in the right manner. Look inside to find out more about why it is important to provide good customer service.

# Limited Liability Partnership – The Way Forward?

By Grace Tan Li Hoon



## INTRODUCTION

As the world moves into 21st century, the trend in corporate law reform in influential jurisdictions e.g. the UK, US, Australia, Singapore and Dubai, which are Malaysia's major trading partners, has been to focus on the needs of small businesses. Similarly for Malaysia, a new form of business vehicle is required to enhance and expand business opportunities for entrepreneurs and professionals and enable the country to be more competitive in the era of globalisation and liberalisation.

Such business vehicle must possess 2 important features:

- (1) flexibility in terms of its formation, maintenance and termination;
- (2) dynamism and ability to compete regionally and internationally.

Thus, Companies Commission of Malaysia ("CCM") is proposing to introduce Limited Liability Partnership ("LLP"), a new concept of business vehicle, which is a hybrid company-partnership with conventional partnership features and limited liability company ("LLC") privileges. Pursuant thereto, CCM issued two initial Consultative Documents in December 2003 and April 2008.

From the two Consultative Documents, CCM has studied

and researched on the various models and legislations from those countries which have practiced LLP and come up with preliminary proposals on LLP in Malaysia and invited and sought inputs, responses and views thereto from the public and professional bodies. All the inputs and views received will be consolidated and incorporated into a fresh and updated proposal on LLP, particularly taken into consideration in formulating a comprehensive legal framework for the proposed LL Partnership Act ("LLP Act").

LLP has the following benefits, i.e. it:

- (1) is a body having continuing legal existence independent of its members as compared to traditional partnership, the legal existence of which is dependent upon membership. So it can hold and own assets, enter into contract, sue and be sued etc;
- (2) enjoys perpetual succession where changes in members will not affect legal entity of LLP;
- (3) enjoys protection of limited liability for its members against unlimited liability without strict management procedures of an incorporated body; and
- (4) offers a degree of flexibility of partnership arrangement for internal management of business compared to companies which are required to adhere to statutory management



controls imposed by the Companies Act 1965 ("CA") and other legislations.

Further, the introduction of LLP is said to be in line with Government's aspiration and call since April 2007 to improve public and Government service delivery system, cut bureaucracy and red tape, simplify procedures, reduce administrative and compliance burdens relating to doing business in order to create and maintain a friendly business environment in Malaysia.

## REASONS JUSTIFYING LLP

There are other various reasons justifying the introduction of the LLP as follows:

- (1) Unlike LLC, sole proprietorship and partnership have some inherent disadvantages e.g. unlimited liability, absence of separate legal entity, difficulty to raise capital, lack of business continuity etc. So, there is little or no mechanism for expanding business. A partnership of more than 20 partners which wishes to have flexibility of operating as a partnership does not have much choice but to either:
  - (a) convert its status to a company as required by S 14(3) of the CA but any profits made are subject to corporation tax and dividends paid can then be taken as income of the shareholders; or
  - (b) limit its membership.
- (2) Not all types of business activities could be carried out through companies under the CA. The only option for many professional practices, in the past, has been to operate as partnerships, since either the general law or the rules and regulations of their professional regulatory bodies and/or legislations governing their professions denied them the ability to incorporate a company. This requirement of professionals operating as partnership was generally appropriate when all partnerships were small and the partners were of same profession working closely with one another. However, this may not be so any more in view of the general increase in:
  - (a) the growth in size of partnerships and specialisation among partners and coming together of different professions within a partnership. In a very large partnership, not all the partners will be personally known to one another and hence, there has been increasing concerns about their liability for the conduct of their fellow partners.
  - (b) the incidence of litigation claims for professional negligence and size of claims against professional advisers on liabilities in respect of financial losses to stakeholders. Professional firms were confronted with potential increase in personal bankruptcies of partners and rising costs and premium for insurance



for partnerships. This may hinder professional firms' ability to provide much needed service to the community.

- (3) In Malaysia however, the circumstances giving rise to the proposal of LLP are more than above factor. The main reason is to spur the growth of small and medium enterprises ("SMEs") against the backdrop of international business environment and enhancement of domestic business activities. At the same time, LLP will be equally attractive for professionals such as accountants and lawyers.

## SPECIAL FEATURES AND BENEFITS OF LLP

### (1) Limited liability status

CCM proposes that:

- (a) limited liability status will be conferred to LLP, which position differs markedly from general partnership law which imposes joint and several liability on general partnerships for all tortious acts of their co-partners acting within the scope of their actual or apparent authority;
- (b) partners should be accorded limited liability in respect of tort and contractual claims, meaning, individual partners will not be liable from the contracts, debts, obligations and liabilities of the LLP as well as personal liability from the conducts, wrongful acts, omissions, negligence or other tortious conduct of an employee, staff or co-partner, which were carried out during the course of business, and the personal assets of partners will not be at risk for such acts or matters;
- (c) however, this will not change the fact that the partner will still be personally liable for his own such acts etc but only one action under tort will be potentially available. Further, his liability to any person for his own such acts etc, including negligence, in the situations where law imposes

liability on him to such person should not be affected or extinguished merely on the basis that the acts or omissions were carried out in his role as a partner;

- (d) persons dealing or contracting with a partner of an LLP will be dealing or contracting with the LLP rather than its partner. Hence, the obligation incurred and liability arising therefrom, whether arising in contract, tort, or otherwise, should be that of LLP and not its partners personally;
- (e) in the event that the LLP becomes insolvent, a partner's liability should be limited to the amount of his capital contribution to the LLP subsisting at the time.

## (2) Partner's binding authority

- (a) For above to work, the LLP Act will provide that each partner of an LLP is deemed to be its agents but not agent to each other and can thus act for, represent and bind the LLP provided that they have authority to perform such acts which are made in the course of business. Any limitation on authority of a partner provided in LLP agreement will not prejudice any 3rd party. Therefore, the partners should avoid in any documentation between themselves any suggestion that there are any mutual agency relations between them and it is suggested by some advisers that, to avoid problems in this area, the use of term "partner", "partnership" or "firm" should be avoided and instead replaced with "member" and "LLP" respectively.
- (b) The LLP will not be bound by acts of its partners in dealing with a 3rd party if:
  - (i) the partner does not have necessary authority to act on behalf of LLP; or
  - (ii) the 3rd party dealing with the partner is aware of this; or
  - (iii) the 3rd party does not know or believe that partner is a partner of LLP.
- (c) For cases of transactions with a former partner, CCM opines that a former partner has authority to act and such transactions are still valid binding unless the 3rd party has actual notice that the partner is no longer a partner at the time of transaction. In another words, constructive notice does not apply i.e. no person is deemed to have notice of any records by reason only that they are made available by the Registrar for inspection. It is viewed that this will be in the best interest of the public in their daily dealings with LLP.

However, some professional bodies e.g. Bar Council Malaysia ("BCM") opines that such doctrine of constructive notice should apply because actual notice may not be practical in the ordinary course of professional business and the duties of partners of LLP should not be made more onerous than that in a general partnership. However, being mindful and in agreement to protect public and consumer

interest, it is proposed by BCM that LLPs should be required to maintain a current list of partners made available for inspection for bona fide purposes by those who have or had dealings with the LLPs in course of its business or profession.

## (3) Registration procedures

- (a) In consistency with the aim of providing a friendly legal framework and Government's aspiration to facilitate process of setting up a business in Malaysia, CCM agrees that the LLP Act will provide a fast, cheap, convenient and straightforward registration process through a single registration instrument be made available.
- (b) Unlike the requirement contained under 5(2) of the Registration of Businesses Act 1956 ("ROBA") where particulars of partnership agreement shall be stated in the prescribed form, such requirement is not necessary to maintain privacy of arrangement between and amongst the partners, and to minimise administrative and compliance costs on the LLP.
- (c) As conclusive evidence that the registration requirements have been complied with, a certificate of registration will be issued where a unique registration number will be allocated to the LLP.
- (d) An LLP must use the words "LL Partnership" or the abbreviation "LLP" as part of its name and that such name must be publicised at its place of business and official documents together with the unique LLP number. This will serve to inform the public that such entity is an LLP and not a general partnership registered under ROBA or a company incorporated under CA.

## (4) Membership structure and eligibility

- (a) CCM proposes that the proposed membership of an LLP is a minimum of 2 without any upper limit as the changing business environment may necessitate businesses to expand and grow.
- (b) Undoubtedly, the flexibility to allow a sole partner to continue to operate without having to wind up the business will make the LLP more convenient and attractive as it increases business flexibility and avoid cost of winding up when number of partners falls below 2. However, CCM opines that single-partner LLP is a misnomer because this will be in contradiction with definition of "partnership" under S3(1) of the Partnership Act 1961 ("PSA") which is defined as 'the relation which subsists between persons carrying on business with a common view of profit' and not in line with international norms. Hence CCM proposes that should an LLP operate below minimum number of 2, it should dissolve, cease to operate and be wound up and the limited liability privilege accorded should be withdrawn, if

after a certain grace period, it still cannot find replacement partners.

- (c) Further, the membership should be open to both natural and legal persons (including LLPs) in line with the PSA.

### **(5) Raising loans and creating security**

CCM agrees that since an LLP possesses a separate legal personality and can own assets in its own name, it should be allowed to raise capital or create charges over its assets. However, a food for thought is that the prevalent banking practice of requiring partners to furnish personal guarantees may nullify such claimed benefit of raising capital over LLP's assets.

### **(6) Creditors' protection mechanism**

- (a) CCM opines that, to accord creditors' protection, the LLP Act should contain claw-back provisions requiring contributions from partners and former partners (limited only to the amount withdrawn/distributed) who have withdrawn any property (including salaries, profits, loan interest and return/refund of capital by LLP) from LLP within a stipulated time frame prior to commencement of winding up, if:

- (i) it can be shown that the LLP was insolvent at the time of withdrawal. It is deemed to be insolvent if at anytime the LLP it unable to pay its debts as they become due in the normal course of business or at any material time, the value of LLP's assets is less than the value of its liabilities. However, BCM opines that it is difficult to determine insolvency of a legal firm because of nature of such firm and its professional business, particularly:
- (aa) the legal profession is service oriented and not capital intensive and hence the proposed solvency test is subjective and unsafe. The concept of "deemed insolvency" is inappropriate and if at all the test of insolvency is to be applicable, it should be a test of "actual insolvency" to be determined by the Courts having regard to general principles of insolvency law;
- (bb) the terms of payment and cash flow vary according to firms and areas of practices;
- (cc) the legal partnership may be subject to contingent liability e.g. in case of suits filed against it for negligent acts and hence effect of such suit in the firm's financial position in respect of its accounts may be difficult to ascertain with certainty; and
- (ii) that the partners knew or have reasonable grounds for believing that LLP was or would not be able to pay

its debts. It is proposed to follow the definition stated in S218(2) of the CA regarding the "inability to pay debts" to mean "when the company is indebted in a sum exceeding RM500-00".

### **(7) Financial reporting**

- (a) CCM opines that there is need to provide safeguards for those dealing with this new form of corporate business including public disclosure of information about LLP, particularly its finances and safeguards in case of insolvency. At the same time, LLP should be accorded some degree of flexibility with regard to financial reporting to make the LLP module attractive. However, such flexibility must balance good corporate governance practice to enable it to be well respected amongst the business community and investors alike.
- (b) As such, CCM proposes that:
- (i) all LLPs are to keep their accounting reports that will enable true and fair financial statements to be prepared and for 7 years after the completion of transactions or operations to which they respectively relate;
- (ii) their financial statements are not required to be audited or filed with the Registrar. Such exemption offers an attractive benefit to business especially the professions opting for conversion into LLPs compared to the stringent audit requirements under the CA and requirements of LLPs should also not be more onerous than what it currently imposed by each profession's regulatory body.
- (c) However, CCM proposes that LLPs are to file an annual solvency or insolvency statement with the Registrar, as the case may be. BCM however disagrees on following grounds:
- (i) it is not feasible for professional LLPs to provide such statement based on the same reasoning stated in para 6(a)(i) above;
- (ii) other reasons include, that:
- (aa) in the usual course of business, insurance, personal guarantees and other general representations would suffice as security/proof of creditworthiness;
- (bb) there would be ramifications to LLPs if the solvency certificate turns out to be untrue including breaching of relevant provisions of the LLP Act and/or rules; a possible criminal offence being committed if so provided under the LLP Act; client engaging the firm based on reliance on the solvency certificate suffering a loss in terms of their extent of recovery in event of liability;
- (cc) such certificate being a declaration only and to





be provided as at a particular date may not be conclusive proof of solvency of the LLP;

- (dd) such certificate may be derived from the LLPs' statement of accounts but for legal professions, issues on solvency may be difficult to assess and hence such certificate would not be of real practical value. Issues like risk of contingency liability and their extent especially in professional negligence cases and professional indemnity insurance coverage add to the complexities of deciding whether such a solvency certificate can be properly given;
- (ee) the Legal Profession Act 1976 ("LPA") provides sufficient disciplinary rules to disqualify members on grounds of bankruptcy, misconduct etc which would address public interest element.

## **(8) Conversions of partnerships and companies s into LLPs (and vice versa)**

- (a) In view of the above benefits of LLP, CCM opines that the availability of conversion procedures under the LLP Act either from general partnerships and private companies will further provide an impetus for such conversion of status.
- (b) The most apparent reasons for a general partnership or a company to convert into an LLP are:
  - (i) structural flexibility. As mentioned earlier, there are various benefits and advantages for LLPs, therefore the ability to convert existing companies and partnerships into LLPs (and vice versa) would constitute a natural progression in this context;
  - (ii) as CCM promises, conversion of an existing form of partnership will be a fast, cheap, convenient and straightforward registration (in comparison to formation of a corporate entity) and a more flexible legal form for small businesses and, at the same time, afford them advantages of separate legal personality;
- (iii) besides flexibility, opportunity for such conversion into an LLP simply makes economic sense for small private companies, especially those seeking to further downsize capacity of their respective companies, as it will relieve them from obligations of keeping up with requirements for maintaining a corporate entity.
- (c) In relation to the above, CCM proposes as follows:
  - (i) Such conversion must necessarily involve transfer to and vesting in LLP of all the affairs, business, contracts, assets, properties, undertaking, liabilities and obligations of the partnership to LLP and the assumption by LLP at the same time of all liabilities and obligations of the partnership subsisting at the time.
  - (ii) To protect creditors from being prejudiced as a result of the conversion:
    - (aa) the partners of the general partnership should continue to remain liable for all liabilities and obligations of the partnership incurred prior to conversion, i.e. the liability of a partner will not be extinguished or limited by way of the conversion;
    - (bb) further, since all assets of the general partnership are transferred to the LLP, it would be appropriate for the partners to be conferred a right to be indemnified by the LLP in respect of such liabilities or obligations;
    - (cc) the LLP is required to state in its invoice, receipts and official correspondences that it had been so converted for a period of 1 year after such conversion;
    - (dd) the partners of the LLP are required to be the same partners of the general partnership and no one else.
  - (iv) To ensure that the shareholders' and creditors' interests are protected, consent is required from the shareholders before such conversion could be effected.
- (d) On another note, BCM proposes that:
  - (i) full relief is granted from the stamp duty and real property gains tax (if applicable) on instruments conveying the partnership property e.g. immovable property, certain types of moveable property like accounts receivable (book debts), chose in action etc to a newly established LLP to achieve complete stamp duty neutrality. Hence the taxing statutes and all other relevant legislations should have to be amended as deemed appropriate;

- (ii) the registration and vesting of converted entity should be simple and a single notification with the relevant regulatory body under the LLP Act and/or of that business or profession should suffice as conclusive proof of conversion and the right to transfer the business, assets and other affairs of the partnership. There should be no need to further file or notify the courts, other registries, licensing authorities, clients, relevant body or persons etc;
- (iii) in respect of the LLP's obligation to give notice of conversion, there should be no charges imposed for filing of notices of change with the relevant authorities;
- (iv) in converting partnerships to LLP, there should be no differences in tax treatment or there should be a "seamless transition" on:
  - (aa) the nature, extent and type of relief, deductions and allowances available;
  - (bb) the members' contribution to a trade;
  - (cc) carrying forward of unrelieved losses;

## (9) Taxation

- (a) The element of taxation in relation to an LLP is an area that has invited mixed views. At this juncture, it is said that this issue shall be addressed by CCM with the Inland Revenue Board (IRB).
- (b) However, the general feedback from the various professional bodies is that:
  - (i) the LLP should be tax transparent, i.e. each member can (subject to certain restrictions) participate in LLP in such a way that there is no higher a tax charge than if it had carried out the business itself and there is no special tax treatment or relief available to the LLPs or members beyond those available to partners in partnership, and no differences in tax liabilities or compliance requirements under the relevant taxing



statutes. This ensures that the commercial choice between using a LLP or a partnership is a tax neutral one;

- (ii) taxes pass through like a partnership, i.e. LLP's income is passed through to the partners and taxed at the individual partner level, without any separate business income tax returns and assessment at the LLP entity level required, and the tax liability falls on individual members, not LLP itself. Profits, gains and incomes are taxed as if the business was carried on by members as partners in partnership with separate legal identity rather than a body corporate.

## CONCLUSION

The intention of implementing LLP is to complement the existing ways and provide wider choice of doing business in Malaysia besides incorporation of companies, registration of partnerships or sole proprietorship.

Under the conventional concept, the main predicaments facing the professionals are that if the firm is sued, all the partners would be liable. Further, such form of business rarely has opportunity to expand whether locally or overseas.

Through LLP, liability of the partners in such firms can be limited and the LLP is responsible for the debts, which it incurs instead of the individual partners, except where action of a partner causes the LLP to commit tortious act. It could thus attract more people to own a business and expand, especially SMEs and professionals in partnerships and sole proprietorships such as lawyers, engineers, and accountants as there would be less personal risk involved in operating business.

This will also help to spur the business environment in Malaysia and ensure that Malaysia remains an attractive location for business, allowing registered firms to operate competitively locally, regionally and globally with their overseas counterparts. This is of particular value to those very large professional partnerships operating in global markets, who might otherwise be tempted to incorporate outside Malaysia. LLP is internationally recognised and has been touted by various commentators as the "world's best practice" structure, designed to attract venture capital from offshore institutional investors and retain domestic investment.

CCM now has about 810,000 registered companies and 3.5 million businesses (comprising of partnerships and sole proprietorships) under its belt. With the numbers increasing, it is optimistic of a positive outcome for LLP and it further believes that LLP can be successfully implemented by 2009. So, LLP is the way forward. ●

*This article is contributed by Grace Tan Li Hoon, Senior Partner at Messrs. KC Lim & Co. Advocates & Solicitors. The writer can be contacted at [gracetan@kclimco.com](mailto:gracetan@kclimco.com)*





# Pricing in an inflationary downturn

In the current environment, costs are rising as price sensitivity increases. Six tactics can help companies get pricing right.

By Cheri N. Eyink, Michael V. Marn, and Stephen C. Moss

**G**etting pricing right is always a challenge in an economic downturn, as decreasing demand, excess capacity, and greater price sensitivity all conspire to drive down prices. In most downturns, the cost of raw materials, feedstocks, and other upstream supplies—as well as the cost to serve customers (for delivering goods, for example)—tends to stabilise and even decrease as business activity slows. As a result, decreases in downstream prices are at least partially offset by lower upstream costs. But in the current environment, not only is weaker demand from the end user making it harder to maintain prices, but significantly higher and more volatile input costs mean that companies caught in the middle are getting hit from both sides.

What's a business to do? In this unusual downturn, companies need to manage the profitability of individual customers and transactions with greater precision, develop richer insights into their customers' changing needs and price sensitivities, and understand more clearly the microeconomics that shape their own industries and those of their suppliers. We've assembled six tactics aimed at maintaining the best

balance possible between sales volume and profit margins in the current challenging environment.

## WATCH FOR SUDDEN SHIFTS IN PRICE STRUCTURE

Companies should be vigilant in monitoring pricing policies that reduce revenue—such as volume discounts, rebates, and cash discounts—as well as cost-to-serve, including freight and sales support. In the current downturn, rising costs and declining demand can cause these elements to change more dramatically and quickly than they have in the past. Rapidly increasing fuel prices, for example, are putting intense pressure on delivery costs. Declining demand means that some customers may be collecting volume discounts they no longer deserve. Best-practice companies are reviewing much more frequently their pocket margin waterfalls<sup>1</sup>, which show how much revenue companies really keep from each of their transactions, and adjusting their pricing policies accordingly—for example, by adding delivery fuel surcharges to every order. Without the extra attention and quick action, erosion at all points of a transaction can quickly destroy profits in times like these.

## MONITOR CUSTOMER-LEVEL PROFITABILITY

Companies should use transaction-level data to measure precisely the profitability of each customer. By doing so, companies can detect if the cost to serve particular customers or declining order volumes are nudging those customers below target profitability levels. In this downturn, for example, many customer groups are becoming simultaneously smaller and more costly to serve. One industrial company found that more than 20 percent of its customers had fallen below breakeven profitability, forcing it to raise prices selectively and, where possible, lower cost-to-serve by decreasing delivery frequency, reducing sales support, or fulfilling orders through alternate channels.

## ADJUST TO CHANGING CUSTOMER NEEDS

Downturns always prompt changes in customer needs and in the benefits they value when choosing a supplier. The dynamics of the current downturn mean that such swings can occur even more rapidly. In this environment, the best companies are constantly assessing—through market research and direct contact—how economics are changing for their customers. Even more important, they are reacting quickly by retooling their price and benefit offerings accordingly. For example, one plastic resins supplier that had developed a fast-curing resin (to enhance capacity of injection molders when the economy was strong) has now developed a less costly resin that doesn't cure as quickly. The new resin helps the supplier's customers decrease costs, because molders are not running at full capacity during the downturn. With other supplies raising their prices, many molders see the slow-curing resin as an attractive alternative. As a result, the supplier can maintain its profit margins even while selling the alternative resin at a lower price. The combination of lower demand and higher input costs in the current downturn makes it critical to get these kinds of adjustments to the cost/benefit balance correct.

## UPDATE PRICE SENSITIVITY RESEARCH

Dramatic increases in energy and food prices have made consumers much more sensitive to prices across a wide range of product categories. Each price increase for necessities such as food and fuel has cut a little more from discretionary budgets, sharply increasing price sensitivity. Market price tests become obsolete after just a few months. To get price points right, pricing sensitivity research and market price tests should be rerun immediately to track these changes.

## MONITOR YOUR INDUSTRY'S MICROECONOMICS

Radical shifts in costs and demand have thrown previously predictable market pricing mechanisms into chaos. Responding correctly requires a keen understanding of the microeconomic forces at play at the industry level. In one example, a building materials company found itself in a precarious position as the downturn deepened: a precipitous decline in US housing starts meant diminishing demand, while the costs for raw materials, energy, and transportation were increasing rapidly. In response, the company reassessed the industry's microeconomics, looking in particular at the latest supply, demand, and cost dynamics. With this new information, managers cut capacity at a plant in an area where the decreased supply would not cause a local shortage. The capacity reduction, which would have had little if any effect on market prices a year earlier, brought about a better balance between supply and demand and kept market prices an estimated 10 percent higher than they would have been without the change.

## STUDY YOUR SUPPLIERS

The extreme volatility in this downturn demands that companies reexamine not only the microeconomics of their own industries but also the microeconomics of their suppliers' industries. Recently, a specialty chemicals company invested in modeling the current industry supply, demand, and cost dynamics for one of its primary raw materials. By doing so, the company predicted an industry-wide, 15 percent price increase for that raw material three months before it happened—a feat of some significance because there hadn't been an annual price increase of more than 5 percent for that material within the past six years. Suspecting an imminent and unusually large price increase, the chemicals company began adding clauses covering raw-material price increases to its customer contracts, a move that would have met extreme resistance if made after the price increases were announced. Instead, the move established an industry precedent for passing cost increases through to customers. ●

<sup>1</sup> For a discussion of the pocket margin waterfall and other pricing tools, see Michael V. Marn, Eric V. Roegner, and Craig C. Zawada, "The power of pricing," *mckinseyquarterly.com*, February 2003.

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# Forecast Accuracy of Dividend Growth Model and Price Earnings Ratio Model on Malaysian Stocks

By Tee Peck Ling & Ng Kean Kok (UTAR)



**I**t was the year 1958 when, for the first time in history, stock dividend yield in the U.S. stock market fell below the long term bond yield and consequently drew the attention of investors to the terms 'overvaluation' and 'undervaluation' (Weimer and Wirth, 2001). Generally, investors will buy stocks when they are undervalued and sell them off when they are overvalued. Since then, various stock valuation models were developed to assess the true value of stocks. Each of the models has its own assumptions to simplify complex, random and volatile data into a predicted fair value for a stock. If model's predicted fair value is less than the actual price of a stock traded in the market, the stock is overvalued. On the other hand, if model's predicted fair value is more than the actual price of a stock traded in the market, the stock is undervalued. Nevertheless, with rounds of booms and slumps in stock markets

over the years, academic researchers and practitioners had put a big question mark on whether stock valuation models are useful to guide investors in stock picking. Worse still, despite continuous improvement and modification of various stock valuation models, due to differences in assumptions and subjective judgments underlying each of these models, they still fail to provide some conclusive or consistent results. A company's stock that is seen to be overvalued according one particular stock valuation model could at the same time be seen to be undervalued according to other stock valuation models. The failure of stock valuation models to forecast stock prices accurately and the inconsistency between various models have prompted more empirical researches with the hope of discovering a stock valuation model that can forecast stock prices of companies relatively accurately.



## STOCK VALUATION MODELS: DIVIDEND GROWTH MODEL (DGM) VERSUS PRICE-EARNINGS RATIO MODEL (PERM)

DGM, created by Myron J. Gordon, was thoroughly explained in his book titled "The Investment, Financing and Valuation of the Corporation" published in 1962. DGM is a single-stage dividend discount model where it estimates the dividends to grow at a constant rate in perpetuity. Due to this nature, DGM needs less stringent estimation of the future growth rate of dividends to value a company's stock (Foerster and Sapp, 2005). Since the establishment of the model, DGM has found many cases of success in aggregate stock market valuation and became very popular in practice, as many investment analysts believed that valuation should be based on dividends rather than earnings (Yardeni 2003). Moreover, Wilcox and Philips (2005) found evidence that the only way to maximize a company's stock value is through maximising the dividend growth, which coincides with Gordon's assumption. However, in Bong-Soo Lee's (2006) study, dividend was found to play a less essential role in stock valuation. According to his study, the variation of forecast errors was primarily influenced by fluctuations in interest rates, while dividends only explained one third of the variation. Furthermore, study by Gurgul, Mestel and Schleichier (2003) revealed that increases in dividends did not induce actual share prices to move in the same direction, which totally contrasted with DGM. In DGM, increase in dividends, ceteris paribus, will lead to a higher forecasted stock price.

PERM originated from an investment bible, "Security Analysis" written by Graham and Dodd in 1934. PE ratio gained its popularity mainly due to its function as a simple indicator. A high

PE ratio usually increases investors' confidence as they expect the sales and profits of the company to grow rapidly in the future (Gill, 2003). Many empirical studies were conducted in the 1980s to test the relationship between PE ratio and forecasting errors of stock values (Abdel-Khalik and Ajinkya, 1982; Givoly and Lakonishok, 1984). Subsequently, studies on how stock returns can be predicted by PE ratios were carried out (Basu, 1977; Baumann and Miller, 1977; Goodman and Peavy, 1983; Fama and French, 1988b; Fiore and Luber, 1989; Ferson and Harvey, 1997; Fama and French, 1998; Rouwenhorst, 1999). Despite these researches, it is still inconclusive to determine the appropriateness of PERM in valuing stock of a company.

Using a sample of 98 Bursa Malaysia Main Board companies that fulfilled the assumptions of both DGM and PERM from years 1996 to 2005, we conducted a research to examine the forecast accuracy of these two most commonly known stock valuation models and determine which of them has relatively lower forecast errors. Besides, we also examined whether the differential in forecast performance between DGM and PERM is related to a company stock's liquidity, degree of financial leverage and growth rate.

## HOW TO MEASURE FORECAST ACCURACY?

First and foremost, forecasted stock price of DGM and PERM at the end of each financial year were computed as follows:

$$\text{DGM: } V_{\text{DGM}} = \text{DPS}_0 (1+g_{\text{DPS}}) \div (k_e - g_{\text{DPS}})$$

$$\text{PERM: } V_{\text{PERM}} = \text{EPS}_0 (1+g_{\text{EPS}}) \times \text{PE}_{\text{IND}}$$

DPS<sub>0</sub> and EPS<sub>0</sub> represent dividend per share and earnings per share of a company at the end of last financial year; g<sub>DPS</sub> and g<sub>EPS</sub> denote the average growth rate of a company's DPS and EPS respectively over the last 10 years, on a rolling basis; k<sub>e</sub> represents the required rate of return on equity of the company, derived from the Capital Asset Pricing Model (CAPM); PE<sub>IND</sub> indicates the industry average PE ratio within which a particular sample company belongs to.

Secondly, forecast error of DGM and PERM at the end of each financial year were computed by using absolute forecast error formula as follows:

$$\text{Forecast Error of DGM } FE_{\text{DGM}} = |(P - V_{\text{DGM}}) \div P|$$

$$\text{Forecast Error of PERM } FE_{\text{PERM}} = |(P - V_{\text{PERM}}) \div P|$$

Where P denotes the actual stock price of the company traded in the market at the end of the financial year, while V<sub>DGM</sub> and V<sub>PERM</sub> represent forecasted stock price for the corresponding period by using DGM and PERM respectively. Subsequently, average absolute forecast error (for simplicity, known as forecast error hereafter) was computed for each company for each of the stock valuation models by summing up forecast errors over 10 years from 1996 to 2005 and then divided by ten.



**Table 1: Test results of Compare Mean T-test**

Test	Mean Forecast Error of DGM	Mean Forecast Error of PERM	Differential Mean Forecast Error	t-stats
Overall	0.8680	0.4390	0.4290**	32.97
Liquidity:				
High	0.8341	0.4335	0.4006**	18.68
Medium	0.8767	0.4446	0.4321**	18.14
Low	0.8945	0.4382	0.4563**	19.63
Leverage				
High	0.8028	0.4626	0.3402**	18.68
Medium	0.8765	0.4358	0.4406**	18.14
Low	0.9234	0.4196	0.5038**	21.35
Growth				
Positive	0.8685	0.4557	0.4128**	23.19
Negative	0.8696	0.4162	0.4534**	26.97

\* significant at 0.05 level

\*\* significant at 0.01 level

Note: Mean forecast error is the average of 98 companies average absolute forecast errors based on a particular stock valuation model.

Using 'Compare Mean T-test', results in Table 1 revealed that there was a significant difference in mean forecast errors between DGM and PERM, with PERM showing greater accuracy (lower mean forecast error) compared to DGM. These results are not only observed for the overall testing on a sample of 98 companies, but also hold similarly after we divided our sample companies according to categories based on level of company's stock liquidity, leverage and growth. Our results are generally consistent with past studies. Graham and Dodd (1934) stressed the importance of PE ratio in valuing a firm's stock. Moreover, Jaffe, Keim and Westerfield (1989) concluded that valuation based on PE ratio is useful for investment decision making and Lee (2006) found that dividends played less essential role in stock valuation compared to earnings.

That DGM tended to have larger forecast error could be due to the fact that most Malaysian listed companies paid low and constant (zero growth) dividends over the years, leading to abnormally lower DGM forecasted stock prices. Even if a company increased its dividends, it may not be a reliable signal of stock's true value. As claimed by DeAngelo, DeAngelo and Skinner (1996), investors in the market are sceptical that managers are either overoptimistic about the future prospects of their company or try to mislead investors who are asymmetrically informed to hold equity shares of their company. Perhaps these are the reasons why investors in Malaysia pay less attention to dividends, and dividend payouts are somehow irrelevant in influencing stock prices in Malaysia, hence actual stock prices deviate largely from DGM forecasted stock prices (where dividend per share is the key internal parameter of DGM).

Furthermore, McCluskey, Burton, Power and Sinclair's (2006) research found that announced changes in dividends did not cause changes in actual share prices, but announced changes in earnings significantly explained changes in actual share prices. This could be the reason why DGM forecasted prices are far different from actual share prices, while PERM forecasted

prices are closer to actual share prices.

Another possible explanation to this finding is that Malaysian investors who are in retirement age may not invest in high dividend yielding stocks and instead speculate on stocks with potential high growth in earnings as young investors do. This phenomenon is different from the clientele that are generally observed in developed stock markets, whereby retired investors tend to invest in stocks that generate a stable source of income (dividends), and young investors who are still accumulating income from their working life tend to take greater risk to invest in high growth stocks in the hope of building up their wealth. This reason could further explain why Malaysian-listed companies tend to pay lower dividends and dividend announcements by firms do not really cause much adjustment in share prices, hence leading to a larger forecast error in DGM model.

## DOES COMPANY CHARACTERISTICS RELATE TO FORECAST ACCURACY?

Besides relative forecast accuracy of stock valuation models, there have been researches that studied factors that could explain forecast errors of stock valuation models. Among the common factors looked into were a firm's stock liquidity, leverage and growth rate. In our study, liquidity is measured as the ratio of average monthly trading volume of a stock to its issued share capital. The 98 sample companies were further categorised into high liquidity, medium liquidity and low liquidity by sorting them according to the measurement. The top one-third companies were labelled as 'high liquidity', the next one-third labelled as 'medium liquidity' and the bottom one-third as 'low liquidity'. Apart from that, leverage was measured as the ratio of book value of total debt over market value of common equity. The 98 companies were categorised into high leverage, medium leverage and low leverage, using similar abovementioned procedure. Growth rate was measured as growth rate of a

company's earnings. Here, the 98 companies were classified into positive growth and negative growth categories.

Interestingly, moving from high liquidity category to low liquidity category in Table 1, differential mean forecast error increased from 0.4006 to 0.4563, indicating a relatively greater preference towards the use of PERM (as DGM has even larger forecast error than PERM). Besides, moving from high leverage category to low leverage category, differential mean forecast error increased from 0.3402 to 0.5038, again indicating a relatively greater preference towards the application of PERM. Similarly, moving from positive growth category to negative growth category, differential mean forecast error rises from 0.4128 to 0.4534, indicating greater preference to adopt PERM.

**Table 2: Test results of Cross Sectional Linear Regression**

Variables	Coefficient $\beta$	t-stats
Liquidity LIQ	-0.11**	-4.79
Leverage LEV	-0.14**	-6.29
Growth GROWTH	-0.14**	-2.10

\* significant at 0.05 level

\*\* significant at 0.01 level

To further confirm the above observations, a Linear Regression test is conducted. Referring to results summarised in Table 2, company characteristics (stock liquidity, leverage and growth) are found to be significantly negatively related to differential forecast error (DGM forecast error minus PERM forecast error), i.e. PERM model is preferred to DGM with a larger extent when a company has low stock liquidity, low leverage and negative growth rate.

Firstly, low stock liquidity triggered greater magnitude of variation in share prices, indicating greater risk. As a result, investors will require higher risk-adjusted return, which in turn resulted in a lower predicted price by DGM and a larger deviation from actual stock price (a larger forecast error). In contrast, there is no association between liquidity and PE ratio (a measure of investors' confidence on company's future prospects). Increase in stock liquidity is caused by market reaction to new information about the company, regardless of good or bad news. Therefore, predicted price by PERM will roughly be the same regardless of a stock's liquidity. Given that DGM tends to predict lower price for companies with lower stock liquidity, differential in forecast performance between DGM and PERM will be larger as stock liquidity reduces.

Secondly, companies heavily involved in risky investment projects would often be financed by more debt as the risk of project failure is shifted to creditors and lenders. In other words, companies that have low degree of leverage are those that invested in less risky projects, in turn leading to more predictable expected earnings per share. As PERM uses expected earnings as parameter in its forecasting, more certain expected earnings

produces more accurate forecasted stock price as compared to DGM. Therefore, when degree of leverage decreases, relative accuracy of PERM over DGM increases.

Last but not least, PERM is preferable to DGM when a company's growth rate is negative. When a company suffers from negative growth in performance in a particular financial year, investors in the market, who are more pessimistic about the future prospects of the company, will sell their shares of that company, resulting in lower actual share price in the market. However, DGM that assumes a constant growth in dividends (derived from average growth rates over few previous financial years and usually turned out to be positive average growth rate) is unlikely to forecast a price that is more reflective of the negative growth rate, hence resulting in a larger discrepancy between forecast price and actual price in the stock market. On the other hand, a negative growth will readjust expected earnings of the company downward, resulting in a lower forecast share price based on PERM. Thus, it is more likely that predicted price based on PERM is closer to actual price, i.e. a lower forecast error.

## CONCLUSION

PERM is generally found to be more accurate than DGM in forecasting stock values among Malaysian stocks. Hence, we would recommend interested parties to apply PERM rather than DGM to aid their decision-making. Interested parties may include investors who want to make stock picking or divesting decision, investment bankers who advise companies on the offer price for new issuance of equity shares and the bidding price for mergers or takeovers, managers who consider open market share repurchase, and employees who consider purchase their company's shares through employee share option scheme. Nevertheless, PERM is still not the 'perfect' model of stock valuation. We hope there will be more research carried out in the future that incorporate almost all of the significant factors that could explain stock prices under one roof and yield a universally and generally accepted stock valuation model in practice. ●

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INSTITUTE NEWS



Guest of honour YB Dato' Wira Chor Chee Heung, Deputy Minister of Finance I was warmly welcomed to the Annual Dinner



President of MICPA YBhg Dato' Nordin Baharuddin presenting a token of appreciation to the Deputy Finance Minister I

**JUNE** ..... It was again that time of the year for members to get together at the Institute's Annual Dinner. The function was held on Friday, June 19, 2009 at Nusantara Ballroom, Sheraton Imperial Kuala Lumpur Hotel and aptly themed *A Celebration of Fellowship*.

The event, attended by over 350 members, organisations and invited guests was graced by YB Dato' Wira Chor Chee Heung, Deputy Minister of Finance I.

The dinner also saw the presentation of Anugerah Presiden 2009 to a member of the Institute who has made exceptional contributions to society, the accountancy

profession and the Institute. This year's recipient was YB Senator Tan Sri Amirsham A Aziz, Chairman of the National Economic Advisory Council (NEAC).

The guests were entertained to a superb performance by the vibrant Vanessa Tan who indulged the guests with a repertoire of jazz songs. All in all, it was a pleasant and enjoyable evening.

The President, Council, Management and Staff of the MICPA would like to express our sincere appreciation and thanks to all parties who have made our 51st Annual Dinner a huge success.



The VIPs and their spouses having a pre dinner tête-à-tête







*Deputy Finance Minister I and the recipient of the Anugerah Presiden being ushered by the President Dato' Nordin and the Vice-President Dato' Johan Raslan*



*Secretariat staff*



*It was a night to celebrate the fellowship*



*Accountants renewing ties and having fun*



*The VIP corner*



*Young CPAs mingling together*



## RECIPIENT OF ANUGERAH PRESIDEN 2009

# YB Senator Tan Sri Amirsham A Aziz



**YB** Senator Tan Sri Amirsham A Aziz was born on September 18, 1950 and is married to YBhg Datuk Faizah Mohd Tahir and they are blessed with two sons. He graduated with a Bachelor of Economics (Honours) degree from the University of Malaya in 1973.

Tan Sri Amirsham has vast expertise and experience in the financial aspects and economic planning and was recently appointed Chairman of the National Economic Advisory Council (NEAC), a position he assumed on June 1, 2009. On March 18, 2008, he was appointed as Minister in the Prime Minister's Department in charge of the Economic Planning Unit (EPU) and the Department of Statistics (DOS). He served in this position until April 9, 2009.

Before being appointed Minister in charge of the Economic Planning Unit, Amirsham was Maybank Berhad President and Chief Executive Officer from 1994 to 2008. Under his stewardship, the Maybank Group saw healthy growth and record; he steered the Maybank Group forward as the country's largest financial institution and built the bank franchise to become the most valuable brand.

He joined the Maybank Group in 1977 after a four-year stint

with Hanafiah Raslan Mohamad, a public accounting firm and served in various posts within the group. He started as a loan manager for Mayban Finance Corp., a wholly-owned subsidiary of Maybank. In May 1982, he was transferred to Maybank as Assistant General Manager, Domestic Banking Division. After three years, he was seconded to Asiavest Merchants Bankers to help reconstruct the bank. Six months later, he moved back to Maybank as Asst. General Manager of the Treasury Division, and later promoted as General Manager, Finance. He assumed higher positions over the next few years, culminating in his appointment as President/CEO in May 1994.

Amirsham served as Chairman and has held Directorships in various leading public and private organisations, including the Chairmanship of Malaysian Electronic Payment System Sdn Bhd (1977), Cagamas Berhad, Permodalan Usahawan Nasional Berhad, AFC Merchant Bank, AFC Holdings Sdn Bhd, ASEAN Supreme Fund Ltd and the Asian Pacific Bankers Club.

He was a member of the Advisory Panel to Bank Negara Malaysia, Advisory Board of the Pacific Rim Bankers Program, Investment Panel of Kumpulan Wang Amanah Pencen and Kumpulan Wang Simpanan Pekerja as well as Council Member of the Association of Banks in Malaysia. In addition to these, he was the Vice Chairman of the Institute of Banks Malaysia.

At the international level, he was on the advisory board of the Pacific Rim Bankers Programme and a director of the Washington-based Institute of International Finance.

In recognition of his dynamic, aggressive and effective leadership, Tan Sri has received numerous awards. He was awarded the Asian Bankers Lifetime Achievement award in recognition of his outstanding leadership in financial services and inducted into the Global Hall of Fame by the International Association of Outsourcing Professionals.

YB Senator Tan Sri Amirsham A Aziz was admitted as a member of MICPA in June 1976 (Membership No.1353). A true-bred CPA, he undertook his three years practical training with Hanafiah, Raslan & Mohamad. On February 24, 2009, Tan Sri was



awarded Honorary Fellowship by The Institute of Chartered Accountants in Australia (ICAA).

Tan Sri has a strong commitment towards the accountancy profession as well as to corporate social responsibility. Recognising the fact that supervised training is important, Maybank registered as an Approved Training Organisation (ATO) of the Institute on June 19, 1994, where under the Stream II training, employees of Maybank may undertake the CPA examinations prior to the start of practical training or during the training period under the supervision of a member of MICPA or approved professional body.

He has contributed to MICPA's events and was featured in MICPA's Corporate Video, *The World of a CPA*, which was distributed to all the secondary schools in Peninsular Malaysia as well as Sabah and Sarawak to promote accountancy as a career and in particular, the CPA programme.

Tan Sri was the Guest of Honour for the MICPA-Bursa Malaysia Business Forum 2008 where he delivered the Keynote Address as well as witnessed the signing of the Memorandum of Understanding (MoU) between MICPA and The Institute of Chartered Accountants in Australia in February 2009.

Ladies and Gentlemen, sincerely, I can think of no other better person to receive Anugerah Presiden 2009.

*Note: Look out for the interview with Tan Sri Amirsham in the next issue.*

## Acceptance Speech By

# YB Senator Tan Sri Amirsham A Aziz

**I**n preparing to attend this evening's awards ceremony, two thoughts crossed my mind. The first was the significance of this gathering this year in light of the turmoil of the financial markets and global economic crisis.

Secondly, how changes in accounting rules may have played a part in exacerbating the present crisis and how we can draw valuable lessons which we can all learn from to better manage our economy.

I am deeply humbled by the great honour accorded to me by MICPA. When I was first told about the Award, I wondered if this meant that I had spent too much of my lifetime serving the community and the country as a banker, hence the recognition. My wife and children never failed to point out to me that I spent more time building up my career than with my own family. My answer to them was that my career is indeed my first love.

The training and exposure that I have acquired as an accountant in the early 1970s has given me the opportunity to start my career in banking. It was with Maybank that I was privileged to develop personally, build knowledge and skills.

Being trained as an accountant, I was able to lead my fellow colleagues in Maybank during a period of tremendous growth in the financial services industry and the reshaping of the industry post the financial crisis of '97 in terms of domestic consolidation and the implementation of the Financial Sector Masterplan. I spent a total of 31 years with Maybank, an entire career lifetime.

However, there is a saying that when you are able to reflect and recollect much that has happened over the years, then it is probably the right time to leave and look for new horizons. So I did when I planned for my retirement in June 2008. Then as you all know, things did not go as planned.

I was thrust with a new challenge of serving the Government, again a privilege, which I had never anticipated to be given to me. It was an experience, one that has proved to be valuable in terms of gaining new insight and perspectives on life. But as you know, accountants do not necessarily make good politicians. In accounting, every transaction is either a debit or credit but in politics, it can be both a debit and a credit.

I stand here tonight to accept this Award, and to MICPA, let me say Thank you for the honour and recognition.

# MICPA 51st Annual General Meeting

**T**he Institute's 51st Annual General Meeting (AGM), which was called to order by the President, YBhg Dato' Nordin Baharuddin at 10:00 a.m. on Saturday, June 20, 2009 proceeded smoothly. At the commencement of the meeting, the President commented on the Institute's financial position and provided a brief on major activities during the year.

The President stated that the Institute's financial position posted a net operating surplus but added that total income decreased by 4% due mainly to the decrease in income generated from the MICPA-Bursa Malaysia Business Forum 2008 and continuing professional development courses. He added that total expenses decreased by 4% resulting from a drop in staff costs.

The Council will continue to undertake fund raising activities to increase the Institute's financial resources in order to enable the Institute to invest in brand development and to promote the Revised MICPA Programme.

The President informed members that a total of 63 new members were admitted during the year and after taking into account members who resigned or were excluded from membership for failure to pay the annual subscriptions/practising certificate fees, a net decrease of 2 members was recorded. Currently, the Institute has a total membership of 3,092.

He added that the Institute registered a total of 87 new students comprising predominantly graduates with accounting degrees. As compared to previous year, the new student intake has increase by one fold. After taking into account students who were excluded from the register of students for non-payment of annual fees, students who terminated their registration and students who were admitted as members or provisional members, a net decrease of 17% in student population was recorded compared to 2007. Presently, the Institute has a total of 544 registered students.

He highlighted that the concerted efforts made by the Institute to promote the CPA qualification have resulted in an increase in student intake compared to the previous year but this has been counterbalanced by the drop-out of existing students.

The President added that 2008 was indeed an exhilarating year for the Institute as it continued on the journey to forge global links and spread our wings to further expand the CPA Malaysia brand. He highlighted that the Institute has signed a Memorandum of Understanding with The Institute of Chartered



Accountants (ICAA) in Australia on February 24, 2009. He explained that the MoU provides for Recognition, Examination and Membership arrangements between the two Institutes. New entrants to the revised MICPA programme will be required to undertake common examinations and upon satisfactory completion, students will be eligible to admit as members of ICAA and MICPA.

He announced that the Institute would introduce the revised MICPA programme this month and the first group of students sitting for the revised MICPA examination will be in December 2009. The revised MICPA programme that incorporates education modules of both bodies will consist of five modules namely Taxation, Financial Accounting & Reporting, Auditing & Assurance, Management Accounting & Analysis and Ethics & Business Applications. Students are required to obtain not less than three years of approved practical experience under the supervision of a member of MICPA or ICAA or approved professional body.

The President added that with the introduction of the revised MICPA programme, the ability to attract new entrants to undertake the MICPA programme would be stronger, which eventually would help boost the membership of the Institute. The revised programme will facilitate and enhance the movement of younger members within a worldwide alliance.

He stressed that the Institute has embarked on an active programme to promote the revised MICPA programme to public and private universities and institutions of higher learning. Presentations have been made to the accounting faculties on the merits of the revised MICPA programme. In the meantime, the support of members in implementing the MICPA programme



within the members' organisations and in encouraging new recruits to pursue the CPA qualification was vital.

The President also stated that the Council had not forgotten existing members, especially those who would like to seek a foreign qualification. The Institute was in the process of discussion with ICAA and ICAEW to recognise the CPA qualification on a reciprocal basis and to provide a route for qualified members of either body to become a member of the other body, and to enjoy the benefits which both bodies can offer. He added that the Institute would keep members informed of the progress and development of our discussions in due course.

On services to members, the President stated that that an important task of the Council is to ensure that the Institute continues to provide relevant services that meet the needs of different segments of the membership. The Council is keenly conscious that members work in a fast-changing environment. It constantly undertakes initiatives to improve the services provided to members to ensure that CPAs in any sector preserve their technical excellence. The Institute provides members with technical updates and guidance on all aspects of CPAs' work covering accounting, auditing and assurance, taxation, and insolvency practice.

He added that the Institute continued to improve communications to members with e-circulars and alerts sent regularly to keep members updated on recent news about the Institute and profession. Members now know what is happening in the Institute and in the profession throughout the world.



He went on to add that the Institute's involvement is focused on areas that are most relevant to the Malaysian environment. The Institute participated actively in the work of the International Auditing and Assurance Standards Board (IAASB) of IFAC. In the area of the international co-operation, the Institute certainly welcomes the exchange of information between fellow accountancy bodies to strengthen professional relationship and understanding of the current developments in the accountancy profession and business environment in the various countries.

In conclusion, the President thanked all members who have contributed their time, energy and expertise to the Institute's work. He also expressed his gratitude to the Council members for the full support and cooperation extended to him during his tenure as President.

## Appointment of President and Vice-President

**A**t the Council meeting held following the Institute's 51st AGM, YBhg Dato' Nordin Baharuddin was re-elected as President and YBhg Dato' Ahmad Johan Mohammad Raslan as Vice-President of the Institute for the term 2009/ 2010.

YBhg Dato' Nordin Baharuddin is currently the Chairman of KUB Malaysia Berhad. He was the Executive Chairman of Ernst & Young Malaysia from 1999-2004 and has over 35 years of work experience in both public accounting practice and in the commercial sector. Dato' Nordin was admitted as a member of the MICPA in 1982 and became a Council Member of the Institute in 2000. He is the Chairman of the Executive Committee and a Member of the Public Affairs Committee of the Institute.

YBhg Dato' Ahmad Johan Mohammad Raslan is currently the Executive Chairman of PricewaterhouseCoopers Malaysia and has over 25 years of experience in audit and business advisory both in Malaysia and the United Kingdom. Dato' Johan was admitted as a member of the MICPA in 2002 and became a Council Member of the Institute in 2003. He is the Chairman of the Institute's Administrative and Financial Affairs and Government Affairs Committee as well as a Member of the Executive Committee and the Investigation Committee of the Institute.

## Appointment of Council Member

**T**an Theng Hooi is the Country Managing Partner of Deloitte Malaysia. He is also a member of Deloitte Southeast Asia's Board of Directors. Theng Hooi has over 30 years of experience in public accounting practice with Deloitte. He has extensive experience providing audit, tax and business advisory services to both multinational and local companies across a wide spectrum of industries. Theng Hooi specialised in providing business advisory and consultancy services to foreign and local private entities on corporate governance and listing of companies in the Malaysian Stock Exchange. He has also advised many large multinational clients in the set up of their manufacturing and business operations in Malaysia. Theng Hooi is a Chartered Accountant of the Malaysian Institute of Accountants and a member of CPA, Australia. He is also a Council Member of The Malaysian Institute of Certified Public Accountants.

## INSTITUTE NEWS

### The MICPA Council – 2009/2010

Dato' Nordin Baharuddin (President)	Mohamed Raslan Abdul Rahman
Dato' Ahmad Johan Mohammad Raslan (Vice-President)	Ng Kim Tuck
Dato' Abdul Halim Mohyiddin (Immediate Past President)	Ng Mi Li (Miss)
Abdul Halim Md Lassim	Ken Pushpanathan
Abdul Jabbar Abdul Majid	Poon Yew Hoe
Ahmad Mustapha Ghazali	See Huey Beng
Beh Tok Koay	Seow Yoo Lin
Datin Hajjah Fadzilah bt Saad	Sukanta K Dutt
Dato' Gan Ah Tee	Tan Chin Hock
Goh Lee Hwa (Miss)	Tan Theng Hooi
Peter Lim Thiam Kee	Dr Veerinderjeet Singh
Lee Tuck Heng	Venkatramanan Viswanathan
Lim Tian Huat	Dato' Yeo How
Loh Lay Choon (Miss)	Robert Tan Bun Poo
Dato' Hj Maidin Syed Ali	Datuk Robert Yong Kuen Loke

### Chairman of Committees – 2009/2010

<b>Executive</b>	Dato' Nordin Baharuddin
<b>Accounting &amp; Auditing Technical</b>	Sukanta K Dutt <i>Alt Chairman:</i> Ng Kim Tuck
<b>Administrative &amp; Financial Affairs</b>	Dato' Ahmad Johan Mohammad Raslan
<b>Commerce &amp; Industry</b>	Dato' Yeo How
<b>Disciplinary</b>	Ahmad Mustapha Ghazali <i>Alt Chairman:</i> Abdul Jabbar Abdul Majid
<b>Education &amp; Training</b>	Dato' Abdul Halim Mohyiddin
<b>Examination</b>	Abdul Jabbar Abdul Majid <i>Alt Chairman:</i> Beh Tok Koay
<b>Financial Statements Review</b>	Ken Pushpanathan
<b>Government Affairs</b>	Dato' Ahmad Johan bin Mohammad Raslan
<b>Insolvency Practice</b>	Lim Tian Huat
<b>Investigation</b>	See Huey Beng <i>Alt Chairman:</i> Datin Hj Fadzilah Saad
<b>Membership Affairs</b>	Seow Yoo Lin
<b>Public Affairs</b>	Datuk Robert Yong Kuen Loke
<b>Public Practice</b>	Peter Lim Thiam Kee
<b>Tax Practice</b>	Beh Tok Koay

### Membership Update

### MICPA Welcomes New Members

#### ADMISSION TO MEMBERSHIP AS CPA ON JUNE 20, 2009

1. Aduni Idzura binti Omar
2. Chin Keat Cheng
3. Lee Soo Yinn (Ms)
4. Seow Li Yoong (Ms)
5. Thangaraja a/l Nada Raja

#### RE-ADMISSION TO MEMBERSHIP ON MAY 27, 2009

1. H'ng Boon Keng

#### ADMISSION TO MEMBERSHIP AS CERTIFIED FINANCIAL ACCOUNTANTS (CFIA) ON JUNE 20, 2009

1. Dr. Abu Sofian bin Yaacob
2. Dr. Azhar bin Mohd Nasir
3. Dr. Hasri bin Mustafa @ Abdul Razak
4. Dr. Lau Yeng Wai (Ms)
5. Dr. Ong Tze San (Ms)
6. Dr. Rosmila binti Senik
7. Dr. Zaidi bin Mat Daud
8. Assoc. Prof. Dr. Zulkarnain bin Muhamad Sori

**NOVEMBER 2009 EXAMINATION**

**TIME TABLE**

**PROFESSIONAL STAGE EXAMINATION**

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

**ADVANCED STAGE EXAMINATION**

<b>DATE</b>	<b>TIME</b>	<b>EXAMINATION PAPER</b>
Monday (November 23)	9:00 a.m. – 12:00 noon	Advanced Taxation
Tuesday (November 24)	9:00 a.m. – 12:30 p.m.	Advanced Financial Reporting
Wednesday (November 25)	9:00 a.m. – 12:30 p.m.	Advanced Auditing & Assurance
Thursday (November 26)	9:30 a.m. – 11:30 a.m. [8:45 a.m. – 9:30 a.m. (Reading Time)] 12:30 p.m. – 2:30 p.m.	Advanced Business Management & Integrative Case Study Part A - Integrative Case Study  Part B - Advanced Business Management

**ADMITTING EXAMINATION  
BYE-LAW 34(1)(f) EXAMINATION CANDIDATES**

<b>DATE</b>	<b>TIME</b>	<b>EXAMINATION PAPER</b>
Monday (November 23)	9:00 a.m. – 12:00 noon	Malaysian Taxation
Tuesday (November 24)	9:00 a.m. – 12:00 noon	Regulatory & Financial Reporting Framework of Malaysia



## MICPA CPD TRAINING CALENDAR 2009

Month	Topics	Duration	Speakers	Event	Venue
<b>June 2009</b>					
Jun 18	Business Combinations and Issues in Consolidated Financial Statements	1 day	Thaya Sangara, Nurul Ain Abdul	Workshop	The Legend Hotel, KL
Jun 15	Strategic Tax Planning for Corporate Restructuring	1 day	Harvinder Singh	Workshop	The Legend Hotel, KL
Jun 26	Market Outlook: Green Shoots or Grey Skies?	2 hours	Terence Wong	Evening Talk	The Legend Hotel, KL
<b>July 2009</b>					
Jul 16	Forensic Accounting	1 day	Ranjit Singh	Workshop	The Legend Hotel, KL
Jul 22-23	A Practical Guide to Auditing	1 day	Yung Chuen Seng	Workshop	The Legend Hotel, KL
Jul 27	Deferred Taxation	1 day	Danny Tan	Workshop	Concorde, KL
<b>August 2009</b>					
Aug 4	Accounting for Construction and Property Developments Activities	1 day	Lim Geok Heng	Workshop	Seri Pacific, KL
Aug 12	Tax Planning and Strategies for Cross Border Transactions	1 day	Chow Chee Yen	Workshop	Concorde Hotel, KL
<b>September 2009</b>					
Sep 8	Capital Allowances	1 day	Harvinder Singh	Workshop	The Legend Hotel, KL
Sep 10	Tax Planning on Current Tax Issues	1 day	Chow Chee Yen	Workshop	Seri Pacific, KL
Sep 15	Practical Application of the FRS Standards	1 day	Stephen Oong	Seminar	Seri Pacific, KL
Sep 30	Financial Instruments	1 day	Manohar Johnson	Workshop	Seri Pacific, KL
<b>October 2009</b>					
Oct 6	Funding & Tax Issues	1 day	Harvinder Singh	Workshop	Seri Pacific KL
Oct 30	Applying Generally Accepted Accounting Practice in Malaysia	1 day	Danny Tan	Workshop	Concorde, KL
<b>November 2009</b>					
Nov 3	Tax Investigation	1 day	Harvinder Singh	Workshop	The Legend Hotel, KL
Nov 4	Advance Corporate Tax Planning	1 day	Chow Chee Yen	Workshop	Seri Pacific, KL
Nov 9-10	MICPA-Bursa Malaysia Business Forum 2009	2 days	Panel of Speakers	Forum	Shangri-La Hotel, KL
Nov 10	Practical Application of the FRS Standards	1 day	Stephen Oong	Seminar	The Legend Hotel, KL
Nov 24	Impact of the 2010 Budget on Business and Tax Updates	1 day	Panel of Speakers	Seminar	Seri Pacific KL
<b>December 2009</b>					
Dec 9-10	A Practical Guide to Auditing	2 days	Yung Chuen Seng	Workshop	The Legend Hotel, KL
Dec 17	Strategic Tax Planning for Corporate Restructuring**	1 day	Harvinder Singh	Workshop	The Legend Hotel, KL

\*\* Denotes tentative dates or venue or speaker

For further information, please contact: Mr Tan Choon Hai / Cik Salmiah Aliyas

Tel: 03-2698 9622 Fax: 03-2698 9403 E-mail: chtan.edu@micpa.com.my or salmiah.edu@micpa.com.my

## MICPA Practising Certificate

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

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

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

*The Malaysian Institute of Certified Public Accountants*

*No.15 Jalan Medan Tuanku, 50300 Kuala Lumpur.*

*Tel: 03-2698 9622 Fax: 03-2698 9403 E-mail: membership@micpa.com.my*



# MASB Update

## MASB amends 3 Standards and issues 3 Interpretations

In a press release dated May 19, 2009, the Malaysian Accounting Standards Board (MASB) announced the issuance of a revised Standard and two limited amendments to Financial Reporting Standards (FRSs), together with the issuance of three new Interpretations. The revised Standard, amendments and Interpretations, which are virtually identical to those issued by the International Accounting Standards Board (IASB), are:

- FRS 123 *Borrowing Costs*
- Amendments to FRS 2 *Share-based Payment: Vesting Conditions and Cancellations*
- Amendments to FRS 1 *First-time Adoption of Financial Reporting Standards* and FRS 127 *Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- IC Interpretation 11 FRS 2 – *Group and Treasury Share Transactions*
- C Interpretation 13 *Customer Loyalty Programmes*
- IC Interpretation 14 FRS 119 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

The Standards, already effective internationally, are mainly improvements and guidance issued by the IASB after their consultative process with standard-setters worldwide and interested parties.

### About the Standards

FRS 123, which replaces FRS 123<sup>2004</sup>, removes the option of immediately recognising as an expense borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.

The amendments to FRS 2 clarify that vesting conditions are service conditions and performance conditions only and do not include other features of a share-based payment; also the amendments clarify that cancellations by parties other than the entity are to be treated in the same way as cancellations by the entity.

First-time adopters of the FRS framework would welcome the amendment to FRS 1 as it allows them to measure the initial cost of investments in subsidiaries, jointly controlled entities (JCE) and associates either at fair value or the previous carrying

amount. Without this amendment, first-time adopters may face practical difficulties on transition to the FRS framework, as these investments would have to be measured in accordance with FRS 127 retrospectively. As a result, the requirement to distinguish between pre and post acquisition dividends from a subsidiary, JCE or associates is removed but at the same time, a new impairment indicator is included in the standard on impairment.

FRS 127 has also been amended to deal with situations where a parent reorganises its group by establishing a new entity as its parent. Under the new rules, the new parent measures the cost of its investment in the original parent at the carrying amount of its share of the equity items shown in the separate financial statements of the original parent at the reorganisation date.

### About the Interpretations

IC Interpretation 11 clarifies how share-based payment transactions involving its own or another entity's instruments in the same group are to be treated and that cancellations by parties other than the entity are to be treated in the same way as cancellations by the entity.

IC Interpretation 13 explains how entities that grant loyalty award points to its customers should account for their obligation to provide free or discounted goods or services if and when the customers redeem the points.

IC Interpretation 14 addresses how entities should determine the limit placed on the amount of a surplus in a pension plan they can recognise as an asset. Also, it addresses how a minimum funding requirement affects that limit and when a minimum funding requirement creates an onerous obligation that should be recognised as a liability in addition to that otherwise recognised under IAS 19.

The new FRSs and Interpretations are available from MASB website (<http://www.masb.org.my>) or can be purchased in booklet form from MASB office.

(Source: [www.masb.org.my](http://www.masb.org.my))

## MASB issues 3 Exposure Drafts and 3 Draft

The MASB on June 23, 2009 released three Exposure Drafts and three Draft Interpretations for public comments. The Exposure Drafts and Draft Interpretations, which are virtually identical to

## PROFESSIONAL NEWS

those issued by the International Accounting Standards Board (IASB), are:

- ED 64 *Business Combinations*
- ED 65 *Consolidated and Separate Financial Statements*
- ED 66 *First-time Adoption of Financial Reporting Standards*
- [draft] IC Interpretation 15 *Agreements for the Construction of Real Estate*
- [draft] IC Interpretation 16 *Hedges of a Net Investment in a Foreign Operation*
- [draft] IC Interpretation 17 *Distribution of Non-cash Assets to Owners*

### **About the Exposure Drafts**

ED 64, 65 and 66, when finalised, will replace FRS 3 *Business Combinations*, FRS 127 *Consolidated and Separate Financial Statements* and FRS 1 *First-time Adoption of Financial Reporting Standards* respectively.

ED 64 and ED 65 are a result of a joint effort between IASB and its US counterpart to improve accounting for business combinations. Among the proposals is simplifying the accounting for goodwill in a step or partial acquisition. FRS 3 requires entities to measure the fair value of each asset and liability at each step for the purposes of measuring the portion of goodwill attributable to that step whilst ED 64 proposes that goodwill should be calculated as a residual of the fair values of the assets and liabilities at acquisition date. It is also proposed that any interest in the investment held immediately before the acquisition should be measured at fair value and any related gain or loss recognised in profit or loss.

For non-controlling equity interests (NCI or formerly known as minority interests), the Exposure Draft proposes to allow an acquirer to choose between two methods of measuring NCI either using the method required by FRS 3, or measuring at fair value.

Other proposed improvements is that acquisition-related costs, i.e. fees incurred in a business combination, will generally have to be recognised as an expense at the time of the acquisition (rather than included in goodwill). ED 65 also clarifies that changes in the parent's ownership interest that do not result in the loss of control of a subsidiary should be accounted for as transactions between equity holders in their capacity as equity holders. Hence, such changes would not result in a gain or loss being recognised in profit or loss.

ED 66 attempts to restructure FRS 1 and does not contain any technical changes. It aims to make it easier for readers to understand FRS 1 and to allow it to accommodate future changes resulting from new or amended FRSs for first-time adoption requirements.

### **About the Draft Interpretations**

[draft] IC Interpretation 15 proposes to standardise accounting practice for revenue recognition among real estate developers. It provides guidance on how entities determine whether an agreement is within the scope of FRS 111 *Construction Contracts* or FRS 118 *Revenue*. The Interpretation proposes that revenue is recognised by reference to the stage of completion if (1) the agreement meets the criteria of a construction contract under FRS 111 or (2) the significant risk and rewards of ownership of the real estate is transferred to the buyer continuously as construction progresses. When finalised, it will replace FRS 201 *Property Development Activities*.

[draft] IC Interpretation 16 provides guidance to entities that apply hedge accounting on foreign currency risk arising from its net investments in foreign operations. It states that (1) a parent entity may designate as a hedged risk only the foreign exchange differences arising from a difference between its own functional currency and that of its foreign operation (2) presentation currency does not create an exposure to which an entity may apply hedge accounting (3) the hedging instrument may be held by any entities within the group.

[draft] IC Interpretation 17 proposes to clarify how an entity should measure distributions of assets other than cash when it pays dividends to its owners. A dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity. An entity should measure the dividend payable at the fair value of the net assets to be distributed. In addition, an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss.

Interested parties, including the business communities, are encouraged to study the Exposure Drafts and Draft Interpretations and provide feedback to MASB.

The exposure period expired on July 17, 2009. The Exposure drafts are available on MASB website at <http://www.masb.org.my>.

(Source: [www.masb.org.my](http://www.masb.org.my))





## IASB Update

### IASB proposes to clarify the accounting for prepayments for pension plans

The International Accounting Standards Board (IASB) on May 28, 2009 published for public comment an exposure draft of proposed amendments to IFRIC 14 IAS 19—*The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*.

The proposed amendments are aimed at correcting an unintended consequence of IFRIC 14, an interpretation of IAS 19 *Employee Benefits*. As a result of the interpretation, entities are in some circumstances not permitted to recognise as an asset some prepayments for minimum funding contributions.

This issue was also raised as a concern by many interested parties. The proposals published respond to those concerns and, if confirmed, would remedy this unintended consequence of IFRIC 14.

The exposure draft *Prepayments of a Minimum Funding Requirement* is available on the 'Open for Comment' section of [www.iasb.org](http://www.iasb.org). Subscribers may also view the document in the eIFRSs Website.

(Source: [www.iasb.org](http://www.iasb.org))

### IASB publishes draft guidance on fair value measurement

The IASB on May 28, 2009 published for public comment an exposure draft of draft guidance on fair value measurement. If adopted, the proposals would replace fair value measurement guidance contained in individual International Financial Reporting Standards (IFRSs) with a single, unified definition of fair value, as well as further authoritative guidance on the application of fair value measurement in inactive markets. The proposals deal with how fair value should be measured when it is already required by existing standards. They do not extend its use in any way.

To ensure consistency between IFRSs and US Generally Accepted Accounting Principles (GAAP), the proposals incorporate recent guidance on fair value measurement published by the US Financial Accounting Standards Board

(FASB) and are consistent with a report of the IASB's Expert Advisory Panel published in October 2008 on fair value measurement in illiquid markets.

This project forms part of a long-term programme by the IASB and the FASB to achieve convergence of IFRSs and US GAAP, as described in the boards' Memorandum of Understanding published in September 2008. It is also consistent with requests from G20 leaders to align fair value measurement in IFRSs and US GAAP.

The IASB's starting point in developing the exposure draft was the equivalent US standard, SFAS 157 Fair Value Measurements as amended. The proposed definition of fair value is identical to the definition in SFAS 157 and the supporting guidance is largely consistent with US GAAP.

Introducing the exposure draft, Sir David Tweedie, Chairman of the IASB said, "This exposure draft is an important milestone in our response to the global financial crisis. It proposes clear and consistent guidance for the measurement of fair value and also addresses valuation issues arising in markets that have become inactive. The proposed guidance ensures consistency with US GAAP on issues related to fair value measurement and would achieve overall convergence with US GAAP."

The proposals are set out in the exposure draft Fair Value Measurement, which is open for comment until September 28, 2009. The exposure draft is available on the 'Open for Comment' section on [www.iasb.org](http://www.iasb.org). The IASB will hold a webcast to introduce the proposals in the exposure draft and will announce details on its website in due course.

For more information about the IASB's response to the financial crisis, visit [www.iasb.org/financial+crisis](http://www.iasb.org/financial+crisis)

(Source: [www.iasb.org](http://www.iasb.org))

### IASB progress update on IAS 39 replacement

The IASB published on May 29, 2009 an update on the progress of its comprehensive review of IAS 39 *Financial Instruments*. The IASB also posted an update of how it is responding to concerns previously raised by the European Commission in its letter of October 27, 2008 to the IASB.

## PROFESSIONAL NEWS

## Update - Comprehensive review of IAS 39 - Financial instruments: recognition and measurement

At its Board meeting in May 2009, the IASB revised its April 2009 timetable for the comprehensive review of its standard on the recognition and measurement of financial instruments, IAS 39.

- The revised timetable calls for the publication for public comment of an exposure draft on the classification and measurement of financial instruments during July 2009, with the objective of issuing a standard in time for 2009 year-end financial statements.
- Regarding the impairment of financial assets, the Board decided tentatively that, following two educational Board sessions in June, it would ask for views from interested parties by way of a website posting. The IASB plans to publish proposals on the provisioning of financial assets in October 2009, including consideration of an expected loss model.
- The Board intends to address hedge accounting in a separate exposure draft before the end of 2009.

The IASB's timetable for an accelerated review of IAS 39 responds to and is consistent with the recommendations and timetable set out by the G20 in April 2009. At its May 2009 meeting the Board discussed in particular the classification criteria and impairment under IAS 39.

- View the latest IASB Update for more details on the Board's discussion about IAS 39
- View more about the IASB's accelerated project to review IAS 39

For further information, please visit [www.iasb.org](http://www.iasb.org)

(Source: [www.iasb.org](http://www.iasb.org))

## Japan takes major step towards IFRS adoption

On June 12, 2009 the Business Accounting Council (BAC), a key advisory body to the Commissioner of the Financial Services Agency (FSA), approved a roadmap for the adoption of International Financial Reporting Standards (IFRSs) in Japan.

The roadmap still requires the formal approval of the FSA, which is expected to take place by the end of the month. If adopted, the roadmap would permit early adoption of IFRSs by listed companies for fiscal years beginning April 1, 2009. The roadmap proposes mandatory adoption of IFRSs from 2016, subject to a final decision being taken by 2012.

An English version of the BAC's announcement and an unofficial summary of the interim report of the BAC are available on the Japanese FSA's website.

Commenting on the announcement, Sir David Tweedie, Chairman of the IASB said, "This is a landmark decision, both for Japan and for IFRSs. For Japan, it signals the eventual adoption of IFRSs. For the IASB, adoption of IFRSs by the world's second largest national economy underscores the truly global nature of IFRSs and the acceptance of these standards by all major economies."

(Source: [www.iasb.org](http://www.iasb.org))

## IASB seeks views on accounting for 'own credit risk'

The IASB on June 18, 2009 published for public comment a discussion paper on the role of credit risk in liability measurement. The paper is accompanied by a staff paper that describes the most common arguments for and against including credit risk in measuring liabilities.

Credit risk in liability measurement is often referred to as 'own credit risk'. Existing International Financial Reporting Standards (IFRSs) require profit or loss resulting from changes in 'own credit' to be booked when debt is fair valued. From an accounting perspective there are good reasons for applying fair value measurement to both assets and liabilities. However, some see the outcome as counter-intuitive. Recent developments in the financial markets have led to increased concerns about gains that result from changes in the value of an entity's liabilities.

The discussion paper responds to this concern. The issue of 'own credit risk' has relevance to other IASB projects, in particular in the accounting for financial instruments, insurance, fair value measurement and provisions, contingent liabilities and contingent assets.

The staff paper is open for comment until September 1, 2009 and can be accessed free of charge on eIFRS or on the 'Open for comment' section on the IASB's website [www.iasb.org](http://www.iasb.org)

Commenting on the publication Sir David Tweedie, Chairman of the IASB said, "We are aware that the practice of booking profits or losses resulting from changes in the fair value of 'own credit risk' has been identified as one of the major issues in fair value accounting. Responses to this consultation will assist the Board in further developing its comprehensive response to the financial crisis."

(Source: [www.iasb.org](http://www.iasb.org))

## IASB clarifies the accounting for group cash-settled share-based payment transactions

The IASB on June 18, 2009 issued amendments to IFRS 2 Share-based Payment that clarify the accounting for group cash-settled

share-based payment transactions.

The amendments respond to requests the IASB received to clarify how an individual subsidiary in a group should account for some share-based payment arrangements in its own financial statements. In these arrangements, the subsidiary receives goods or services from employees or suppliers but its parent or another entity in the group must pay those suppliers

The IASB revised its initial proposals in the light of comments received. The amendments issued clarify the following:

- the scope of IFRS 2. An entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash; and
- the interaction of IFRS 2 and other standards. The Board clarified that in IFRS 2 a 'group' has the same meaning as in IAS 27 *Consolidated and Separate Financial Statements*, that is, it includes only a parent and its subsidiaries.

The amendments to IFRS 2 also incorporate guidance previously included in IFRIC 8 *Scope of IFRS 2* and IFRIC 11 *IFRS 2—Group and Treasury Share Transactions*. As a result, the IASB has withdrawn IFRIC 8 and IFRIC 11.

(Source: [www.iasb.org](http://www.iasb.org))

## IASB proposes guidance for the preparation and presentation of management commentary

The IASB on June 2, 2009 published for public comment a proposed non-mandatory framework to help entities prepare and present a narrative report, often referred to as management commentary.

Management commentary is an opportunity for management to outline how an entity's financial position, financial performance and cash flows relate to management's objectives and its strategies for achieving those objectives.

The information contained in management commentary is therefore of keen interest to investors and other users of financial statements. However, while management commentary-type reporting is mandatory in many jurisdictions, some do not have guidance for this type of narrative report. Many preparers and users therefore indicated a need for the IASB to provide such guidance.

The proposals draw upon international best practice in the preparation and presentation of management commentary. The IASB believes that providing non-mandatory guidance will improve the consistency and the comparability of management commentary across jurisdictions.

Introducing the exposure draft containing the proposals, Sir David Tweedie, Chairman of the IASB, said, "Management commentary is one of the most useful sections of an annual report, yet many countries applying IFRSs do not have guidelines that cover how to prepare or present this important information. In today's uncertain financial climate it is particularly important for entities to explain their financial performance relative to their expectations and their strategies."

The exposure draft Management Commentary is open for comment until March 1, 2010. It can be accessed on the 'Open for Comment' section on [www.iasb.org](http://www.iasb.org). Respondents' comments will help the IASB in the development of final guidance on management commentary.

(Source: [www.iasb.org](http://www.iasb.org))

## IASB seeks input on feasibility of expected loss model

The IASB on June 25, 2009 published a Request for Information on the feasibility of an expected loss model for the impairment of financial assets. Impairment is one of the issues that the IASB is addressing in the second phase of its comprehensive review of IAS 39 *Financial Instruments: Recognition and Measurement*.

The Request seeks input on the practical issues that would arise, if an expected loss model was required. The input will assist the IASB in developing formal proposals that it plans to publish in an exposure draft in October 2009.

The current model in IAS 39 requires an entity to account for credit losses in financial assets only if an event (or a combination of events) has occurred that has a negative effect on future cash flows and that effect can be reliably estimated (this is known as the incurred loss model).

A feature of that model is that an entity is not permitted to consider the effects of future expected losses. The financial crisis has highlighted this as an area of concern. Responding to the request of the G20 leaders and others the IASB is reviewing that approach and examining the expected loss model as an alternative.

The expected loss model requires an entity to make an ongoing assessment of expected credit losses, which may require earlier recognition of credit losses. This would better reflect the way that financial assets are priced and the way some companies manage their business.

The IASB welcomes responses to its Request for Information by September 1, 2009.

The Request for Information can be downloaded from the 'Open for Comment' section on [www.iasb.org](http://www.iasb.org). ●

(Source: [www.iasb.org](http://www.iasb.org))





## IFAC Update

### IFAC President Robert Bunting Says Government Bailouts Bring International Public Sector Accounting Standards to the Forefront

Speaking at the Higher Education Forum of the National Association of College and University Business Officers (NACUBO) in Miami, FL, on April 26, 2009, Robert L. Bunting, President of the International Federation of Accountants (IFAC), described the enormous changes happening as a result of the global financial crisis and explained why convergence and implementation of international standards is needed to rebuild and sustain the global financial system.

"We are rapidly moving to one world in accounting, auditing, and corporate governance," emphasised Mr. Bunting, adding, "IFAC is expediting the development of standards and guidance on key issues, such as going concern, fair value, financial instruments, and corporate governance-and other issues that have been raised as a result of the crisis-so accountants worldwide operate on a level playing field."

He pointed out that government bailouts of the financial and automotive industries are also resulting in calls for greater accountability and transparency on the part of governments, and indicated that governments can achieve this by adopting International Public Sector Accounting Standards (IPSASs). "Convergence to international public sector accounting standards, which has proceeded at a slower pace than convergence to those in the private sector, is now urgent," Mr. Bunting emphasised. Such standards are used by the United Nations, NATO, IFAC, and the Organisation for Economic Cooperation and Development, are supported and promoted by the World Bank, and are already used by many governments around the world.

Mr. Bunting called on university leaders to broaden their curriculum to address the growing need for convergence to international standards: "Teaching only US GAAP (Generally Accepted Accounting Principles) handcuffs students to the US economy. Academic institutions must incorporate International Standards on Auditing, IPSASs, and International Financial Reporting Standards into their accounting curriculum."

Bunting's comments on international standards were part of a presentation about the future of the accounting profession

and how universities must broaden their view of what students need-and what the world needs-from accountants. To view the slides of his presentation, go to the IFAC Media Centre at [www.ifac.org/MediaCenter/?q=node/view/643](http://www.ifac.org/MediaCenter/?q=node/view/643).

(Source: [www.ifac.org](http://www.ifac.org))

### International Public Sector Accounting Standards Board (IPSASB)

### IFAC's International Public Sector Accounting Standards Board Proposes New Guidance to Strengthen Financial Reporting by Governments

The International Public Sector Accounting Standards Board (IPSASB) of the IFAC is expanding its guidance in two significant areas: accounting for intangible assets and entity combinations. It has published two new exposure drafts (EDS)-ED 40, *Intangible Assets* and ED 41, *Entity Combinations from Exchange Transactions*, which propose important new guidance for professional accountants working in government and other public sector entities.

"During the current economic crisis, governments around the world have been acquiring business entities that might otherwise be liquidated. These EDs propose financial reporting requirements that will ensure that these transactions are reported in a consistent and transparent manner, ensuring that governments remain accountable for their actions," explains IPSASB Chair Mike Hathorn.

The issuance of the exposure drafts is part of the IPSASB's global convergence program that will substantially converge International Public Sector Accounting Standards (IPSASs) with International Financial Reporting Standards (IFRSs) approved at December 31, 2008. The project is scheduled for completion by December 31, 2009.

ED 40 proposes an IPSAS that converges with the International Accounting Standards Board's (IASB) International Accounting Standard 38, *Intangible Assets*. ED 40 also incorporates guidance on website costs set out in the Interpretation 32 of the IASB's Standing Interpretations Committee, entitled *Intangible Assets - Web Site Costs*. It also

includes guidance on intangible heritage assets.

Because ED 41 addresses entity combinations that are similar in nature to those in the private sector, it is converged with the IASB's IFRS 3, *Business Combinations*. Entity combinations that arise from non-exchange transactions are being addressed in a separate public sector-specific project.

The exposure drafts are being issued concurrently because ED 40 addresses issues related to intangible assets acquired in an entity combination arising from an exchange transaction. Both exposure drafts contain limited changes from the relevant IFRS; these changes are mainly to ensure consistency with other IPSASs and to address specific public sector issues.

"Converging IPSASs with IFRSs, where appropriate for the public sector, is one of the key objectives of our standards development program," states Hathorn. "These two exposure drafts propose clear financial reporting requirements for an entity in the public sector in order to ensure that the private and public sectors report similar activities in a consistent fashion."

### How to Comment

Comments on EDs 40 and 41 are requested by August 15, 2009. The EDs may be viewed by going to [www.ifac.org/EDs](http://www.ifac.org/EDs). Comments may be submitted by email to [EDComments@ifac.org](mailto:EDComments@ifac.org) and [stepheniefox@ifac.org](mailto:stepheniefox@ifac.org).

All comments will be considered a matter of public record and will ultimately be posted on the IFAC website.

(Source: [www.ifac.org](http://www.ifac.org))

## IFAC's IPSASB Launches Review of Cash Basis Reporting in Developing Countries

The IPSASB, an independent standard-setting board within the IFAC, has appointed a task force to review the International Public Sector Accounting Standard (IPSAS), Financial Reporting under the Cash Basis of Accounting. As part of the review process, it is asking those who have been involved in the adoption of the Cash Basis IPSAS in developing economies or who have been exposed to the standard to complete a questionnaire on their experiences, or anticipated experiences, with respect to implementation issues.

The questionnaire, along with an invitation letter that more fully explains the review process, can be downloaded from the IPSASB website at [www.ifac.org/PublicSector/Projects.php#InProgress](http://www.ifac.org/PublicSector/Projects.php#InProgress).

These materials are available in English, Spanish, and French.

According to IPSASB Chair Mike Hathorn, "While the IPSASB promotes the adoption of the accrual basis of accounting, it also

recognises that many governments adopt a form of cash or modified cash basis reporting, and it has a responsibility to support those jurisdictions in strengthening their cash basis financial reports." The Cash Basis standard, first issued in January 2003, was updated in 2006 and 2007, making the review very timely.

"The primary objective of the review is to identify the major technical issues that governments and other public sector entities in developing economies have encountered, or expect to encounter, in implementing the standard. This will provide input to IPSASB deliberations on whether the standard should be modified and/or if further guidance on its application should be provided," explains IPSASB Deputy Chair, Erna Swart, who is chairing the task force.

The questionnaire is the first step in the IPSASB task force review process. As a follow up, the task force will undertake more detailed discussions with a range of users, implementers, technical advisors, and others in a number of regions who have responded to the questionnaire.

(Source: [www.ifac.org](http://www.ifac.org))

## IPSASB Reaffirms its IFRS Convergence Strategy with Emphasis on Financial Instruments

At its May 18–21, 2009 meeting in Washington DC, the IPSASB of the IFAC reaffirmed its commitment to its global convergence program and the development of standards dealing with financial instruments.

The IPSASB confirmed that it will continue its full consultation on exposure drafts (EDs): ED 37, *Financial Instruments: Presentation*, ED 38, *Financial Instruments: Recognition and Measurement*, and ED 39, *Financial Instruments: Disclosures*, while recognising the intention of the International Accounting Standards Board (IASB) to modify aspects of its current standards relating to the measurement of financial instruments. The IPSASB will consider any changes ultimately adopted by the IASB in due course.

"The IPSASB believes the public sector and its constituents are best served by having International Public Sector Accounting Standards (IPSASs) on financial instruments and removing reliance on the hierarchy at this time. The IPSASB strategy will provide stability for users and allow the IPSASB to manage the current period of uncertainty. The current global financial crisis underlines the importance of consistent financial reporting by governments of their exposures to financial instruments," states Mike Hathorn, Chair of the IPSASB.

## PROFESSIONAL NEWS

### How to Comment

Comments on EDs 37–39 are requested by July 31, 2009. The EDs may be viewed by going to [www.ifac.org/EDs](http://www.ifac.org/EDs). Comments may be submitted by email to [EDComments@ifac.org](mailto:EDComments@ifac.org) and [stepheniefox@ifac.org](mailto:stepheniefox@ifac.org). All comments will be considered a matter of public record and will ultimately be posted on the IFAC website.

(Source: [www.ifac.org](http://www.ifac.org))

### IFAC 2008 Annual Report Highlights Initiatives During Credit Crisis and Need for Convergence to Global Standards

The IFAC released its 2008 annual report on May 26, 2009, highlighting initiatives to help restore global financial stability and, in addition, describing how some of IFAC's core work-developing international standards and guidance-became even more relevant in the current economic environment.

"As a result of the crisis, some of the ideas IFAC has been communicating for decades are resonating with greater force," said Ian Ball, Chief Executive Officer. "Chief among these is the need for convergence to global standards."

The report features messages from IFAC's immediate Past President Fermin del Valle, IFAC Chief Executive Officer Ian Ball, and Public Interest Oversight Board Chair Professor Stavros Thomadakis, who commented, "As in past years, IFAC has continued its commitment to the public interest, both in what has been achieved already and in priorities established for the future." In addition, it includes reports from the chairs of the Consultative Advisory Groups to IFAC's independent standard-setting boards.

A key feature of the report is its Service Delivery section, which compares IFAC's planned services with those delivered in five areas:

- Standards and Guidance
- Promoting Quality
- International Collaboration Activities
- Representation of the Accountancy Profession in the Public Interest
- Information Services

"This section of the annual report-which comprehensively describes the services delivered by IFAC in 2008 is critical in demonstrating IFAC's accountability to its stakeholders," said Mr. Ball, adding, "For this reason, we have sought and received assurance from our independent auditors about the reliability of this information."

The annual report describes the actions taken, over the past year, by IFAC and its standard-setting boards in advancing

convergence of auditing, ethics, and public sector accounting standards; revising and updating the independence standards of the *Code of Ethics for Professional Accountants*; establishing a new framework for International Education Standards; and developing new benchmark guidance for professional accountants in business, as well as for small- and medium-sized practices.

The IFAC 2008 annual report can be downloaded from the IFAC website at [www.ifac.org/About/2008-annual-report.php](http://www.ifac.org/About/2008-annual-report.php). Print copies may be obtained by sending an email with your mailing address to [communications@ifac.org](mailto:communications@ifac.org).

(Source: [www.ifac.org](http://www.ifac.org))

### IFAC Board Organises G-20 Accountancy Summit; Focuses on Initiatives to Strengthen the Profession

During its meeting in Dublin, Ireland, the Board of the IFAC agreed to hold a G-20 Accountancy Summit on July 23-24, 2009 in London to obtain the perspectives of accountancy institutes on how the profession can best contribute to strengthening the global financial system.

"Our goal is to identify and summarise the collective viewpoints of IFAC and accountancy institutes in G-20 countries and to submit these to the G-20 Working Groups prior to their September meeting," says IFAC President Robert Bunting. "This will be a follow up to IFAC's letter to three G-20 Working Groups in March, in which we indicated our support of their recommendations to implement international standards, improve the international regulatory framework, and strengthen the roles of the International Monetary Fund and the World Bank."

During the meeting, Board members considered the implications of the financial crisis and heard reports from the chairs of IFAC's independent standard-setting boards on their initiatives to update and develop new international auditing, education, ethics, and public sector accounting standards, particularly in those areas that would help the profession to address issues related to the financial crisis, and to adopt and promote their adoption and use by a wide group of stakeholders. Such adoption and implementation is vital to improving the transparency of the financial system and is consistent with G-20 recommendations.

In addition, the Board discussed how IFAC can best support small and medium practices, including assisting them in addressing issues emerging from the financial crisis and increasing awareness of the role of professional accountants in business in risk management, corporate governance, and transparent financial reporting.

"In addressing the current financial crisis, IFAC has



remained focused on its commitment to serving the public by strengthening the profession and working together with other constituencies-business leaders, governments, international organisations, and regulators-to strengthen financial reporting and auditing," emphasises Mr. Bunting.

(Source: [www.ifac.org](http://www.ifac.org))

## IFAC Welcomes IOSCO Support of New Clarity ISAs and their Role in Building Investor Confidence

The IFAC and the International Auditing and Assurance Standards Board (IAASB) welcome the statement released on June 11, 2009 by IOSCO on International Standards on Auditing (ISAs) that recognises the important role of ISAs "in facilitating cross-border securities offerings and listings." The IOSCO statement also welcomes the achievement of the completion of the Clarity Project, noting the improvements that have been made as a result of clarifying the ISA requirements.

"IOSCO's endorsement of the clarified ISAs and its encouragement of securities regulators to accept audits performed in accordance with the clarified ISAs is consistent with the IAASB's long-held objective of developing and promoting adoption of a high-quality set of auditing standards for use in all audits worldwide," states IAASB Chair Arnold Schilder.

IFAC, in its letter to the G-20 Working Group 1 in March 2009 expressed its view that the global adoption of ISAs will

improve the quality and consistency of the audit of financial information. Currently, more than 100 jurisdictions around the world use ISAs or base their national standards on them. Increased adoption of ISAs will facilitate greater transparency and result in higher standards of accountability.

"The IOSCO statement is testimony to the success of the standard-setting process for International Standards on Auditing, in which responsibility is shared between the public sector and the private sector," states IFAC President Robert Bunting. "It is vital that the standard-setting process operates in, and is seen to operate in, the public interest. Oversight of the IAASB's work by the Public Interest Oversight Board (PIOB) and the role of the IAASB's Consultative Advisory Group play critical roles in ensuring that the standards do reflect the public interest."

The IOSCO statement echoes support for the clarified ISAs expressed by the World Bank and the Basel Committee on Banking Supervision.

(Source: [www.ifac.org](http://www.ifac.org))

## IFAC Applauds US Administration's Support for Global Accounting Standards in US Financial Reform Proposal

The International Federation of Accountants (IFAC) applauds the call by the US President for urgent progress toward the "development of a single set of high-quality global accounting standards." These standards were one element of the proposal for regulatory reform, issued at a press conference on Wednesday, that Mr. Obama called "necessary to avoid another financial crisis."

"The President's acknowledgment of the importance of developing a high-quality set of global accounting standards reflects the importance of global standards and a level playing field in financial reporting," says Ian Ball, Chief Executive Officer, IFAC. He also noted that the US position is consistent with the G-20's call for "substantial progress by year-end 2009." IFAC wrote to the G-20 in support of convergence to global standards before their meeting in London last April.

Convergence to global standards is an idea that IFAC supports strongly-not only in accounting but also in auditing, ethics, and public sector accounting standards, all of which are important to the functioning of global capital markets.

The complete White Paper issued by Mr. Obama's office, prepared by the United States Treasury Department, can be found at [http://www.financialstability.gov/docs/regs/Final\\_Report\\_web.pdf](http://www.financialstability.gov/docs/regs/Final_Report_web.pdf). ●

(Source: [www.ifac.org](http://www.ifac.org))

### ARTICLES FOR

THE MALAYSIAN

# Accountant

JOURNAL OF THE MALAYSIAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

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## CASE LAW HIGHLIGHT

# Dato' Tan Kim Hor ORS v Tan Chong Consolidated Sdn Bhd

COURT OF APPEAL (PUTRAJAYA) – CIVIL APPEAL NO W-02-735 OF 2001  
 LOW HOP BING, KN SEGARA AND SULAIMAN DAUD, JJCA  
 JANUARY 14, 2009

*Companies and Corporations – Directors – Right to inspect company's books of account – Whether auditor's letter of undertaking failed to comply with statutory requirements and was defective – Whether undertaking addressed to court – Whether words 'extend to appointed servants/agents' in letter of undertaking transformed it into conditional or defective undertaking – Companies Act 1965 s 167(6) – Interpretation Acts 1948 and 1967 s 17A*

The plaintiffs/appellants were the majority members of the board of directors of the defendant/respondent company as from 1985 until August 25, 2000. On August 28, 2000, the plaintiffs filed an originating summons seeking an order to inspect the accounting and other records of the defendant company by a qualified auditor pursuant to s 167(6) of the Companies Act 1965 ('the Act'). The defendant vehemently objected to this application. The trial judge who found that the defendant had failed to discharge its burden to show that the plaintiffs' inspection would result in any detriment to the interests of the defendant nevertheless sustained the defendant's objection and dismissed the plaintiffs' application. Hence the plaintiffs' appeal herein. In their appeal the plaintiffs contended that the trial judge had erred in holding that the auditor's letter of undertaking was insufficient to meet the requirements of s 167(6) of the Act. The defendant submitted that the letter of undertaking furnished by the auditor was defective because it was not addressed to the court and was extended to include a class of persons beyond the plaintiffs. The issue before the court in this appeal was whether the statutory right of a director to inspect the books and other records was lost because the auditor's letter of undertaking had failed to comply with the statutory requirements and was therefore defective.

**Held**, allowing the appeal with costs in this court and the court below:

(1) Although it was true that the letter of undertaking did not contain a clause expressly addressing it to the court, its inclusion as one of the exhibits annexed to the affidavit in support of the plaintiffs' application made it clear that the undertaking was intended to fulfil the requirements of s 167(6) of the Act. Section 167(6) of the Act deserves to receive a purposive interpretation, which is now given



statutory recognition in s 17A of the Interpretation Acts 1948 and 1967. In any case s 167(6) does not prescribe a statutory form of undertaking. Therefore, the letter of undertaking in this case, which had been given for the purpose of carrying out the inspection with the information obtained thereby not to be disclosed, was in substance clear and unambiguous and meant for use in the court.

- (2) The innocuous inclusion of the words 'extend to appointed servants/agents etc' in the letter of undertaking did not in any way transform the undertaking into a conditional or defective undertaking.
- (3) Section 167(6) of the Act was intended to facilitate and liberalise and not impede the right of inspection. In fact almost unbridled powers are conferred upon the court to give effect to the directors' right of inspection. Thus, it was within the powers of the court to allow the plaintiffs to furnish a fresh undertaking with fresh terms such as to have it addressed to the court and to delete the words 'extend to appointed servants/agents etc' therefrom. This was especially so since the trial judge had made a specific decision that the defendant had failed to discharge its burden to show that the plaintiffs' inspection would result in any detriment to the interests of the defendant. That is a reaffirmation that the directors' right of inspection pursuant to s 167(6) is absolute. ●

(Source: *Malayan Law Journal*, April 3, 2009, [2009] 2 MLJ 473-612)

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# NEWS from Down Under

A.O Ferrers, Australian Correspondent

## Pre-Budget Speculation

As happens every year, in the days before the Budget, the media has a great time trying to guess what the Budget will contain. Certain ideas without detail are put forward from the odd comments or leaks made by the Prime Minister and the Treasurer. Otherwise their lips are tightly sealed and they keep saying enigmatically wait and see. In newspapers and on news items both on the television and radio much time is spent with this speculation. Various respected commentators and economists have expressed their views. It is remarkable how these vary.

I write on Saturday May 9, 2009 and the Budget speech will occur on the evening of Tuesday of 12 May 2009. In these difficult times of (almost) recession, the country's leaders will only say that there will be items to bolster the revenue income to overtake the fall in this area, hard decisions have been taken to try to balance the books and lessen the deficit and to increase the rate of government pensions for the elderly. There had been cash handouts to certain taxpayers earlier in the year but these had passed many elderly pensioners by, since they had not paid any tax during the previous financial year.

When the present Labour government took office in late 2007, there was a surplus in hand of some A\$30 billion left by the previous administration. The present government has spent this in its cash handouts and has made substantial borrowings in addition. The thrust of this policy has been to stimulate the economy and to save jobs. Unfortunately this has only been partly successful. Some of the cash handouts have been spent by taxpayers, but much has been saved by them or reduced their mortgages. It has largely not fulfilled the government's stimulus objective. The Prime Minister has been saying that the Budget will again stimulate the economy and help reduce unemployment despite its being what he termed as "the toughest Budget in our lifetime". However, the numbers of unemployed have increased steadily and daily the news contains items of many large and middle sized firms reducing their number of workers. Some well-known companies have gone into liquidation. Our political leaders tell us we are doing better than many other western countries.

The Leader of the Opposition recently made a challenging address to the National Press Club in Canberra in an endeavour to highlight what he saw were the principal deficiencies of the Government approach and laid out what his policy would have

been in the present circumstances to ameliorate the position. While the Australian economy would still have felt the impact of overseas financial troubles, he maintained that it would have lessened what has turned out to be the present situation. He is going to put the Budget proposals under his magnifying glass to see where he believes that it is falling short.

## The Budget Proposals

In a television and radio broadcast to the nation, the Treasurer has revealed all. Not such a tough budget. Every commentator has revealed his or her views on how worthy the government proposals are. Government spokesmen are about to traverse the country explaining these proposals and how they are going to help save the nation. One expects that the aphorism No gain without pain to be trotted out. In outline the major proposals are:

A new parental leave scheme funded by government was announced on Mother's Day two days before the Budget speech! It will not begin, however, until the start of 2011 and is to provide 18 weeks of leave paid at the rate of the federal minimum wage - currently A\$544 a week. It is to be means tested and restricted to those earning less than A\$150,000 a year.

Government revenues have fallen and with the cost of borrowings there will be a deficit of A\$58 billion at the end of the year.

With unemployment rising, it is expected that it will peak at least at 1,000,000.

High income earners will lose the private health insurance rebate. The Medicare levy surcharge will be increased to maintain the incentive for those able to pay for private health insurance to continue to do so.

Salary sacrifice savings to augment superannuation savings are reduced.

Skilled migration is cut heavily by 6900 people.

With substantial borrowings the government will undertake to spend A\$22 billion on an infrastructure programme to upgrade and extend roads, rail links and port projects. It is hoped that this will give employment to 15,000 year by year. In addition there will be large expenditure on schools, universities and hospitals with the additional implementation of a broadband network across the country.

*Continued at page 38*



# WORLD News



## CANADA

### Changeover to IFRS in Canada, January 1, 2011

The Canadian Accounting Standards Board (AcSB) has issued a bulletin that provides the factors supporting the 2011 changeover date for the adoption of IFRSs by publicly accountable enterprises.

Starting from January 1, 2011, publicly accountable profit-oriented enterprises in Canada will follow International Financial Reporting Standards.

The Accounting Standards Board (AcSB) received strong support from stakeholders for the decision to move to IFRSs. Investors, preparers and others indicated that businesses that need to operate and compete in global capital centres cannot afford to retain a “made in Canada” set of reporting standards.

The current economic situation only underlines the problems that arise from multiple sets of accounting standards and reinforces the need to continue to follow the longstanding strategic direction to move to IFRSs.

IFRSs are rapidly becoming the global language of accounting. The changeover in 2011 poses challenges for

corporate Canada, but it is necessary to achieve the most useful and cost effective financial reporting system in the long run.

The AcSB went through a lengthy and thorough process in 2004 and 2005 before it decided to change over to IFRSs. It gave interested parties sufficient time to become familiar with IFRSs — more time than either Europe or Australia had to prepare for their transition. And, in the case of most European jurisdictions, the degree of difference between national financial reporting regimes and IFRSs was greater than that between Canadian GAAP and IFRSs.

In March 2007, the AcSB issued an implementation plan for moving from Canadian standards to IFRSs. In February 2008, it released its final report on progress in preparing for the changeover. The report concluded that, while there were challenges in meeting the January 2011 changeover date, a firm date was necessary to drive the transition and provide certainty to investors and corporate Canada. The lack of a firm date introduced more uncertainty than those affected by financial reporting standards were prepared to tolerate.

January 1, 2011 is not an arbitrary date. It was chosen after much discussion, analysis of the factors that affect financial reporting in Canada and examination of all available options. Costs and benefits were carefully considered; vital considerations in this time of restraint. The various factors and

progress to date were reassessed last year. Canada is “on track.” We continue to monitor the situation in light of the current market conditions and other factors.

In evaluating a January 1, 2011 changeover, the AcSB considered diverse factors; all played a role, some were given more weight than others but no single factor was found to be a silver bullet. The key factors that were debated, weighed and considered are discussed in the bulletin. To access the bulletin, go to: [http://www.acsbcanada.org/index.cfm?ci\\_id=51301&la\\_id=1](http://www.acsbcanada.org/index.cfm?ci_id=51301&la_id=1) (Source: [www.cica.ca](http://www.cica.ca))

## ISLE OF MAN

### Isle of Man Signs Tax Deal with Estonia

The Isle of Man signed a double taxation agreement with Estonia, which is the latest development for the Organisation for Economic Co-operation and Development’s model to fight for global tax transparency.

The agreement will help remove double taxation obstacles that face the development of economic relations between jurisdictions and will help in areas such as the importing and exporting of goods and services, and movements of capital, technology and people.

In addition, the move aims to combat tax evasion and avoidance between Estonia and the Isle of Man.

Allan Bell, the treasury minister for the Isle of Man said, “The Isle of Man is a small, self-reliant nation characterised by an independent spirit, enterprise and innovation. Each of these factors has contributed to the evolution of our thriving, diverse economy and our success as a centre for quality international business.”

“These factors are also characteristic of Estonia, and I look forward to this agreement becoming the cornerstone of a friendship between our countries based on vibrant economic ties.”

The agreement is the 15th to be signed by the Island to meet the OECD’s international standard.

(Source: [www.accountancymagazine.com](http://www.accountancymagazine.com))

## UNITED KINGDOM

### Combined Code on Corporate Governance Should Include a Strong Ethical Principle

Currently, the Combined Code on corporate governance for UK listed companies has no stated principle on ethical behaviour. The chairman and non-executive directors are expected to

uphold the highest ethical standards of integrity and probity but ICAS believes this should be widened to cover all directors. This principle should be clearly reflected in all statements issued by companies.

ICAS President, Douglas Nisbet, explains why an ethical principle would be a positive step for the Code, “UK businesses are highly regarded around the world for behaving ethically and with integrity. Demonstrating that ethical behaviour is a principle to which directors of our biggest companies must have regard will reinforce that reputation and should lead to greater public confidence in how our businesses take their decisions.”

Douglas Nisbet continues, “We are not claiming that an ethical principle will clean up all bad business practice but ensuring the directors – the individuals at the top of a business – must explain how they apply this principle could be an effective way of embedding ethical considerations throughout a company.”

The Institute also questions whether the Code’s provisions on the independence and length of service of non-executives are fully appropriate in the light of recent board performance issues. The Institute suggests that non-executives may often require more intensive experience and knowledge of the business in order to fulfil their role effectively.

The complexity of a large multinational listed company may require several years of service from a non-executive director before that director can be properly effective. Long-term corporate strategy may benefit from longer serving directors who have experienced the business cycles in that industry. It is with experience that a person begins to have the confidence to challenge the rest of the board and sustain that challenge where necessary. Therefore, length of service should not necessarily be seen as an aspect of non-compliance but as a potential benefit, as long as performance remains effective.

(Source: [www.icas.org.uk](http://www.icas.org.uk))

### FRC Publishes Exposure Draft Updating Going Concern Guidance For Directors

The Financial Reporting Council (FRC), the UK’s independent regulator responsible for promoting confidence in corporate reporting and governance, has published an Exposure Draft of updated guidance for directors of UK companies to assist them with their assessment of going concern and in evaluating the nature and extent of disclosures.

The revised guidance would apply for all financial statements of UK companies intended to give a true and fair view. It would apply to half-yearly financial statements produced by UK listed companies applying UK GAAP or IFRS, but not to interim management statements.

Commenting on the Draft, Paul Boyle, Chief Executive of

the FRC, said, "The guidance that the FRC has issued over the last year has been well received and the Exposure Draft gives us the opportunity to bring together all of the latest thinking in a single place to help directors all of sizes of UK companies. We hope that the four principles will be particularly helpful."

The FRC has received additional questions in recent weeks about the review period and disclosures related to half-year financial statements. The Draft sets out the FRC's understanding of the existing obligations on directors arising from Company Law, the Listing Rules, UK Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS) in relation to half-year financial statements and proposes that the going concern review period should be at least, but not limited to, twelve months from the date of approval for all annual and interim financial statements of UK companies intended to give a true and fair view, whether using UK GAAP or IFRS. This minimum period is currently required by UK GAAP. However, it is a slightly longer period than that specified by IFRS where the review period must be at least, but not limited to, twelve months from the balance sheet date.

Commenting on the challenge of assessing going concern for half-year financial statements of listed companies, Ian Wright, Director of Corporate Reporting of the FRC, said, "The extent of the procedures will depend on facts and circumstances, with more diligence applied where the forecast headroom against funding facilities is low. Directors of UK listed companies need to consider whether they should make additional disclosures in their half-yearly financial statements, particularly where the facts and circumstances have changed since the last year end."

The comment deadline is August 28, 2009 and the FRC is

consulting on whether the final guidance can reasonably be implemented in time for December 31, 2009 year-end.

(Source: [www.frc.org.uk](http://www.frc.org.uk))

## Green Taxes Key in Climate Change Fight

The role of taxation in the fight against climate change is at the forefront of a report launched by the Chartered Institute of Taxation.

Introducing its Green Tax Report, outgoing CIOT president Nick Goulding, whose presidential theme has been the environment, said, "Non-governmental activity in this area simply won't go away as environmentalists and other pressure groups step up their efforts to get governments to do far more to control emissions and protect the planet."

The report was commissioned by the CIOT with the aim of looking at what is understood by environmental taxes, the different characteristics of these taxes and what is needed to drive forward green taxes as an instrument of change. It is, however, intended to be 'a step along a long path of debate and discussion and cannot in any way be regarded as expressing definitive positions on green taxation'.

The CIOT urges the government to consult fully on any new tax proposals put forward. Goulding said, "Like all taxes, environmental taxes can have unintended consequences. If the aim is to alter behaviour, it would be a serious concern if, through lack of adequate consultation, a worse environmental outcome was the result."

The report can be read online at [www.greentaxreport.co.uk](http://www.greentaxreport.co.uk).  
(Source: [www.accountingeducation.com](http://www.accountingeducation.com))

*Continued from page 35*

**NEWS FROM DOWN UNDER**

Beneficiaries of the government age pension will benefit from increases commencing in September 2009. The age at which there will be qualification for the age benefit is to be gradually increased from 65 to 67. Carers will receive an extra A\$600 each year in addition to their pension increase.

Family tax benefits are to be varied to make tax savings of A\$2.4 billion over four years.

Small business receives little. However, there is to be an increased tax deduction on new capital items (to 50 per cent) costing \$1000 or more and bought between December 2008 and the end of this year. The item must be installed and ready for use by December 2010.

Foreign students coming to study in Australia will find their visas more expensive by 20 per cent. This will also apply to business people, skilled migrants and certain family categories.

But not to humanitarian arrivals, tourists and temporary residents.

A\$2.4 billion is to be spent on low emission coal as part of the carbon pollution reduction scheme.

The budget is founded on the assumption, perhaps an optimistic one that GDP will shrink by 0.5 per cent next year and then jump up to growth of 4.5 per cent in 2011-2012. This assumption is already under attack by the Opposition and others on the basis of rubbery figures, but the government is defending the figures supplied by Treasury, which expects a rapid recovery in a few years time. Projections by the Reserve Bank of Australia and the IMF are, however, not so sanguine.

The income tax reductions previously enacted in 2008 to take effect commencing on July 1, 2009 and July 1, 2010, have not been affected. ●





By Kavalyn Kreer

**H**ow many of you have gone to a restaurant only to be totally ignored by the waiters or experienced a disgruntled salesperson who is totally clueless about the product they are promoting or selling or get frustrated with helplines which are totally of no help at all. Well, these are some of the instances of the bad customer service that Malaysians are used to experiencing these days.

Essentially customer service, or rather good service is in steep decline and that is not a good thing. We, Malaysians, generally, are not as expressive or vocal as we should be. Customers have their right to good customer service and if we don't get it, we have the right to complain.

We have a tendency to avoid creating a fuss and complaining when we are unhappy about a particular service. This is not the right attitude because it allows the other party to get away with it. It is this continuous passive attitude that has allowed customer service to gradually go from bad to worse. There is really nothing wrong in complaining about bad service but it should be done in a proper constructive manner.

Being abrasive, loud and angry is not the proper way of asserting your rights. Politeness and courtesy is the way to go when you insist on your rights. You might find yourself in for a

surprise by the response from the other party when you complain graciously.

In today's competitive business environment, it is important to focus on the needs of customers. High quality customer service helps create customer loyalty. Customers today are not only interested in the product or professional service they are offered but also all the additional elements of service that they receive from the moment they enter a business premises i.e. from the greeting they receive to the product information, the assistance from the salesperson or the purchase of a product.

The quality of customer service can ultimately dictate whether a business will flourish or fail. The simple fact is businesses depend on customers to survive; they are the foundation of any business and without customers, a business simply wouldn't exist.

It is good customer service to get to know your customers. Establishing a professional relationship with customers empowers us with the knowledge of what our customers need. When a business focuses on delivering what is of value to their customers, this will generate the potential for repeat business as well.

Ask yourself, why do you keep going back to the same restaurants, retail outlets or specific service providers? The



answer is simple. All said and done, you like and appreciate the quality of service that you receive.

Knowing that there is a lack of customer service in the country and the fact that customer service is rather imperative to the success of businesses today, one cannot overlook the main asset here, which is human capital. Many companies in Malaysia are fast realising that to sustain their competitiveness, it is important to ensure that their employees are basically good at their jobs and at effectively disseminating the message that they want to send out to their customers.

One way of ensuring this is to provide the necessary training to the employees. The management has to show that they are concerned about their employees, from the senior managers to the junior employee. The management should focus on training and instilling the concept of customer service in each and every employee to service their customers in every aspect of the business.

In order to do so the management has to ensure that the frontliners understand that customer service is important. If the management does not remind them about good customer service, they, the employees will just think that service is something good to know but not necessary to practice. Employees need the proper motivation to work and the management must set targets for them to meet.

Service has to be quantified in competence, which is tied to performance. Basically, what this means is that, the employees must be rewarded in some way for doing a good job. Depending on the situation, the reward can come in many forms ranging from a pat on the back, an acknowledgement of a good job done among peers to a promotion or a raise.

Generally, employees know that they are suppose to provide good customer service, but they don't, because they have a wrong attitude towards their jobs or do not take pride in their work. Which is why the message of service has to be

maintained constantly within the organisation. Being human, employees tend to forget and hence they need to be reminded.

An organisation that acknowledges the importance of customer service will ensure that their employees are well trained, are focused on their jobs and well aware of what is expected of them.

Motivated employees with a management that cares about service will naturally be more inclined towards providing good customer service. If a business strives continuously to exceed customers' expectations in an effort to keep them coming back for more, then their job is done. And any business that can satisfy customers' needs would eventually soar up the ladder of success. It is really a win-win situation for all concerned. ●

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






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