المجمع الدولي العربي للمحاسبين القانونيين
The International Arab Society of Certified Accountants (IASCA)
عضـو في طلال أبوغزاله فاونديشـن
Member of TAG-Foundation

IASCA Newsletter

June 2018 - Issue 43

YOUR GATE TO ACCOUNTING, AUDITING AND CODE OF ETHICS

Canisius College Presents 'Talal Abu-Ghazaleh Award for Excellence' in Accounting Programs

IN THIS **ISSUE:-**

Canisius College Presents 'Talal Abu-Ghazaleh Award for Excellence' in Accounting Programs

BUFFALO, NEW YORK-The Talal Abu-Ghazaleh International Award for Excellence in the Graduate Accounting Programs at Canisius College was presented during the Annual Accounting Banquet that was held on April 26, 2018. This year's recipient is Ms. Brandi Burgard who will graduate from the MBA Program in Accounting at Canisius College in Buffalo, New York.

This prestigious award is given to a graduating student who has not only excelled in the rigorous academic program of Canisius College but who has demonstrated the potential for contribution to the accounting profession. The award was presented on behalf of HE Dr. Talal Abu-Ghazaleh by Dr. Edward J. Gress, Director of the Talal Abu-Ghazaleh Center for Business Research at Canisius College.

In receiving the award, Ms Burgard expressed her gratitude to HE Dr. Talal Abu-Ghazaleh for supporting the study of accounting internationally. She also expressed her admiration for Dr. Abu-Ghazaleh and his accomplishments in building the Talal Abu-Ghazaleh Organization in a critical part of the world. Ms. Burgard also stated that Dr. Abu-Ghazaleh should be an example for all accountants to follow.

In presenting the award, Dr. Gress thanked HE Dr. Abu-Ghazaleh for recognizing and supporting the accounting program at Canisius College.

The Talal Abu-Ghazaleh International Award for Excellence in the Graduate Accounting Programs at Canisius College was established in 1989 and has been awarded annually to a graduate from the MBA Program in Professional Accounting or from the 150 Hours MBA Program in Accounting. Outstanding graduating students who meet certain criteria are invited to apply for this prestigious award and the winner is selected by a committee from the Canisius College Council on Accountancy.

IACPA Examination Results – May 2018
36% Success Rate

AMMAN - The International Arab Society of Certified Accountants (IASCA) announced the Examination Results for the International Arab Certified Public Accountant (IACPA)-May 2017 cycle with a success rate of 36%.

Mr. Salem Al-Ouri,Executive Director of IASCA said that the examination marking process carried out by a specialized committee of experts, professionals, and academics in accounting, auditing, economics, financial management, and regulations.

IACPA examinations are held twice a year in June and December at more than 36 centers around the Arab world. The candidates should complete four papers in Economic, Finance, Accounting, Auditing, and Regulations in order to pass the IACPA examination.

IACPA Curriculum has been developed in accordance with International Accounting Standards and International Auditing Standards in collaboration with a group of consultants from IASCA, the qualification obtained the accreditation by Jordan, the UAE, Yemen, Syria, Lebanon, Sudan, Qatar, Kurdistan Region (Iraq) in order to obtain the license to practice the profession.

Research on Corporate Governance
By Mr. Said Suleiman, CPA, JCPA
Deputy President of the Arab Society of Certified Accountants (Jordan)

AMMAN - The corporate governance is a multi- faced subject matter and is primarily related to guaranteeing that the persons in charge are held accountable in an attempt to mitigate the risks, achieve justice and equality, and economic efficiency. There has been a growing interest in the corporate governance since 2001 after the collapse of many major USA companies such as Enron and WorldCom. Thus, the US government has passed Sarbanes- Oxley Act to regain trust in the US companies' managements. This Act regulates many of the different and various aspects especially the relation between the ownership and the management to create a balance between the forces especially the management and the monitoring authorities.

Corporate governance is defined as the system through which the businesses facilities are managed and monitored. Moreover, governance is regarded as a means to enhance the transparency and accountability.

To review the full research details, kindly click here

Helping Small and Medium Practices Thrive in the Global Economy
IFAC Guide to Practice Management 4th Edition Includes New Section on Leveraging Technology

NEW YORK- Small- and medium-sized practices (SMPs) in a digital, globalized world need to adopt "good practices" to best serve their clients. IFAC (International Federations of Accountants) has released an updated publication—the Guide to Practice Management for Small- and Medium-Sized Practices Fourth Edition (the Guide) to help SMPs meet this challenge. The Guide will help SMPs improve their management and operational efficiency and support their sustainability and success.

Now in its fourth edition, the Guide is organized into eight stand-alone modules, including a new module on Leveraging Technology. The revised Guide addresses a comprehensive range of topics including:

- Strategic planning;
- Managing staff;
- Client relationship management;
- Risk management; and
- Succession planning.

The new Leveraging Technology module covers how technology developments are fundamentally changing the way organizations operate and recognizes that SMPs must adapt to service their clients that utilize technology. Included are topics such as developing a technology strategy, hardware and software options, technology risks, new and emerging technologies, and leveraging technology for practice innovation.

In order to help IFAC member organizations and practices maximize the Guide's use, IFAC has updated the Companion Manual, which provides suggestions on making best use of the Guide.

Some Local Banks Face Difficulty in Enforcing Int'l Criteria 'IFRS 9'

'Abiding by directives exposes banks to violating Sharia'

KUWAIT - Some local banks are facing difficulty in enforcing the international criteria for financial reports IFRS 9' based on the suggested monitoring remedy for the first quarter, reports Al-Rai daily quoting informed sources.

They stressed that the commitment of the banks to abide by those directives exposes them to violating the Sharia. The sources explained that the Central Bank of Kuwait issued a circular in April 2018 concerning the enforcement of the international accounting standards IFRS 9" on the portfolios, the relevant investments and loans for the first quarter of the year.

Because of the consequent accumulations that the banks have made for the contingent provisions since 2008 and owing to the conservative monitoring policy, most of the banks are expecting to make surplus from the reserved money in their books. They have the right to turn them into cash and then direct them to the gains and losses accounts. According to the banks, this is the preferred process that is in line with the international criteria.

Objected

On the other hand, the Central Bank of Kuwait initially objected to changing the contingent provisions into cash and insisted on taking precautionary actions. It then issued tough directives to reduce the level of the surplus resultant from enforcing the criteria, and asked the banks to absorb the surpluses in their capitals. This led to a dialogue between the banks, especially the Islamic banks and the Central Bank of Kuwait.

The banks said they cannot absorb the surpluses and add them to the capital because this might violate the Islamic Sharia.

They said their work is based on partnership between the shareholders and the depositors, adding that classifying the surpluses to the capital requirements means the depositor will bear costs that he does not have to bear. Concerning the regular banks, they did not hide their desire to release the safety belts" or at least make it a bit loose in order to turn some provisions into cash, taking into consideration the fact that the new criteria requires counting the loans' provisions based on expectations of insolvency that makes the loaner incapable of repaying the debts.

Preparing the Market for IFRS 17

London- IFRS 17 Insurance Contracts was issued by the International Accounting Standards Board (Board) in 2017 and comes into effect in 2021. Financial journalist Liz Fisher takes a look at what the new Standard means for the investor community.

The insurance sector has long been a special case when it comes to financial reporting.

The complexity of insurance, its long-term nature and the inherent difficulty in identifying 'revenue' as any other business would understand it has set it apart—with the result that an insurance company's financial statements look and feel unlike any other. But that will change in 2021 with the implementation of the Board's new global Standard, IFRS 17 Insurance Contracts.

The new Standard represents a seismic change not only for the insurance companies that will use it but for the user community, and particularly for analysts covering the sector across the world. Some compare the scale of the change to the 2005 adoption of IFRS Standards in Europe; insurers' financial statements and key performance indicators will be radically transformed. 'I've been covering the insurance sector for almost 20 years and it's by far the biggest change I have seen,' says Doug Young of Desjardins Capital Markets in Canada.

While many are expecting a turbulent bedding-in period when the Standard first comes into effect, insurance analysts across the world believe it will make a huge difference to the consistency and comparability of insurance companies.

The trouble with IFRS 4, the interim insurance contracts Standard

The Board began its project to develop a consistent global approach to insurance accounting in 1997, and in 2004 issued its interim insurance Standard, IFRS 4, to address urgent issues in the run-up to adoption of IFRS Standards by listed companies in Europe and beyond. While IFRS 4 introduced vital improvements to recognition and measurement of insurance contracts and to disclosure requirements, the fact that it allows insurers to use local GAAP (Generally Accepted Accounting Principles) means that identical insurance contracts can be accounted for differently by different insurers. As a result, insurers' financial statements are almost impossible to compare against each other.

The opacity of insurance-company financial statements means that analysts have to take an entirely different approach to the sector. Roger Doig, European equities analyst at Schroders, says he has not used an insurer's IFRS balance sheet as a basis for valuation 'for 15 years or more' as it does not provide any of the information he needs. 'What interests me is a company's ability to pay dividends, and that is built around understanding the regulatory view of the balance sheet. The balance sheet under IFRS 4 is totally irrelevant.' Instead, he says, the main relevant metrics for assessing whether a dividend can be paid is Solvency II capital adequacy information. 'The problem is that Solvency II doesn't give you an operating performance measure, so we have to fall back on the IFRS P&L account.'

And this is where the real problems begin—in assessing earnings and performance under IFRS 4. Séverine Piquet, senior investment analyst at BNP Paribas Asset Management, describes insurer financial statements as 'a black box'. 'Profits are not recorded in the same way by different insurers—some are recorded faster or slower than others,' she says. 'And we have no idea which year has generated the most profits.'

'It's very difficult for us to see the performance of an insurance business and insurers can pretty much produce any figures they want,' adds Patricia Cheng, Head of China Financial Research at CLSA in Hong Kong. 'It's very frustrating to me as an analyst.

'The normal ratios just don't apply and a lot of information depends very much on assumptions—if a company is showing a growth rate of 20%, for example, you might find that a lot of that is down to a change in assumptions. So, at the moment, we take a "story-telling" approach to investment trends. If the financial performance figures show growth, and it seems to gel with the story, people will accept that.'

Both insurers and analysts have come up with their own ways to explain performance, but while this might help some investors, it adds to the overall lack of comparability. Doug Young of Desjardins explains that analysts in Canada construct a 'sources of earnings' statement in order to give investors an idea of how reserves are rolling off. 'There is also an "expected profit" line in Canada, which shows the unwinding of insurance liabilities, but some companies include things like acquisition costs, that others don't,' he says.

'It is possible to make sensible projections for non-life business based on the information you get,' says Schroders' Doig. 'The real problem is with life companies because you get deposit lumped in with premiums and large moving parts going in and out of reserves, and these are impossible to predict.' Many large insurers provide information on the drivers of insurance performance to help users better understand. ‘We use these additional disclosures to project operating earnings of life companies, which we add to the IFRS 4 figures for non-life and asset management business so we can make estimates of what we think the underlying growth in earnings for an insurance group will be.’

The problem is that not all companies produce this information and there is little consistency from insurer to insurer among those that do. ‘Smaller companies don’t provide this supplementary information at all,’ says Doig, ‘and among the others, some provide it geographically, and some on a product-by-product basis.’

This means, essentially, that insurers set the parameters for communicating their performance to the market. ‘What I have to do at the moment is explain what is happening on a company-by-company basis, and that is not the case for any other industry. Insurance is completely unique in that,’ says Piquet.

Impact around the world

The impact of IFRS 17 is expected to be greater in some regions—such as those that routinely use historical interest rate information—than in others. In Asia and Europe, for example, embedded value reporting is voluntarily offered by many insurers to provide information on long-term contracts. While the information about the profitability of long-term contracts provided under IFRS 17 will be more comparable than embedded value reporting, moving away from embedded value will be a significant change for investors. ‘IFRS 17 could make embedded value irrelevant, and that is a huge change in mindset and methodology,’ says Cheng. ‘The overall impact will depend on what insurers’ results look like under IFRS 17, and we just don’t know what that will be. We’re walking into the unknown, but at least everyone is doing it together.’

Some analysts are concerned about transitional arrangements to the new Standard. ‘The accounts will be very difficult to read at the beginning, and we will be losing a history of data,’ says Piquet. She is also concerned that the format of key statements could differ from company to company: ‘It would be helpful if there was a standard P&L model available for everyone to follow, so no-one tries to reinvent the wheel—without a standard approach we could lose some of the visibility that will be gained.’

Others are more confident. ‘People adjusted relatively quickly to IFRS 4,’ says Doig. ‘I’m not sure transition is going to be as disruptive as some suggest it could be.’

‘We know that implementing the new Standard is a very big task for insurance companies,’ says Hans Hoogervorst, Chair of the International Accounting Standards Board. ‘So in addition to preparing the investors for IFRS 17 through education events, we are delivering a lot of supporting materials to help people understand the Standard.’ The Board has also set up a Transition Resource Group to create a public discussion forum where implementation challenges can be debated by experts who will be directly involved with implementing the Standard.

Perhaps the most critical question is whether IFRS 17 and the transparency and comparability it promises to bring will make the insurance sector a more attractive prospect for investors. BlackRock has said that the Standard ‘has the potential to provide more accurate and comparable insights into insurers’ balance sheets and profitability, thereby improving investor understanding of the sector’, and most analysts agree that the opacity of insurance accounting has contributed to the perception that the sector is only for the brave.

‘Portfolio managers are put off by insurance and insurance accounting,’ says Doig. ‘Once people get used to the new Standard, earnings forecasts will be easier to come by and the drivers will be easier to understand. We will have granularity in terms of the drivers of earnings, most importantly by product or group. Some insurers do already provide that information but it will be very useful to have it for everyone, particularly smaller insurers. Will that make investors more confident in the sector? I think it might.’

FOR MORE INFORMATION

Tel: (0962-6) 5100900
Fax: (0962-6) 5100901

Or you may reach us through our website:
ascasociety.org
ascajordan.org

And our emails:
asca.jordan@iascasociety.org
salouri@iascasociety.org
www.facebook.com/ASCAsociety

This Newsletter is Published by
The International Arab Society of Certified Accountants (IASCA)