

IASB welcomes Beijing commitment

China sets ambitious pace for IFRS implementation

▶ The China Accounting Standards Committee (CASC) has stated that convergence with International Financial Reporting Standards (IFRSs) is a fundamental goal of its standard-setting programme. The statement came at the end of a meeting between representatives of the CASC and the International Accounting Standards Board (IASB) in Beijing.

The IASB congratulated China for making “enormous progress” towards convergence with IFRSs. However, it acknowledged that the process will take more time and that the Chinese authorities should decide the best steps to meet international standards. IASB chairman Sir David Tweedie has commented that much could be learned from Chinese practices, particularly in finding solutions to issues such as disclosure of related party transactions, fair value measurements and business combinations of entities under common control.

China has issued 21 Exposure Drafts in the past year and has initiated reviews on 16 existing accounting standards. The IASB and CASC have agreed to maintain a series of regular consultations over the coming years.

Legal overview online

The PRC authorities recently announced the following laws and rules:

- ▶ PRC Company Law 中華人民共和國公司法
- ▶ PRC Securities Law 中華人民共和國證券法
- ▶ PRC Individual Income Tax Law 中華人民共和國個人所得稅法
- ▶ Implementing Rules on Individual Income Tax 個人所得稅管理辦法

The Institute’s website has details in Chinese covering all these laws and rules, under “Mainland Affairs – PRC Laws, Regulations & Pronouncements.”

>> www.hkicpa.org.hk

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Central problem

▶ The *China Youth Daily* newspaper has claimed the central government is frequently ignored by local officials and called on it to reassert its legal authority across the country.

Rating rise

▶ Bank of China, China Construction Bank and Bank of Communications have had their credit ratings raised by Fitch Ratings. The agency noted that Mainland lenders were becoming less reliant on external support.

Well off

▶ On 23 November China’s national welfare fund announced that it is considering buying stakes in the country’s two largest banks, Industrial and Commercial Bank of China and the Bank of China. Both banks are planning to list in Hong Kong in 2006.

Sinopec sale

▶ Oil company Sinopec is planning a sell-off of its huge subsidiary Zhenhai Refining and Chemical Co. International oil company BP already holds a 9.41 percent stake in the subsidiary.



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Pension accounting change could hit stocks

▶ Proposed changes to accounting for pensions in the United States are being opposed by industry groups. The Financial Accounting Standards Board wants defined-benefit pension funds to report actual returns but lobbyists fear this could push money out of the equities markets. U.S. pension funds hold approximately US\$4 trillion in assets.

Money beats ethics

▶ Cono Namorato, a leading official in the U.S. Internal Revenue Service (IRS), has accused KPMG of putting profits before ethics in its marketing of tax shelters. KPMG was fined earlier this year and has since settled its dispute with the IRS.

Ben's in

▶ Ben Bernanke, nominated to be Alan Greenspan's successor as chairman of the U.S. Federal Reserve, received the near unanimous endorsement of the Senate Banking Committee on 16 November, leaving a Senate vote in the way of his final confirmation.

Gravy train means grave problem

▶ The European Court of Auditors said they were able to verify just 35 percent of EU budget expenditures in 2004, up from 6 percent in 2003. The auditors' report noted recent improvements, but also pointed out that most EU spending is unaccountable and "high risk."

Parting shot

PCAOB chief retires on a reflective note

▶ William McDonough, head of the United States' Public Company Accounting Oversight Board, believes the battle to win back public trust after recent scandals may never be fully won. He admits that the PCAOB will never find all auditing failures, although its work will remain vitally important.

McDonough notes that the Sarbanes-Oxley Act, the legislation that created the PCAOB, had recognised the importance of public investors to a market economy. He gives the board credit for ensuring auditors maintained high standards for integrity. "Our oversight has changed auditors' attitudes toward their accountability," he says.

U.S. Securities and Exchange Commission (SEC) chairman Christopher Cox says he plans to appoint an interim replacement for McDonough. An SEC advisory panel criticised the Sarbanes-Oxley legislation, particularly section 404, for its deleterious effects on business. Cox, a noted SOX-sceptic, says he wanted the SEC to move quickly on the advisory panel's recommendations.

U.K. favours independent regulation

▶ The Financial Reporting Council, the United Kingdom's independent regulator for corporate reporting and governance, is voicing concern over pressure coming from the U.S. and the European Union to introduce a legally binding rules-based system. At a conference in early November the Council's chief executive, Paul Boyle, defended the British system of governance. He noted that London Stock Exchange listings were ahead of New York Stock Exchange listings for 2005 and that market pressure would ease regulatory burdens in the U.S. Fears of U.S.-style governance legislation in the EU are prompting a number of U.K. industry groups to voice opposition to such measures. London is a popular listing centre for East European and Russian firms.

Ameritrade switch

▶ Online brokerage company Ameritrade is restating its earnings from 2003 to 2005, to account for changes in transactions recording. Spokespeople for Ameritrade noted that the decision to restate came after discussions with the SEC and would have no effect on cash flow or shareholder value – but it led to a US\$12.5 million reduction in reported net income over the period. Ameritrade also announced that Ernst & Young will replace their current auditors, Deloitte and Touche.



TORU YAMANAKA - GETTY IMAGES NEWS

Japan's landmark listing

But Tokyo has a long way to go as a regional bourse

▶ Posco, Asia's third largest steelmaker, became the first South Korean stock to trade on the Tokyo Stock Exchange (TSE) on 22 November, and one of only a handful of Asian firms to list in Japan. The opening day saw Posco shares rise 1.7 percent. CFO Lee Dong Hee noted the listing of Posco's American Depositary Receipts in Japan would lift the company's global image while creating new demand and liquidity for his company's stock. Japan is Posco's fourth largest market.

Three other Asian companies have shares traded in Japan: YTL Corp., Malaysia's biggest construction firm, Henderson Land Development of Hong Kong, and Xinhua Finance Ltd., partly owned by Xinhua News Agency of China. By comparison, roughly 20 percent of the companies on Hong Kong's stock exchange operate primarily outside the city. This does not dampen the regional ambitions of the Tokyo bourse, however. Noriyuki Iwanaga, head of foreign listing promotions at the Tokyo exchange, commented that the TSE is hoping to list more Asian companies, particularly those with commercial ties to Japan.

EU adopts IAS 39 changes

▶ The European Commission has adopted an amended IAS 39 on fair value. A "carved out" version of IAS 39 had previously been adopted.

No thaw in Scotland

▶ Scottish chartered accountants remain in a sour mood over the Institute of Chartered Accountants in England and Wales' proposed name change. The ICAEW is intent on abbreviating its name to the Institute of Chartered Accountants.

JPMorgan selling insurance division

▶ JPMorgan Chase is keeping quiet on reports that it may put its life insurance and annuity businesses up for sale.

SEC to open up shareholder voting

▶ The U.S. Securities and Exchange Commission announced that it would vote on a proposal to let companies post proxy statements on their websites, rather than mailing them to investors.

Refco on the block

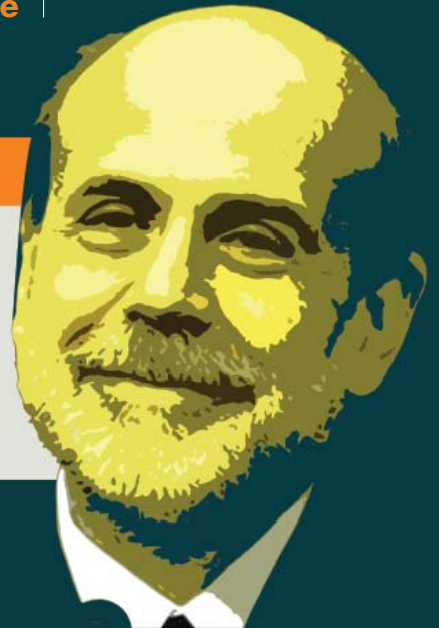
▶ Man Group has paid US\$282 million for the futures trading arm of Refco, following the company's bankruptcy filing in October.

PwC and E&Y criticised

▶ The U.S. Public Company Accounting Oversight Board has criticised the audit work of PricewaterhouseCoopers and Ernst & Young in its latest inspection report. The PCAOB stated that it had found serious deficiencies, which suggested in some audits insufficient evidence had been gathered.

Ben Bernanke, PhD Age: 51

- 1979 Completed PhD in Economics, M.I.T.
- 1979 Professor of Economics, Stanford University
- 1985 Professor of Economics, Princeton University
(department chair since 1996)
- 2002 Nominated to Federal Reserve's Board of Governors
- 2005 Appointed head of the Council of Economic Advisors



An explicit shift

In February 2006, Ben Bernanke will fill the shoes of the world's most scrutinised central banker, Alan Greenspan. At the helm of the United States Federal Reserve for 18 years, Greenspan has been the embodiment of U.S. economic policy. How will Bernanke differ?

A registered Republican, Bernanke lists monetary policy and macroeconomic history as his personal as well as professional interests. During his academic career Bernanke's research focused on the monetary underpinnings of the Great Depression of the early 1930s.

Judging by his recent statements, we can expect a distinct change in presentational style under Bernanke. He favours more overt inflation targeting, in contrast to the opaque pronouncements of his predecessor. While no major shifts in policy are expected, Bernanke's lifelong concerns with the dangers of deflation add to the timeliness of his appointment – as many warn of a possible contraction in the U.S. property sector.

On inflation fighting:

To continue to promote economic growth and stability in coming decades, monetary authorities will need to exercise the same vigilance with respect to the downside risks to inflation.

Downside danger, 2003

On the risk of deflation in the U.S.:

I believe that the combination of strong economic fundamentals and policymakers that are attentive to downside as well as upside risks of inflation make significant deflation in the United States in the foreseeable future quite unlikely.

Deflation: Making sure it doesn't happen here, 2002

On speculative activity:

Many people take a dim view of speculation in general, and in some instances this view is justified. In many situations, however, informed speculation is good for society.

Oil and the economy, 2004

On the gradualist approach to policy:

Economic developments over the next year are likely to be consistent with a gradual adjustment of policy.

Gradualism, 2004