Newsletter
TAGI
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TAGI Maintains Its FOF Membership As the Only Arab Company

NEW YORK - Talal Abu-Ghazaleh International (TAGI) maintained its membership for the second year to be the only Arab company that has been listed as a full member of the Forum of Firms (FOF) and continues to report its adherence to the Forum's membership obligations. The Forum, established by the International Federation of Accountants (IFAC), released on January 30, 2009 its 2009 members list that included two new companies; these are: the IEC and JHI along with nineteen other international networks of accounting firms that achieved full membership status in 2008.

TAGI has joined the membership of the FOF in 2008 after meeting the Forum's membership standards; this includes reporting that TAGI has implemented a globally coordinated quality assurance program, had policies and methodologies based on the International Standards on Auditing (ISAs), and has met other specific ethics requirements.

The Forum of Firms is an association of international networks of accounting firms. These firms perform a major global share of the audits of financial statements that are or may be used across national borders. The Forum's goal is to promote consistent and high quality standards of financial reporting and auditing practices worldwide.

"The membership of the Forum demonstrates a commitment to meet the public interest responsibilities and the highest level of quality in auditing on an international scale," emphasized David Maxwell, chair of the Forum of Firms.

It is worth noting that Mr. Talal Abu-Ghazaleh, chairman and CEO of TAGI, was the first Arab to be elected to the IFAC Board of Directors in 1992. In addition, he was the Chairman of the United Nations Committee of Experts on Professional Qualifications Standards, Geneva, 1995-1998 and the Chairman of the UN Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR), New York – USA, 1995-1996.

Mr. Abu-Ghazaleh was also elected the Chairman of the Committee for the Newly Industrialized and Developing Countries Affairs, the International Accounting Standards Committee (IASC), 1989-1992.
He also became a member at the Public Sector Consultative Group, International Federation of Accountants (IFAC), New York-USA, 2003- 2006, and a member of the Board of the International Accounting Standards Committee (IASC), London, United Kingdom, 1988-1990; in addition to his membership at the Board of the International Auditing Practices Committee (IAPC) of IFAC, New York, USA, 1987-1990.

IFAC is the worldwide organization for monitoring the accountancy profession. It is comprised of 156 member bodies in 114 countries, representing over 2.5 million accountants employed in public and private practices, government and education.
IFAC founded the FOF in 2002 with the purpose of enrolling these firms that perform transnational activities, adhere to international auditing standards, implement a quality control program on these transnational audits and meet professional ethical standards.

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Abu-Ghazaleh Attends TAC/FOF Meeting

LONDON - Mr. Talal Abu Ghazaleh, chairman and CEO of Talal Abu-Ghazaleh Organization (TAG-Org) will be participating in the upcoming Transitional Auditors Committee/ Forum of Firms (TAC/FOF) meeting on April 7, 2009 at the London Hilton on Park Lane Hotel.

During the meeting, the TAC members will discuss the 2010 nominations including the Committee's 2010 rotation schedule and an overview of the nominee and candidate's information of the PIAC.

The attendees will also tackle the FOF membership and financial reports in addition to TAC's work program.

The Transitional Auditors Committee is a committee of the International Federation of Accountants (IFAC) dedicated to representing and meeting the needs of the members of the FOF. It plays a major role in encouraging member firms to meet high standards in the international practice of auditing.

Accounting

Determining Fair Value

According to the article written By Alferd M. King in the strategic finance magazine, we are summarizing the main issues regarding determining the fair value.

For many years companies were able to show on their balance sheet the cost of securities they owned. US Generally Accepted Accounting Principles (GAAP) seemingly said you should never anticipate gains (writing assets up) until they are realized. Meanwhile, losses should be recognized as soon as possible.

The rule about taking losses "immediately" really meant that write-downs had to be taken only when a decline in market value of securities was considered "other than temporary." Since it was hard to define a "temporary" decline in market price, many companies chose to retain the original cost value on the balance sheet. They would disclose as supplementary information the current market price(s) of the traded securities they owned. Further, by showing original cost on the balance sheet and current market values in the footnotes or in parentheses, the company avoided reporting gains and losses from changes in the market price of securities unless, and until, they were actually sold.

The policy makers at the FASB were making a revolutionary change in financial reporting. The balance sheet was of secondary importance in that environment. In many respects, the balance sheet was a residual for carrying expenditures as assets prior to their being matched up with the appropriate revenues. The ultimate manifestation of the matching concept was deferred taxes, the balance of which was very difficult to understand or explain.

So the FASB, in its Conceptual Framework project, came to the belief that matching per se wasn't important. It's far better, the Board stated, to emphasize the balance sheet. Get the balance sheet right, and income for the year would be the difference between opening and closing net worth or equity. This new Conceptual Framework has gradually been put in place with each new Standard the FASB has issued.

Starting with Statement of Financial Accounting Standards (SFAS) No. 107, "Disclosures about Fair Value of Financial Statements," and SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and concluding with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," the Board has mandated that almost all financial instruments should be valued at fair value and that changes in the market value of securities whose prices are marked to market should be reflected in the profit and loss (P&L) statement or equity section of the balance sheet. Therefore, changes in market value must now be reported directly.

Then some two years ago the Board issued SFAS No. 157, "Fair Value Measurements." This new Standard, contrary to popular opinion, does not require further or additional use of fair value in financial reporting. What it does do is mandate that whenever fair value is required, it must be performed in accordance with the definition of fair value now embodied in GAAP. The definition of FV as incorporated by the FASB in SFAS No. 157: "Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement
date." SFAS No. 157 ¶ 5

The key concepts of fair value as defined by the FASB are, put simply:

- Sale [not exchange]
- Market participants [sale to an unknown "market participant"
- Orderly transaction
- Definition applies to liabilities as well as assets

Also bankers have chosen to make the argument that it was the FASB's mark-to-market requirement that caused much of the problem. Their theory is that if fair value were repealed, then mark to market would be easier to meet because the "market" would now be something much higher. There had been a "death spiral" as reported sales prices drove prices lower, which forced more sales and so on.

Blaming mark-to-market accounting for the financial reporting problems of financial institutions misses the point. Similarly, it was low prices for securities that caused the financial discomfort, not marking them to market. Marking security prices to market makes sense, but if-and only if-the "market" is accurate. The real issue is in trying to make the FASB's definition of fair value, which focuses on sales to "market participants," provides useful and valid data. In effect, the FASB and auditors implicitly assume that fair value is a single objective amount that, with sufficient effort, can (1) be determined by management, (2) reviewed by auditors, and (3) disclosed to investors and creditors.

The fact is that the "value" of any asset is never a precise figure. Values can be determined objectively and without bias, but only within a range. This range may be plus or minus 10% of the midpoint. Accountants can't work with ranges; they need a single dollar amount that can be processed through journal entries to the financial statements.

The very essence of valuation is the professional judgment of the appraiser. Different appraisers will arrive at somewhat different indications of value. Ordinarily, if two appraisers are given the same assignment and the same basic assumptions (liquidation value or value in-use), they will usually be within the 10% plus or minus mentioned above. Again, the issue isn't mark-to-market accounting-it's the definition of fair value used to derive the so-called "market." Until SFAS No. 157 is changed and auditors are willing to accept the professional judgment of appraisers, the problems hitting the headlines will continue.

For more information: www.startegicfinancemag.com

Accounting News

CREDIT CRUNCH Unmasks Former Nasdaq Chair

NEW YORK- For years there were whispers on Wall Street about Bernard Madoff's hedge fund. The cynics said the returns were too good, too steady and Madoff's operation always looked too slim for the tens of billions of dollars it was managing.

But given Madoff's more than four decades of experience as trader and past service as a chairman of the Nasdaq stock market, the wealthy kept giving him their money.

Well, it looks like those concerns were right all along, now that federal prosecutors have charged the 70-year-old Madoff with securities fraud in what could amount to one of the biggest Wall Street scams ever. Securities' regulators, in a civil complaint, say Madoff's scheme may have cost investors up to $50 billion. At a minimum, it appears the $17 billion Madoff was managing earlier this year may be gone.

The allegations against Madoff describe a classic Ponzi scheme, in which money is taken in from new investors to pay out money to earlier investors. Madoff, authorities allege, even told his sons earlier this week that the hedge fund was nothing more than "a giant Ponzi scheme."

It's way too soon to know how long the alleged scheme had been going on, although authorities allege it began years ago, after Madoff tried to cover up for past losses. But it appears Madoff ultimately was unmasked by the worst financial crisis since the Great Depression.

Just like many hedge fund operators, Madoff received a wave of redemption notices in recent months, from investors looking to preserve cash. Authorities say investors sought to pull out some $7 billion from the fund — money Madoff apparently did not have. In the end, most Ponzi schemes collapse when too many investors seek to pull their money out at the same time, and the operator doesn't have the cash on hand.

For more information: www.msnbc.msn.com/id/28196739

Auditing News

TODAY'S Six Red Flags for Auditors

DURHAM, NC- The National Bureau of Economic Research officially declared that the US entered into a recession in December 2007. The US government is facilitating sales of ailing financial institutions, has passed the Emergency Economic Stabilization Act of 2008, which is rescuing US automakers and dramatically increasing the monetary programs available from the Federal Reserve. The US is experiencing great economic instability and the US government is taking unprecedented actions in efforts to curtail the economic crisis. In these difficult economic times, it is more critical than ever for auditors to understand the rapidly changing business, economic, and regulatory environments in which their clients operate. Thus, in this environment, auditors must be aware of, among other risks, possible significant measurement uncertainty, including accounting estimates and fair value measurements.

Key risks may include:

1. Constraints on the availability of capital and credit.
2. Going concern and liquidity issues.
3. Marginally achieving explicitly stated strategic objectives.
4. Use of off-balance-sheet financings.
5. Special-purpose entities and other complex financing arrangements.
6. Volatile real estate markets.

While many of these risks are not new to business, auditors should be considering the many ways that clients could be affected by external forces. In addition, auditors may modify their audit procedures to ensure risks are still addressed adequately.

For more information: www.cpa2biz.com

IAASB Practice Alert Helps Auditors and Management Assess Impact of Credit Crisis on Going Concern Assumptions

NEW YORK – The staff of the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board under the auspices of the International Federation of Accountants (IFAC), has released on January 20, 2009 a new practice alert entitled Audit Considerations in Respect of Going Concern in the Current Economic Environment. The new alert aims at helping auditors and management, as well as those charged with governance, in addressing those challenges.

The alert was developed following consultation with the IAASB and a review of similar guidance issued by national standard setters.The alert highlights areas within International Standard on Auditing (ISA) 570, Going Concern, as well as other ISAs, that are particularly relevant in the current economic environment and provides additional guidance for auditors in evaluating management's use of the going concern assumption. It also raises awareness of issues surrounding liquidity and credit risk that may create new uncertainties for entities or exacerbate those already existing.

This new alert is the second alert issued by staff of the IAASB. The first, Challenges in Auditing Fair Value Accounting Estimates in the Current Market Environment, was issued in October 2008 to assist auditors in addressing the challenges of auditing fair value accounting estimates, and highlights areas within the ISAs that are particularly relevant in the audit of fair value accounting estimates in times of market uncertainty.

For more information: www.ifac.org

Taxation News

Germany & UAE Reach Agreement on DTA Terms

BERLIN - Despite initial setbacks, a new double taxation treaty between Germany and the United Arab Emirates (UAE), designed to avoid double taxation, has been finally agreed.

According to the German Finance Ministry, consensus on the tax issues contained in the agreement, and on far-reaching bilateral exchange of information, complying with the latest standards drawn up by the Organization for Economic Cooperation and Development, was achieved during the fourth round of negotiations between the two delegations.

Although the precise details of the accord remain undisclosed, the Ministry has revealed that the essence of the pact remains unchanged. Consequently, no special tax privileges will be granted to sovereign wealth funds, a withholding tax will continue to be levied on dividends, interest and employed income, and the clause pertaining to misuse of the agreement will stand.

Changes include the introduction of a withholding tax for pensions and royalties.
Following the signing of the treaty, the agreement will be presented to both the lower and upper houses of the German parliament for approval.

For more information: www.tax-News.com

Entry Into Force of the UK/Saudi Arabia Double Taxation Convention

LONDON - A Double Taxation Convention between the United Kingdom and the Kingdom of Saudi Arabia was signed in London on October 31, 2007 and entered into force on January 1, 2009.

The text has been published as the Schedule to the Double Taxation Relief and International Tax Enforcement (Taxes on Income and Capital) (Saudi Arabia) Order 2008 (PDF 2MB) (Statutory Instrument 2008 No. 1770), copies of which can be obtained from The Stationery Office.

The text of the Order can also be accessed on the website of the Office of Public Sector Information:
http://www.opsi.gov.uk/

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Rating	TAGI Offices	Client Name	Type Of Service	Fees (US $)
1st	Doha	Dar Al-Sharq	Internal Audit	101,648
2nd	Manama	Stratum WLL	Special Assignments	63,660
3rd	Khobar	Qanbar Doidag Readymix Co.	Audit	34,667
4th	Riyadh	Chinese Company	Financial Position	32,000
5th	Jeddah	Ana'am International Group Company	Audit	29,867
		Total		***261,842***

This Newsletter is published by Talal Abu-Ghazaleh International (TAGI)

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