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Audit • Advisory • Tax

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Message from the Managing Partner's Desk

Dato' Gan Ah Tee, DNS, JP

Time flies –the old adage goes and it is not without its truth. 2008 has flown by. We are now slightly over the half way mark and wait in anticipation as the Beijing Olympics looms and will start on the Chinese auspicious date of 08.08.08 at 8pm, I am told. The most powerful economy in world, the USA, is also set to elect its new leadership in the later part of the year. Looking back and doing a stock take of the last six months that was, it has been rather interesting. We've had a fascinating election nationally, there has been a substantial increase in food and fuel prices, the impact of global credit crunch has resulted in a renewed focus on fair value accounting and a rather interesting read within the accounting faculty on the research by the world-renowned London School of Economics on the impact of market concentration on audit fees which was commissioned by BDO's member firm in the UK, namely BDO Stoy Hayward.

According to the findings of the research, there appears to be a direct correlation between the higher audit fees paid by large UK companies, both listed and private, and the market concentration of audit firms resultant from the reduction of 'Big Five' to 'Big Four' in 2002. The report also highlights the potential benefits of an increase in choice of audit firms, and raises the concerns and consequences if another audit firm were to leave the market.

Whilst I am not aware of any study done on the audit fees paid by large Malaysian-based firms and its link to audit firms' concentration, I would not be surprised if a study was to be commissioned, that the results would probably be similar. It would be highly likely that there would be a positive impact on prices paid for audit or even other professional services such as tax and advisory if there was simply more competition in the market.

> "I do believe that BDO Binder Malaysia is ready and able to face the opportunities and provide the marketplace with a clear and credible option."

With this financial landscape as a background, BDO Binder Malaysia has gone on to anticipate the more sophisticated needs of companies in light of market expectations, as well as regulatory requirements while being mindful that some needs do not change – like more personalised top level management involvement on assignments and value adding, as well as finding solutions that matter to our clients. I am very proud that we have several new additions to our management team, including Rejeesh Balasubramaniam and Audrey Chan, both bringing with them valuable other Big 5 experience in Audit services.

Also, we have promoted internally one of our young and upcoming sparks – Lim Seng Siew to a Principal. Another bright young talent is our new Executive Director for Advisory Services, Bonnie Tham, another internally home grown and honed staff. Given our very strong team of experts in all the key services that we are offering; namely Audit, Advisory and Tax, we are certainly on track with our strategies of strengthening our Audit function as well as our ambition to be recognised as one of the top two Advisory firms in Malaysia. I do believe that BDO Binder Malaysia is ready and able to face the opportunities and provide the

Continues on page 4.

All Roads Lead to

Fair value accounting – The mere mention of this phrase is enough to create buzz and chatter within the accounting and finance circles, especially in an unprecedented era of global credit crisis ever since the savings and loan crisis in the 1990s. The collapse of Bear Stearns and IndyMac, coupled with waves of massive write downs in the balance sheets of Wall Street banks are definitely the corporate theme of 2008 and along with it, fair value accounting.

Love it or hate it, following its international implementation by the Basel II accord and the affirmation in the International Financial Reporting Standards ('IFRSs') by the International Accounting Standards Board ('IASB'), fair value accounting is certainly the mainstream of accounting and auditing standard setters worldwide. International financial reporting has evolved a long way since its classical introduction by Luca Pacioli, from historical cost accounting to other fashionable forms of accounting such as current cost accounting and current purchasing power accounting, and back to historical cost accounting before turning to the present fair value accounting.

Financial reporting based on historical cost – is old indeed gold?

Historical cost accounting remained contemporary throughout the decades and served its purpose well until globalisation became a tectonic trend that ushered the finance world into a new era of proliferation of financial products with incredible complexity. Creative attempts to financially re-engineer reported balance sheets and profits saw financial derivatives taking center stage to the extent of being referred to as 'weapons of mass financial destruction', culminating with the collapse of Enron and Worldcom in early 2000. Corporations discovered ways of circumventing historical cost accounting by entering into financial derivatives to boost profits or balloon balance sheets due to the rear view taken by the financial reporting systems back then.

The chain of corporate collapse in early 2000 set in motion the wheels of change, pushing regulators worldwide to consider a new form of accounting and from the ashes, emerged fair value accounting as the way forward. Notwithstanding the intricacies of the IFRSs, fair value accounting requires the reflection of financial assets and financial liabilities at willing buyer-willing seller prices. All financial products (or instruments) can no longer escape from the scrutiny of investors; gains or losses are now recognised even before the financial instruments mature and truly, investors will know the economic performance and condition of corporations.

Corporations groaned from the increasing weight of financial reporting burdens, investors renewed their faith in corporate reporting and regulators breathed a heavy sigh of relief. Well, so the story goes until recently with the global credit crisis starting with the irrational exuberance in the United States economy. Poor lending standards adopted by financial institutions that fuelled the earlier years of growth in the housing market reared its ugly head when the housing bubble burst under the growing weight of rising oil prices, yielding high default rates. Fixed income instruments and derivatives tied to those housing loans in asset securitisation exercises consequently suffered default losses and were forced to register those losses upfront in accordance with fair value accounting. Trust and faith in the credit standings between financial institutions collapsed to an all-time low and thereon, liquidity dried up as institutional lending screeched to a grinding halt, exacerbating the crisis of confidence despite attempts by the Federal Reserve to reassure the market.

Interestingly, the write downs recognised in the balance sheets of corporations sparked a chain reaction throughout the financial markets since a corporation's liability is another corporation's asset as some form of investment. Hence, a corporation's failed liability becomes another corporation's failed asset in a downward financial spiral since exchange traded prices of securities held are the first reference employed (sometimes referred to as mark-to-market) in fair value accounting. True to the psychology of investing, finger-pointing became a favourite pastime with credit rating agencies such as Standard & Poor's and Moody's bearing the brunt of criticisms, and of course, fair value accounting.

Would the ongoing global credit crisis nail fair value accounting to the coffin?

The Chartered Financial Analysts ('CFA') Institute Centre for Financial Market Integrity conducted a survey amongst CFA members in March 2008 with startling results; whilst 55% of the respondents opined that fair value requirements aggravate the global credit crisis, 79% are of the opinion that fair value requirements improve transparency and contribute to investor understanding of the risk profiles of financial institutions. Meanwhile, G-7 Finance Ministers and Central Banks urged the IASB to improve the accounting and disclosure standards for off-balance sheet entities and enhance its guidance on fair value accounting, particularly on valuing financial instruments in periods of stress. The Basel Committee on Banking Supervision promised to work with accounting and auditing standard setters to promote enhanced guidance on fair value estimates for financial reporting purposes and their verification by auditors.

Indeed, all roads lead to fair value accounting! The CFA Institute Centre for Financial Market Integrity even reaffirmed its support for fair value accounting as the most transparent measurement for investors to analyse financial statements, saying that fair value is being used as a scapegoat by corporations who have made poor decisions or were not in compliance with accounting standards.

Fair value accounting in Malaysia

The recent spotlight on the financial reporting requirements of IAS 32 *Financial Instruments: Presentation*, IAS 39 *Financial Instruments: Recognition and Measurement*, and IFRS 7

Fair Value Accounting

Financial Instruments: Disclosures, have certainly not been lost on the local front. Accounting and finance professionals in Malaysia woke up on 1 August 2008 to the tune of a press release by the Malaysian Accounting Standards Board ('MASB') detailing plans to fully adopt IFRSs and converge with the IASB's Standards. With FRS 139 *Financial Instruments: Recognition and Measurement* coming online effective 1 January 2010, we certainly need to lay to rest whatever remaining hopes of ignoring fair value accounting and move forward to acquaint ourselves and master this new financial reporting model. Whilst marking-to-market may prove relatively simple, we should also be prepared to explore and understand financial models used to value instruments that are not exchange traded (swaps and forwards, for instance) known as mark-to-model provisions.

In spite of the impending financial reporting turbulence, local accounting professionals remain surprisingly mired in a swirl of myths and misconceptions. Chief of all myths is that FRS 139 only applies to financial institutions – well, that would only be true if you do not have cold hard cash, receivables, borrowings, or even simple securities investments within the financial statements of the corporation! Another misconception stems from the languid attitude amongst preparers of financial statements – after all, FRS 139 is only effective when we report for the financial period 1 January 2010 to 31 December 2010, right? Ladies and gentlemen, considering that the first quarterly financial reports in 2010 would require submission in April 2010, we would only have 2009 to prepare for the coming wave before a direct changeover on 1 January 2010.

Not forgetting IFRS 7, public corporations in Malaysia would also need to prepare for detailed risk analysis disclosures, consistent with Pillar 3 of the Basel II accord. Risk measurements such as value-at-risk and credit-at-risk, complemented by sensitivity analysis involving factor push, worst case scenarios, and many more would eventually be part and parcel of the disclosure notes to the financial statements in an attempt to both, improve market transparency and quality of financial reporting.

You will never walk down the road alone!

Are Malaysian corporations ready for the coming task at hand? Whilst the profession possess the necessary human capital to implement fair value accounting, undeniably, financial reporting costs would increase in exchange for improved investor knowledge. Empirical research on the implementation effects of fair value accounting espoused by IFRSs in the United Kingdom shows that the increased reported income volatility did not adversely affect debt covenants, and that corporations providing voluntary IFRS disclosures back then displayed higher equity prices compared to corporations that did not. Indeed, we must continue to keep our faith in the premise that the financial markets reward corporations with transparent financial reporting as empirically observed, and embrace fair value accounting as the road to improved financial reporting.

At BDO Binder, we look forward to lending you a helping hand to surmount the coming financial reporting challenges with our array of experienced and updated professionals at your service.

For further information, please contact Tang Seng Choon at sengchoontang@bdobinder.com

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Business valuation from a regulatory a and approac

All investors neither want to pay more for an asset than what it is worth, nor get shortchanged by receiving less than what the asset is worth when disposing of it. Therefore, it is imperative to get the valuation right when companies undertake business acquisitions or disposals.

Some have argued that the transaction value of a business should not be questioned since there is willing buyer who is prepared to pay for it. However, the question is how an investor would know whether the value of the business to be acquired or disposed reflects its fair market value? Although a formal valuation exercise is not the absolute answer to this question, it will assist a decision maker in making an informed decision on the transaction.

When do you need a Valuation?

Regulation on Valuation for Capital Market Transactions

In general, the rules or requirements governing the capital market do not explicitly require a formal valuation except for transactions that fall under Chapter 4 of the Securities Commission's ("SC") Guidelines on the Offering of Equity and Equity-linked Securities ("Equity Guidelines") regarding valuation of assets. Under Chapter 4 of the Equity Guidelines, the SC will assess directly the valuation of identified assets or identified companies that are the subject of –

- an acquisition of assets as part of the listing proposal;
- an acquisition of assets resulting in a significant change in the business direction or policy of a listed company;
- an acquisition of assets from related parties via issuance or proceeds from issuance of equity/equity-linked securities by a listed company;
- an acquisition of assets undertaken as part of a restructuring scheme of a distressed-listed company; or
- a disposal of assets resulting in a significant change in the business direction or policy of a listed company.
  In the above case, listed companies must adopt the valuation approved by the SC as the basis for the consideration for the acquisition or disposal.
  The identified assets mean –
- development properties including development rights;
- plantation land;
- purpose built commercial or leisure properties,

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marketplace with a clear and credible option. We look forward to working with our stakeholders and clients alike to meet their needs and assist them to lookout for the next breakthrough for their businesses. I'm proud that our team has grown from around 320 in mid 2007 to more than 450 staff led by 30 partners and directors at this juncture in time.

We are pleased that we are also on track with our other key strategies to raise the BDO brand profile, and to increase our regional footprints and capabilities. We recently hosted the BDO International Policy Board members and Senior Partners of the region for their meeting in Kuala Lumpur; and also had the privilege of hosting a BDO Cocktail reception in conjunction with this visit. I want to take the opportunity to thank all who supported this event which augurs well with our intentions to continually engage and enhance our relationships with our valued associates, clients and business partners.

and corporate governance perspective
ch to valuation

- plant, machinery and equipment;
- timber concession;
- mining land; and
- any other types of asset which the SC may specify from time to time,

Identified companies mean companies that own or hold the identified assets. For acquisition of assets other than the identified assets, which is part of a listing proposal; or acquisition of assets financed by issuance of securities; or significant assets disposal, the Equity Guidelines requires the valuation of the assets and the purchase or disposal consideration to be appropriately justified and adequately substantiated.

The SC has the right to seek second-opinion valuation on the assets if it considers the valuation is unreasonable or not justifiable. Under such circumstances, listed companies will have to adopt the lower of value for acquisition or higher of value for disposal if second-opinion valuation is sought by the SC. Therefore, a formal valuation exercise will facilitate the applicant or listed company to comply with these requirements although it is not specifically stated in the guidelines.

For acquisition or disposal that breaches the relevant percentage ratios under Chapter 10 of the Listing Requirements of Bursa Malaysia Securities Berhad ("Listing Requirements") in relation to transactions, listed companies are required to disclose in the announcement or circular, amongst others, the value of the consideration and the basis of how the consideration was arrived at. The Listing Requirements however do not specifically state how this requirement is to be met. For acquisition from or disposal to a related party where the value of the transaction is equal to or exceeds 5% of any of the percentage ratios under Chapter 10 of the Listing Requirements, an independent adviser is also required to comment whether the transaction is fair and reasonable to the shareholders. While the requirement is silent on how the independent adviser should arrive at its opinion, the independent adviser is expected to perform certain form of valuation to determine whether the value of the transaction is fair and reasonable.

> "By having an independent and professional opinion on the value ascribed by the management for any acquisition or disposal transaction, a check and balance is in place to ensure that the company will not pay more than what they have to or not getting shortchanged."

Corporate Governance perspective on Valuation

The board of directors has a fiduciary duty to the shareholders of the company. It is expected of the board of directors, legally and morally, to exercise due care in deliberating and deciding on any transactions undertaken by the company. Therefore, one could argue that it would be appropriate for the board of directors to get a valuation done for a transaction involving acquisition or disposal of assets of the company, especially if the deal is a related party transaction.

By having an independent and professional opinion on the value ascribed by the management for any acquisition or disposal transaction, a check and balance is in place to ensure that the company will not pay more than what they have to or not getting shortchanged. This will not only reflect that the management is transparent but also indicates that it has taken steps to protect the interest of all stakeholders. Of course, in a transaction where it is clearly insignificant or there is a clear market price for it, then a formal valuation may not be necessary.

This article is part one of two in a series on ***Business valuation from a regulatory and corporate governance perspective and approach to valuation.*** *Look out for* ***'How to value a business?'*** *in the next issue of BizDO.*

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Looking forward, we are looking to further enhance the BDO experience with a few BDO brand building activities in the pipeline as well as work towards realising our strategic plans for BDO Binder Malaysia. I hope we will be able to enlighten you more in the next issue.

Do look out for the BDO Tax Seminar 2008, to be held on 10 September in Kuala Lumpur and 16 September in Johor Bahru, which will assist to shed some light on the 2009 Budget Proposals which will be unveiled by end of August 2008. Our team of tax experts at BDO Binder Malaysia led by Mr Beh Tok Koay assisted by Ms Woon Yoke Lee are putting together a programme to assist our valued partners keep abreast of tax and corporate developments.

I hope to see you all there at the seminar.

“Where has your company data gone?”

When you delete a document or file on your computer, do you really know where it goes? You may have set your computer to move that deleted document to the Recycle Bin until you decide to *permanently* delete that document, at a later date, when you empty the Recycle Bin. Alternatively, you may have disabled the Recycle Bin feature altogether and simply deleted the file from where it was originally stored.

What has actually happened, in the first instance, is that you have only changed the pathname for that document (e.g. from “C:\Documents and Settings\User Name\My Documents\Filename.Doc” to C:\Desktop\Recycle Bin\Filename.Doc”). However, the physical file has not actually been moved from the location on the hard drive where it was originally saved. When you empty the Recycle Bin, or delete the document directly, all you have done is delete the first character of the filename and replaced it with the “~” character, from “Filename.Doc” to “~ilename.Doc”. Your computer’s operating system has been pre-set to not list any document where the filename begins with “~”.

The reason for doing this procedure is simply the need for speed. When you delete a document, do you really want to wait, possibly for hours, for something you don’t want any more to be removed from sight? It would be much better for you to be told that the document has gone and then you don’t have to worry about it any longer! In that way you can then carry on with your work. When you save a document, the operating system will save that document anywhere on the physical hard drive where there is sufficient space. The computer will generally look for a large area of unused space, rather than trying to squeeze it into a small area of unallocated disk space or free space. Again, the reason for this is speed.

An experienced Forensic Technology professional can review and capture the entire contents of a hard drive using specialised hardware and software applications. By using these tools together with a tried and tested methodology, it is possible to retrieve these deleted documents from the hard drive without altering any aspect of the hard drive under review. In other words, the data acquired will be evidentially sound in a court of law for either civil or criminal purposes. Did you realise that it is actually possible to recover documents from your hard drive that you had written but never saved? Not only that, but anything you have ever seen on your computer screen, including documents, pictures and other data from your company’s network or even the internet, may be recoverable at a later date! All this data, plus the data kept in the slack space is potentially recoverable.

> “Nowadays, up to 80% of all information held in a company is in electronic form, much of which is never converted to hard copy via printing, such as emails, company accounts etc.”

It is also possible to recover all the data from your hard drive, even after you have reformatted your computer’s hard drive. Now think what happens when you have upgraded to a new computer, copied all the relevant data from your old computer to your new one, and deleted that old data or reformatted the old hard drive.

What do you, or your IT Department, do with that old computer? Do you re-allocate that computer for your junior staff, hand back the computer to your service provider or simply sell or dispose of the obsolete computer? What happens to your data? What company-related, highly confidential intellectual property had you reviewed or had access to during the time when you used that old computer?

Nowadays, up to 80% of all information held in a company is in electronic form, much of which is never converted to hard copy via printing, such as emails, company accounts etc. Wouldn’t it be great to save this data in some way to ensure you don’t lose any important data once a member of the staff leaves or is removed whilst at the same time ensuring that the computers that are being disposed of are securely cleaned so that no important data falls into the wrong hands?

If you are in a senior management role or even a member of the audit committee of a company, what should you do? BDO offers a service that addresses both these issues. We will take your out-dated computers and make an evidentially-sound copy of the data, then securely delete the entire contents of those hard drives so that they can then be either re-used internally or simply disposed of (including donating to schools and other needy organisations!) This service is called the **Data Preservation and Destruction Service.** When you use this service, BDO will provide you with a full list of every document stored on that particular hard drive together with details from the imaging process of that computer.

The secured data will then be stored by BDO for you until such time as you may need to review the captured data, whether for recovery purposes, when you can’t find a copy of that data elsewhere, or you may want to take action against the former user, such as defending against wrongful dismissal charges or investigating allegations of intellectual property theft etc.

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BDO Binder Malaysia receives ACCA Employer Awards recognition

On 12 June 2008, BDO Binder Malaysia was awarded the ACCA Approved Employer for Trainee Development - Platinum Level and ACCA Approved Employer for Professional Development. Mr. Tony Osude, Head of Learning and Development at ACCA head office flew in from the United Kingdom for the award presentation ceremony held at BDO Binder Kuala Lumpur office. In his address to the employees present at the ceremony, Mr Osude applauded BDO Binder on its dedication in developing its staff, as BDO Binder was one of only two ACCA Platinum Level professional services employers in Malaysia.

BDO Binder Managing Partner, Dato' Gan Ah Tee commended ACCA on its work with employers in the industry, and promised to uphold a strong relationship between the two.

Working in partnership *– (far left) Mr. Tony Osude, Head of Learning and Development, ACCA and (far right) Ms. Ooi Lay Tin, Head of Business Development, ACCA Malaysia present both awards to Mr. Mok Chew Yin, Head of Audit & Transaction Services and Dato' Gan Ah Tee, Managing Partner, BDO Binder Malaysia.*

Reaching out to accounting students through Career Fairs

BDO Binder Malaysia participated in several career fairs in the past several months, most notably the CPA Australia Career Market Day, ACCA Careers 2008 and the Accountancy: Career & Education Fair (ACEF), organised by the Malaysian Institute of Accountants. The turnout for these events ranged from 1,000 to 3,000 participants, and included undergraduates, fresh graduates and experienced professionals.

BDO Binder Managing Partner, Dato' Gan Ah Tee, Head of Advisory, Mr. Wong Wing Seong and Executive Director of Advisory, Ms. Tan Chee Peng, were honoured guest speakers at these career events. Their presentations served to educate students on the broad range of career opportunities in the accountancy field, as well as to enhance awareness of BDO Binder among job-seekers. Some of the prominent speakers included Encik Nik Mohd Hasyudeen Yusoff, the President of the Malaysian Institute of Accountants and Ms. Christina Foo, the President of CPA Australia (Malaysian Division).

The career events were a resounding success, judging by the sheer volume of applicants, as well as the numerous prospective candidates who were interviewed, and we would like to thank all the BDO Partners, Managers and staff who devoted their time and energy.

Employer of Choice *- Ms. Christina Foo, President of CPA Australia (Malaysian Division) presents the CPA Employers Club award to Mr. Wong Wing Seong, Head of Advisory, BDO Binder Malaysia.*

BDO Binder Malaysia welcomes BDO International Policy Board members

The BDO International Policy Board meeting was held in Kuala Lumpur, Malaysia from 24-26 June 2008. The meeting was attended by BDO International Policy Board members and Regional Senior Partners to discuss global policies and key international strategies to be filtered down the network of BDO member firms.

All in the family *- BDO International Policy Board members and Regional Senior Partners with BDO Binder senior management team.*

BDO Cocktail 2008

On 25 June 2008, BDO Binder Malaysia threw a lavish cocktail function for both existing and prospective clients as well as other stakeholders. More than 400 guests attended the cocktail held at the Shangri-La Hotel. The event was attended by BDO International Policy Board members, Regional Senior Partners, and their accompanying spouses as well as BDO Binder's senior management. BDO senior personnel mingled with our clients, business associates and friends who included representatives from professional bodies, regulatory authorities, financial institutions and educational establishments.

Dato' Gan Ah Tee, BDO Binder Managing Partner said: "I am very pleased with the large turnout that has come to the BDO Cocktail. We noted the presence of many key business leaders as well as both existing and new clients.

This was also an opportune time for the BDO International Policy Board members and Regional Senior Partners to meet key BDO clients as well as foster a deeper relationship with our other stakeholders in a non-formal environment."

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■ Lee Joo Shang ■ Tan Khoon Yeow

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