

# S-Ox watchdog takes its first bite

New York-based CPA firm Goldstein and Morris had the dubious honour of being the first victim of the United States' Public Company Accounting Oversight Board, the body set up in 2003 as a watchdog for the auditing industry. The PCAOB took action against Goldstein and Morris for violation of Sarbanes-Oxley rules regarding auditor independence. In revoking Goldstein and Morris' registration, the PCAOB charged the firm with preparing the financial statements of two of its clients, and then trying to conceal the conflict of interest by altering documents requested by the Board. Without admitting to or denying the charges, the accounting firm has consented to the Board's findings. In addition, Edward B. Morris, managing partner of Goldstein and Morris, has been barred from associating with a registered accounting firm.



## LEAVE IFRIC ALONE, SAY BIG FOUR

Senior partners from the Big Four accounting firms have lined up against proposals by European Union Internal Market Commissioner Charlie McCreevy to create a new forum to smooth out differences in the treatment of International Financial Reporting Standards across Europe. Peter Holgate of PricewaterhouseCoopers and Ken Wild of Deloitte Touche Tohmatsu have both said that the matter should be left to the International Financial Reporting Interpretations Committee (IFRIC). McCreevy maintains that a specific EU body could help the IFRIC, by allowing it to focus on issues that require specific guidance. While McCreevy contends that such a forum could help to achieve harmonisation of standards with the U.S., Holgate has warned that such a system would be "a recipe for chaos."

## EU PARLIAMENT VOICES SUPPORT FOR LIMITED LIABILITY

Europe's listed companies could get a reprieve from pressure for stricter auditing requirements, after an EU committee voted to cap auditor liabilities. The move is part of an overall effort to soften proposed auditing requirements that have been coming from the EU Commission. The full parliament, which reconvenes in September, is expected to pass the committee's proposal. However, getting approval from the EU Commission, which has generally leaned toward a tougher approach, may be more difficult.

## DIGEST

- ▶ **Germany** German Chancellor Gerhard Schroeder and the ruling SPD coalition have revived plans for a flat corporate tax. The renewed push comes amid pressure to boost the economy ahead of a surprise election in September.
- ▶ **U.S.** KPMG and the U.S. Department of Justice are cooperating in the investigation of former KPMG partners for promoting illegal tax shelters to wealthy individuals. The practices have cost the government an estimated US\$1.4 billion in lost revenues. Deferred prosecution now seems to be the DoJ's preferred approach.
- ▶ **Global** On 16 June the International Accounting Standards Board announced a new refinement to IAS 39 Financial Instruments that restricts the applicability of the fair value option contained in the 2003 revisions of the standard.
- ▶ **U.S.** Arthur Anderson achieved Pyrrhic vindication in May, after the U.S. Supreme Court agreed with Anderson that shredding two tons of documents from a current client was not enough to prove intent. Meanwhile JPMorgan Chase & Co. and Citigroup have agreed to a collective US\$4.2 billion settlement to shareholder lawsuits lodged in the aftermath of Enron's collapse.

### DIGEST

- ▶ **Japan** Merger and acquisition activity surged to a new high in Japan during the first half of 2005, increasing 70% in terms of volume and 52% in value, compared to the same period last year. Japan tops Asia in terms of volume, according to a recently released report by KPMG. About one quarter of mergers and acquisitions in Japan involve the financial sector.
- ▶ **Japan** Briton Sir Howard Stringer took over the controls at electronics and entertainment giant Sony on 22 June, promising to complete a full strategic review of the company by September.
- ▶ **Australia** Police in Australia have uncovered a money-laundering and tax evasion scheme worth US\$230 million. A total of 48 arrest warrants have been issued for participants in the scheme, which involved the use of offshore accounts.
- ▶ **Singapore** China Aviation Oil (CAO) has pledged to defend its leadership in the China jet fuel market, despite market opening obligations by China thanks to its WTO ascension and the arrest of CAO's CEO and top executives during June.

## Taiwan corporate tax reform on the way

Legislation has been submitted by Taiwan's Finance Ministry that would introduce a minimum corporate income tax of between 7.5 percent and 12.5 percent, applicable to all companies with annual income in excess of US\$64,000. The legislation, which comes on the back of a deteriorating tax-to-GDP ratio, could herald further changes in Taiwan tax policy. Traditionally, Taiwan's taxes have heavily favoured export-oriented firms, including those in the technology industries. Other proposals by the Finance Ministry will likely be aimed at bringing all companies into a minimum tax regime, with the possible exception of Taiwanese offshore banking units.



### JAPAN CHANGES RULES ON OFFSHORE INCORPORATION

Japan's Ministry of Justice looks set to proceed with Article 821 of the commercial code, requiring companies that do business in the country, but are incorporated offshore, to re-incorporate in Japan. International banks have relied on offshore incorporation to avoid a Japanese regulation requiring banking and securities businesses to be kept separate. European and American business delegations have tried unsuccessfully to dissuade the MoJ from its latest policy. Re-incorporating under the new law could take as long as 18 months and cost investment banks hundreds of millions of dollars. Bankers have pointed out that operations which were once legal could fall into breach of law. The MoJ has offered to give a favourable interpretation to companies that are still incorporated overseas, do business in Japan, and have a plan to do business overseas. The vagueness of the Article's wording provided little comfort to bankers and their lawyers.

### SINGAPORE EXCHANGE TAKES AIM AT LOW FLIERS

The Singapore stock exchange put forward several proposals in late May aimed at improving corporate governance standards and promoting good regulatory practices. Among the proposals, which are aimed at foreign companies listed in Singapore, is a requirement for the participation of at least two independent resident directors to be based in Singapore. The exchange is also studying provisions on shareholder rights accorded in law in relation to listed companies that are incorporated abroad. At present Chinese companies, such as China Aviation Oil (see left), do not follow the same accounting rules as Singaporean companies, despite being listed together.

PHOTOGRAPHS BY COLIN BEERE



## Beijing tries to lift markets

The Chinese government's efforts to improve sentiment on domestic stock markets took a new turn this month. In May the China Securities and Regulatory Commission unsettled markets by announcing plans to release up to US\$300 billion worth of untraded shares in state enterprises onto the markets. To counteract concerns over a drain of liquidity in share markets – and lift the Shenzhen and Shanghai bourses from seven-year lows – on 13 June the CSRC announced that it would cut taxes on dividends from 20 percent to 10 percent, with immediate effect. It also offered new measures giving companies greater flexibility to buy back shares.

### ASBE UNDER REVIEW

China's Ministry of Finance has promised further changes to Accounting Standards for Business Enterprises (ASBE) by the end of the year. According to Liu Yuting, the director general of the Ministry's Accounting Regulatory Department, a new review process will aim to further harmonise Chinese accounting practices across different industries, while bringing them closer to international standards. The Ministry expects that at least 20 new rules will have to be added to the ASBE by the year's end, meaning there will be approximately 40 rules in total. The Ministry will ultimately require all medium-sized and large enterprises to adopt the ASBE.

### BANKS HEAD TO HONG KONG

Bank of Communications Ltd., China's fifth largest bank, made a successful debut on the Hong Kong Stock Exchange on 23 June and several peers are now set to follow suit, despite concerns over the overhang of non-performing loans in the sector. Estimates of the scale of NPLs in China range as high as US\$500 billion. Minsheng Banking Corp. and the China Construction Bank (CCB) are following a path similar to the Bank of China, with each planning a listing of their own in Hong Kong later this year. Bank of America acquired a 9 percent stake in CCB, worth US\$3 billion, on 17 June.

## DIGEST

- ▶ The China National Offshore Oil Corp (CNOOC) made its long-awaited US\$18.5 billion bid for American oil firm Unocal in June. However the bid could be held up for at least two months by a U.S. federal level review, to be conducted by the Committee on Foreign Investment.
- ▶ Xu Fangming, a senior official at the Ministry of Finance, was arrested in late June, on corruption charges.
- ▶ Shipping giant China Cosco Holdings completed an initial public offering on 24 June, with shares trading at a multiple of 9.5 to last year's earnings.
- ▶ Prime Minister Wen Jiabao has once again ruled out any immediate revaluation of the renminbi, as demanded by the United States. His latest statement came on 26 June during a meeting with European and Asian finance ministers.



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