

Policy Note — IAS 39 Reporting Requirements

We have seen reports in the press regarding the relaxation being sought with respect to IAS 39 reporting requirements.

2. There appears to be a vociferous body of opinion urging that any impairment in investments available for sale based on equity values prevailing on December 31, 2008 should be recognized directly in the Balance Sheet as a diminution in equity rather than this being first recognized as a loss in the Profit & Loss Account. It is being strenuously argued that since the equity market was dysfunctional for about 100 days due to the imposition of a floor and that it only resumed ordinary functioning as late as on December 15 (upon removal of the floor) the period of half-a-month till the end of December is insufficient for the market to recover its normal equilibrium. We appreciate that this is debatable; so is, perhaps, the fact that IAS 39 (which was adopted as a global standard after considerable deliberation and soul-searching) is a comprehensive and sensible directive covering all aspects of financial asset recognition and measurement. We also appreciate the fact that whether or not the impairment is recognized in the Profit & Loss Account, the financial position of the entity as reflected in the Balance Sheet remains the same.

3. The question really is whether the management's performance as displayed by the Profit & Loss Account should be impacted by the impairment suffered by financial assets which were in the nature of

investments held for disposal, as and when necessary. The further obvious question is whether the investor should be exposed to inconsistent treatment of the accounts and an effective cover-up of losses suffered (even if such losses may have occurred due to extraordinary circumstances, Acts of God, or other wholly unforeseen matters).

4. In this connection, we would like to point out that an overstatement of profits by means inconsistent with established norms and practice would potentially misinform and mislead investors. It would not only be abhorrent to public interest but also may tantamount to a violation of Section 10 of the Competition Ordinance, 2007 on “Deceptive Marketing Practices”.

5. We are sanguine that any directive by you will not require action in conflict with the letter or spirit of any law. You are requested to take into consideration the contents of this note in formulating an appropriate directive, if any, in the matter of IAS 39 reporting requirements.
