

IASCA Newsletter

May 2019 - Issue 54

YOUR GATE TO ACCOUNTING, AUDITING AND CODE OF ETHICS

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Abu-Ghazaleh Chairs the 30th Meeting of ASCA (Jordan) Board of Directors



AMMAN – The Arab Society of Certified Accountants (Jordan) / a member of The Talal Abu-Ghazaleh Foundation held its 30th meeting chaired by HE Dr. Talal Abu-Ghazaleh, Chairman of ASCA (Jordan) Board of Directors, at Talal Abu-Ghazaleh Knowledge Forum (TAGKF).

During the meeting, Dr. Abu-Ghazaleh welcomed members of ASCA (Jordan) Board, particularly its founders and primary supporters for 35 years, and praised the Board's efforts in the development of the Society's work and activities. The Society is the only entity that provides qualifications, education and training in the field of accounting in the region that has been operating since 1984.

Dr. Abu-Ghazaleh affirmed, "We always seek to develop accounting

and management sciences through this society", commending the high level of achievements and the efforts of its Board of Directors and staff.

He also expressed his admiration for the Society's role and performance in facilitating, developing and funding the translation of all ISAs, IPSASs and IES and other translations of standards issued by the International Federation of Accountants (IFAC).

During the meeting, Mr. Salim Al-Ouri, Executive Director of the Society, presented the administrative Body's report on its work for the year ending December 31, 2018, as well as briefing the attendees on ASCA (Jordan) future plans. The report contained information on the most important translated, printed



and published professional publications including the monthly professional magazine, International Public Sector Accounting Standards 2017 Handbook, Guide to Using ISAs in the Audits of SMEs 2018, Handbook of the International Code of Ethics for Professional Accountants 2018, Interpretation and Application of IPSAS, Abu-Ghazaleh Accounting and Business Dictionary – Third Revised Edition.

Regarding qualification and training, the report stated that “37 training and professional courses were held in the Kingdom that benefited 350 trainers and trainees. Many cooperation and follow-up agreements were signed with different bodies.”

During the meeting, the external auditor was elected for the years 2019-2020, also the report of the administrative body, the final financial statements and the budget were approved.

The meeting also included the approval of the report of the administrative body, the final financial statements, the estimated budget and the election of an auditor for the Society.

It is worth mentioning that the Society always seeks to develop accounting, management sciences and relevant principals applicable to all or some professional services.

IASCA Participates in Job Fairs at Jordanian Universities

AMMAN – The International Arab Society of Certified Accountants (IASCA) participated in job fairs held in a number of Jordanian universities including:

- Jordan Education for Employment (JEFE)
- Amman Arab University
- Applied Science Private University
- Al-Zaytoonah University
- Jerash University
- Hashemite University
- Princess Sumaya University for Technology (PSUT)

As part of its social responsibility in supporting the graduates of Jordanian universities, IASCA is keen to provide the labor market with professional qualifying programs, therefore, the Society’s representatives met

JOB FAIR

students and visitors at the job fairs and briefed them on its services, courses and certificates.

IASCA booth received many students and visitors who were interested to know more about the professional courses and qualifications offered by the Society.

IACMA Examination Results of April 2019 Announced 22% Success Rate

AMMAN - The International Arab Society of Certified Accountants (IASCA) announced the examination results of the International Arab Certified Management Accountant (IACMA) certificate, April 2019 session.

A number of students sat for the IACMA exams from around the Arab world, 22% out of them successfully passed the exams.

It is worthy to mention that IASCA started holding the IACMA examinations twice a year as from 2015, under which two sessions are being held in April and October.

IASCA congratulates the students who passed the exams and wishes success in the next cycle to those who did not.



Training Courses of May 2019

The Arab Society of Certified Accountants (ASCA) (Jordan), Amman- held a specialized training course titled “Accounting for non-Accountants” for a group of participants. The training course aimed at introducing participants to the basic accounting concepts, such as the accounting cycle, showing them how accounting entries are recorded and carried forward, in addition to inventory count reconciliations. The training course also aimed at introducing the participants to the main financial statements, their importance, and the benefits of each statement, in addition to showing them how financial statements are explained and analyzed for the purpose of making managerial decisions. Participants received certificates of attendance.

ASCA (Jordan), Amman – held a specialized training course titled “Preparation of consolidated financial statements” for a group of participants. The training course aimed at introducing participants to the practical principles and requirements of the IFRS that govern the preparation of consolidated financial statements under IFRS 10. The training course highlighted the needed conditions and explanations of the procedures of preparing consolidated financial statements. The main requirements of IFRS 3: “Business Combinations” were also addressed. The required accounting treatment for positive and negative goodwill in addition to distinction between business



mergers, acquisition, and control were also discussed during the training course. The accounting treatment for investments in associates and joint ventures under IAS 28 was also addressed. Meanwhile, all participants received certificates of attendance.

ASCA (Jordan), Amman – held a specialized training course titled “International Accounting Standards and New Amendments” for a number of participants. The training course aimed at defining the IAS and the IFRS and highlighted the means to develop them along with their impact on the process of preparation of financial statements. The training course was tailored to provide the participants with the needed skills and methods related to the accounting treatment in accordance with the international standards and the most updated amendments thereof.



A New Accounting Rule on Loan Losses Could be Disastrous for the Economy; FASB's New Rule will Find Losses where None Exist

Beginning in 2020, the Financial Accounting Standards Board (FASB) will require large financial institutions and smaller banks to estimate and report loan losses upon origination according to the Current Expected Credit Loss (CECL) standard, commonly referred to as the loan-loss rule.

In recent congressional testimony, JPMorgan Chase CEO Jamie Dimon charged the rule will constrain banks and stymie lending. Even more portentously, CECL does not work: a major conceptual error in FASB's guidance will cause significant losses to be reported where none exist and could result in a further significant decline in lending, which in turn could exacerbate a potential recession.

The loan-loss rule requires, upon origination, recognition of credit losses using economic forecasts over the contractual lives of loans and held-to-maturity debt securities.

Heroic assumption

One can appreciate the salutary transparency the anticipation of losses required by the FASB rule can engender. Financial statements would become less opaque, duly warning investors about impending losses; this was the *raison d'être* of FASB to revisit the model for estimating loan losses in response to the financial crisis of 2008.

However, the rule would require a heroic assumption: reasonable accuracy in estimating losses over the very long term, such as 30-year residential mortgages and student loans, especially when attempting to predict cyclical turns.

Moreover, CECL goes overboard in requiring the recording of losses where none exist. This in turn results in an unjustified decrease in regulatory capital, and potentially reduced lending, especially during anticipated economic downturns, with draconian consequences for the economy.

The likely outcome of CECL is a very significant increase in artificial — not economic — loan losses, with corresponding adverse effects on regulatory capital. Applied to the \$17 trillion banking industry, and a little above \$15 trillion in mortgages alone as of the fourth quarter of 2018, this could spell disaster, leading to detrimental effects on lending and the economy.



The American Bankers Association, in its statement before the Financial Institutions and Consumer Credit Subcommittee of the House Committee on Financial Services, warned against some of the injurious effects of CECL: increased volatility of regulatory capital, the necessity of increased capital at all times, higher interest rates for borrowers and favoring shorter term loans over longer term ones including residential mortgages and student loans.

How the rule works

That is all true, but more fundamental is the grave conceptual error embedded in CECL: recording accounting losses in the absence of real economic losses.

Simply articulated, the standard ignores that lenders would rationally increase interest rates to compensate for whatever default risk and consequent non-payment of principal and/or interest they anticipate over the lifetime of the loan. Hence, they would expect not to incur any economic loss upon loan origination. Further, if over time they forecast a heightened default risk, in many non-fixed rate cases, they would increase interest rates again to make themselves whole. Yet, under the FASB's guidance, they are required to report accounting losses in the absence of economic losses, decreasing regulatory capital. This perverse outcome is a result of FASB requiring the use of a discount rate that is the same as the stipulated loan interest rate.

To illustrate with a simple example, imagine you lent me \$1000 to be repaid by me in a lump sum after three years with annual interest payments. If you anticipate I would not default and pay all amounts as stipulated, you would charge me a 10% interest. However, if you anticipate I would pay you back the full interest but only \$900 at the end of three years on account of



principal, you would charge me 13.0213% interest to compensate for the shortfall. Under FASB's guidance, you would be required to use a discount rate of 13.0213% which would result in a reported loss of \$69.27 — a substantial 6.9% of the loan you originated. (Absurdly, were you to apply FASB's guidance to this example and yet show zero accounting loss, you would have to charge — and use as the discount rate — an interest rate of 4694%, reaping huge economic profits!). Departing from FASB's guidance, however, a discount rate that equals the original loan rate of 10% would yield an accounting loss that is equivalent to the economic loss: precisely zero.

Clearly, this is a hypothetical scenario, but even if the reported loss were less than the approximately 7% of this example, when CECL is applied to huge amounts of originated loans, it would result in staggering fake losses. Consider the impact this rule would have on the \$457 billion in mortgages (not considering other types of loans) originated in the country over just one quarter (the third quarter of 2018).

There is a simple cure to prevent artificial accounting losses: change the guidance so that the rate used to

discount expected cash collections (both principal and interest) is not the stipulated loan rate but rather the internal rate of return, i.e., the rate that yields as present value the amount of the loan originally extended without incurring an economic loss. In my simple example, this would be the 10%.

With this cure, prudent lenders who properly price the loan will suffer neither an economic loss nor an accounting loss upon origination. Without this cure, the Alice in Wonderland accounting reflected in FASB's CECL standard will result in lenders recording billions in non-economic artificial accounting losses impacting regulatory capital with consequent impact on lending and the economy generally. FASB and banking regulators should take note.

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IESBA Proposes Revisions to Part 4B of Code to Align with Terms and Concepts Used in ISAE 3000

The International Ethics Standards Board for Accountants (IESBA) has released for public comment Exposure Draft, proposed revisions to Part 4B of the Code to reflect terms and concepts used in ISAE 3000 (Revised).

Part 4B of the revised and restructured International Code of Ethics for Professional Accountants (including International Independence Standards) comprises the independence standards for assurance engagements other than audit and review engagements, as defined in the Code.

The proposed revision fulfils a pre-commitment the IESBA announced in its proposed Strategy and Work Plan, 2019-2023 to review Part 4B of the Code for any changes needed to make the provisions in that Part consistent with the revised assurance terms and concepts in the International Auditing and Assurance Standards Board's International Standard on Assurance Engagements (ISAE) 3000 (Revised), Assurance Engagements



Other than Audits or Reviews of Historical Financial Information.

The proposals in the Exposure Draft are as follows. Changes in key terminology, including a revised definition of the term 'assurance client'

Enhanced and clarified independence requirements for attestation engagements

Clarification of the types of assurance engagement addressed in Part 4B

Simplified guidance on assurance engagements that refer to the definitive source of explanatory material on such engagements in IAASB literature

The proposals were developed in close cooperation with representatives of the IAASB, as part of the coordination program of the two standard-setting boards.



Comments on the Exposure Draft are requested by June 26 from all stakeholders.

IESBA is an independent global standard-setting board. The IESBA serves the public interest by setting ethics standards, including auditor independence requirements, which seek to raise the bar for ethical conduct and practice for all professional accountants through a robust globally operable International Code of Ethics for Professional Accountants (including International Independence Standards).

IFAC is the global organization for the accountancy profession dedicated to serving the public interest by strengthening the profession and contributing to the development of strong international economies. IFAC is comprised of more than 175 members and associates in more than 130 countries and jurisdictions, representing almost three million accountants in public practice, education, government service, industry, and commerce.

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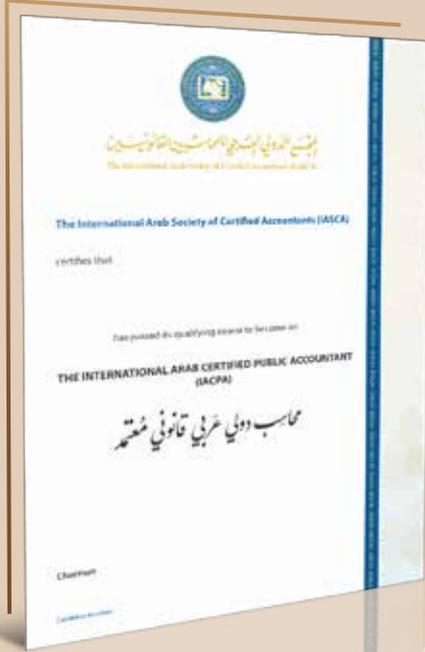
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الدورات القصيرة المتخصصة في مجال المحاسبة والتدقيق

دورات مهنية تأهيلية:

شهادة محاسب دولي عربي قانوني معتمد (IACPA)



١ - محاسبة التكاليف

٢ - محاسبة عقود الإيجار

٣ - محاسبة الأصول الثابتة

٤ - محاسبة الأدوات المالية

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