# APAC News

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## Economic Counter-Measures

Welcome to the second issue of our Asia Pacific (APAC) Regional Newsletter.

In this issue, we look at the initiatives introduced by governments in different regions to counteract the significant drop in economic activities in the past few months.

We review some of the initiatives in the proposed budget (*Mauritius*) for 2009.

To attract more foreign investments, the (*Malaysia*) government announced the liberalisation of 27 service sub sectors.

We also take a look at the recent controversial changes to tax on share and option schemes in the proposed budget (*Perth*) for Australia.

For corporate restructuring (*China*), a tax circular was recently issued on the special tax benefits that are available to qualifying restructuring transactions in China.

We also have an article (*Melbourne*) on a special consulting project for the public sector untaken by one of our Russell Bedford members in Australia.

Finally, we take a comparative view of IFRS adoption in the Asia Pacific region (*South Korea, Indonesia and Hong Kong*) by looking at their current status and different methods of adopting IFRS.

Counter-measures to stimulate economic activities.

### Inside this issue:



## Russell Bedford APAC Meeting in Kuala Lumpur

Russell Bedford Malaysia hosted the second Russell Bedford Asia Pacific Meeting where members from several countries in the region gathered in Kuala Lumpur on 30 May 2009 to meet and discuss the current regional developments in response to the financial crisis and various opportunities to work with each other.

Members from Brisbane, Melbourne, Perth, Hong Kong, Indonesia, Korea and Singapore attended the meeting.

### Special points of interest:

- Second Russell Bedford APAC Meeting hosted in Malaysia
- Attended by members from Australia, Hong Kong, Indonesia, Korea and Singapore

**MAURITIUS**

## Mauritius Budget Proposals 2009

*"Amendments of legislations to keep money launderers off the jurisdiction of Mauritius"*

The Mauritian Ministry of Finance delivered its Budget Speech on 22 May 2009 for the period July to December 2009. From foreign investors and global business sector perspectives, the highlights of the proposals can be summarised as follows:

***Tourism & Real Estate***

Non-citizens will be allowed to contract a loan in Mauritian Rupee to finance part of the acquisition of a residential property under the Integrated Resort / Real Estate Scheme (IRS/RES).

Amendment of legislations to prevent non-citizens from acquiring residential properties outside the IRS/RES schemes without requisite authorisation.

Introducing an alternative hotel financing scheme allowing individual foreign and Mauritian investors to acquire hotel rooms and villas in luxury resorts, which they must lease back to the hotel operators, to assist in the financing of hotel projects.

***Financial Services***

Setting up a Financial Stability Committee to regularly review the soundness and stability of the Mauritian Financial System.

More disclosure on Category 2 Global Business Companies to the Financial Services Commission (FSC) including information on beneficial owners, business plan and filing of financial summaries.

Coordination between the FSC and the Mauritius Revenue Authority to ensure efficient response to queries from foreign authorities on Global Business Companies.

Amendments in Income Tax Act to allow for exchange of information on persons who are not classified as tax residents in Mauritius.

Amendments of legislations to keep money launderers off the jurisdiction of Mauritius.

***Freeport***

Increase in the limit for domestic transactions from 20% to 50% with taxation to be applied on domestic sales.

Single licence to be issued as opposed to the current freeport certificate and licence issued annually by different authorities.

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**MALAYSIA**

## Malaysia Liberalises Equity Condition for 27 Services Sub Sectors

*"… to attract more professionals and technology and to strengthen competitiveness of this sector"*

One of the major developments as announced by the Malaysia Government in the Second Economic Stimulus Package March 2009 is the liberalisation of services sector to attract more investments, bring in more professionals and technology, and strengthen competitiveness of this sector.

Recognising the importance of the services sector that contributes more than half to the national gross domestic product and its growth potential, the 30% local equity condition for 27 services sub sectors has been removed with immediate effect. These sub sectors are in the areas of computer and related services, health and social services, tourism services, transport services, sporting and other recreational services, business services, rental or leasing services without operators, and supporting and auxiliary transport services.

To facilitate investments into the services sector, a National Committee for Approval of Investments in the Services Sector has been established under the Malaysian Industrial Development Authority. This Committee will act as a focal point to receive and process applications of new investments in the services sector.

The Malaysia Government is expected to progressively undertake liberalisation of other services sub sector on an on going basis.

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PERTH AUSTRALIA

## Annual Budget Effects on Australian Businesses

Stantons International

The Australian Government, through its Annual Budget, has sought to curb the recent spate of high amounts of executive remuneration paid to directors and officers of companies.

***Upfront Taxation of Share and Option Schemes***

Part of the Government's proposed tax changes, which will be effective from 12th May 2009 pending the passing of legislature, will significantly alter tax exemptions on share and option schemes in a move designed to raise approximately $200 million over four years for the Government.

Under the proposed new rules, employees earning in excess of $150,000 pa (altered from $60,000 as announced on Budget Night) will no longer be able to defer the tax on any shares / options allotted up-front and also be unable to claim an exemption of $1,000 on a qualifying share scheme.

These changes will have major ramifications for those companies rewarding employees and executives in the form of incentive schemes through the issue of shares and options. Employees may be forced to pay tax up-front on the benefit received, thus greatly reducing the attractiveness of any such plan to an individual.

For all companies, in particular those who are cash poor, or have difficulty in raising capital, these proposed changes will markedly alter their ability to attract, retain and motivate staff, whilst further tightening a funding avenue available to companies in these times of market illiquidity.

***Small Business Tax Break on Eligible Assets***

The other major proposed change affecting business arising from the Annual Budget included a tax break offered to small business owners where a tax deduction of 50% is proposed for new spending on capital assets, whose asset cost exceeds $1,000. To qualify businesses must have a turnover less than $2 million and the purchase must be made in the calendar year ended 31 December 2009.

For enquiries, please contact Mr John Van Dieren at jvdieren@stantons.com.au .

*"Employees may be forced to pay tax up-front on the benefit received …"*

CHINA

## Tax Implementation Rules for Corporate Restructuring in China

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The Ministry of Finance (MOF) and State Administration of Taxation (SAT) issued Cai Shui (2009) No.59 ("the Circular") on 30 April 2009, setting out the tax implementation rules for corporate restructuring.

The Circular includes details of:

1. Special tax treatment for qualifying restructuring transactions; and
2. The conditions to qualify for the special tax treatment

***Special tax treatment***

Generally, any fair value gain or loss from a corporate restructuring transaction will be recognised immediately at the time the transaction occurs.

For qualifying restructuring transactions, the taxable gain or loss arising from the equity portion of the payment consideration, can be deferred until the shares received as consideration for the transaction are disposed.

***Conditions***

All of the following conditions must be met in order to qualify for the Special Tax Treatment:

- The restructuring must be for a reasonable business purpose and not primarily for a tax benefit;
- At least 75% of the equity or assets must be acquired in the transaction;
- The original business activities must remain unchanged for 12 months;

*Continue on page 4*

*"… taxable gain or loss … can be deferred until the shares received as consideration for the transaction are disposed."*

## Tax Implementation Rules for Corporate Restructuring in China (Continued)

*"… clarifications on tax holiday, step transactions and filing requirements are also included …"*

*Continue from page 3*

- The equity portion of the payment consideration must be at least 85%; and
- The recipient of the equity payment consideration must commit to hold the shares for 12 months.

***Additional conditions for cross-border transactions***

Unless otherwise approved by the MOF and SAT, the transferor must hold 100% direct ownership of the equity of the transferee and for transactions in which the equity interest in a tax resident enterprise is transferred from a non-resident enterprise to another non-resident enterprise:

- The transfer must not result in a change in withholding tax burden on the capital gains arising on the sale of equity interest in the tax resident enterprise; and
- The transferor must undertake in writing that it will not transfer the equity it acquired in the transaction for 3 years

***Clarifications***

Other clarifications on tax holiday, step transactions and filing requirements are also included in the Circular. However, it is hoped that more guidance on transitional arrangements as well as on the definition of "business purpose" would be provided in the future.

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**MELBOURNE AUSTRALIA**

SAWARD / DAWSON chartered accountants

## Pricing review delivers real value for the disabled

*"Russell Bedford has the capacity and expertise to undertake specialist consulting roles that delivers value to clients and … to the broader community."*

Saward Dawson (Russell Bedford Melbourne) was recently engaged by National Disability Services, the peak body of the Australian disability support organisations, to undertake a review of government funding in the Victorian disability sector.

This work included:

- Refining an existing data collection tool
- Preparing a coaching manual to ensure the consistent collection of participant data
- Presenting a series of workshops for participating financial controllers
- Collating and analysing data from more than 60 respondents representing more than 60% of the total disability funding spent in Victoria
- Preparing a report which clearly articulated the current funding position and the likely trend for future funding periods.

The resulting report concluded that the hourly funding made available to community service organisations was on average 10% below the real cost of service delivery! If the unit price is not increased substantially within the next twelve months the financial viability of a number of disability support agencies may be jeopardised.

This engagement demonstrates that Russell Bedford has the capacity and expertise to undertake specialist consulting roles that deliver real value to clients and these often flow on to the broader community.

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SOUTH KOREA

## The Adoption of IFRS in Korea

Korea announced its Roadmap for adopting the IFRS in March 2007. The complete set of IFRSs will be adopted at the same time, this is also known as the "Big Bang" approach.

The adoption will be carried out in two phases:

***Phase One (2009)***
Voluntary adoption by listed companies.

***Phase Two (2011)***
Mandatory adoption for all listed companies.

By 2011, a two-tier system will be established and a separate set of accounting standards will be available for non-listed companies.

Main differences between the current standards and the IFRS are as follow:

***Principle-based (IFRS) vs Rule-based (Current)***
The rule-based standards are specific but they are excessively inflexible. Moreover, as corporate activities become more complicated, it is impossible to make specific rules for each activity. Ironically, stricter rules result in more loopholes to avoid regulation by focusing on literal interpretation of the rules. Principle-based standards, meanwhile, provide hawk-eye views of accounting.

***Fair Value Accounting***
IFRS also requires businesses to record their assets at fair value. According to the Korea Listed Companies Association, the value of the listed companies' land assets would increase by 22 trillion won, or 65%, upon adoption of IFRS.

***Quarterly Consolidated Financial Statements***
By 2011, listed companies with assets over US$2 billion will be required to produce consolidated financial statements each quarter as opposed to annually. All listed companies will have to comply by 2013.

Hence, the performances of subsidiaries may become as important as that of the parent company, in contrast with the current situation in which subsidiaries are often sacrificed for the good of the parent company.

There are high hopes that the adoption of the IFRS and the opening of the domestic capital market will attract investors to Korea, while sending Korean capital to invest abroad. However, this will be more than a change in accounting regimes and sufficient preparedness and the creation of infrastructure will be necessary to support these changes.

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CJAC 천지회계법인
CHEON JI ACCOUNTING CORPORATION

*"…this will be more than a change in accounting regimes and sufficient preparedness and the creation of infrastructure will be necessary to support these changes. … "*

INDONESIA

## Convergence toward IFRS in Indonesia

Current Indonesian Accounting Standards (PSAK) are mostly adopted from US GAAP, although some are adopted from International Accounting Standards (IAS).

Due to a need to enhance comparability, and to improve transparency in a global market, the Indonesian Accounting Standard Board (DSAK-IAI) has developed a program of IFRS Convergence, and full adoption of IFRS will be in 2012.

The Roadmap to Full IFRS Convergence includes 3 phases:

***Phase 1 – Adoption (2008 to 2011)***

a) Progressive adoption of IFRS to PSAK (11 in 2008, 18 in 2009, 7 in 2010);
b) Preparation of infrastructure to support the adoption; and
c) Evaluation and management of impacts of adoption to current PSAK.

***Phase 2 – Final Preparation (2011)***
Finalisation of infrastructure required for adoption.

*Continue on page 6*

Syarief Basir & Rekan
Registered Public Accountants

*"Progressive adoption of IFRS to PSAK …"*

## Convergence toward IFRS in Indonesia (Continued)

*Continue from page 5*

*"…need for infrastructure development … for implementation of IAS32 and IAS39 …."*

***Phase 3 – Implementation (2012)***

a) First time implementation of all PSAK which is fully converged with IFRS; and

b) Comprehensive evaluation of impacts of adoption.

The plan to converge with IFRS will bring considerable impacts to the accounting environment in Indonesia.

Some areas that will be affected are:

- the education system and syllabus of accounting class in University;
- the change from rule-based accounting standards to principle-based accounting standards; and
- the need of infrastructures development, such as IT development for the implementation of IAS 32 and IAS 39 which has been adopted to be PSAK 50 and PSAK 55.

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**HONG KONG**

## Adoption of IFRS in Hong Kong

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*"The work required to comply with the full convergence was enormous in scale"*

Hong Kong Financial Reporting Standards ("HKFRSs") became fully converged with International Financial Reporting Standards ("IFRSs") with effect from 1 January 2005.

The "Big Bang" approach was used where all the IFRSs, except for some of the transitional provisions, were adopted, almost word for word, into the HKFRSs.

The work required to comply with the full convergence was enormous in scale. Both the preparers and reviewers of financial statements had to be trained on the requirements of the new standards and there were simply not enough IFRS-conversant staff to perform the work.

Investors and analysts had to accustom themselves to significant fluctuations in the company's financial results due to the new HKFRSs. For example, gains on revaluation of investment properties became one of the main culprits for significant increase in reported profits.

To allay the concerns of SMEs on the significant costs of compliance which may be far greater than the potential benefits, the HKICPA issued a set of accounting framework and standards for SMEs (which are not listed and have no public interest). It is noted that a similar approach would be used in Korea in 2011 when it becomes mandatory for all listed companies to adopt the IFRS converged standard.

From 1 January 2009 onwards, a wave of new accounting standards will become effective. Companies should review their own circumstances to determine the impact, not only on their bottom line, but also the amount of resources that is required to comply with the new standards.

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**Business consultants with a global perspective**

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