

Newsletter

ORIGIN CONSULTANCY

May 2020

CONTENTS:

- 1) Updates regarding International Financial Reporting Framework (IFRS) issued by International Accounting Standards Board (IASB);
- 2) Corporate updates via notifications issued by Securities and Exchange Commission of Pakistan (SECP); and
- 3) Income tax and Sales tax updates via notifications issued by Federal Board of Revenue (FBR).

UPDATES

Financial Reporting

EXPOSURE DRAFT FOR INTEREST RATE BENCHMARK REFORM

International Accounting Standards Board (IASB) has published an exposure draft for interest rate benchmark reform. It discusses the proposed amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16 relating to modification of financial assets and financial liabilities due to change in interest rate benchmark.

The exposure draft is open for comments till 25 May 2020 and can be accessed from the following link:

<https://www.ifrs.org/projects/work-plan/ibor-reform-and-its-effects-on-financial-reporting-phase-2/comment-letters-projects/ed-ibor-phase-2/#consultation>

EFFECT ON IFRS 16 DUE TO COVID-19

International Accounting Standards Board (IASB) releases explanation on the effects of rent concessions or rent holidays granted as result of halt of economic activity due to COVID-19 on IFRS 16.

The educational material discusses the following three matters:

- Whether the change in lease payments results lease modification
- Whether the lease payments results in the extinguishment of the part of lease obligation
- The impact of COVID-19 may result in impairment of Right to use asset in the books of lessee and lease receivable in the books of lessor.

The explanation can be accessed from the following link:

<https://cdn.ifrs.org/-/media/feature/supporting-implementation/ifrs-16/ifrs-16-rent-concession-educational-material.pdf?la=en>

EXPOSURE DRAFT FOR PROPOSALS RELATING TO AMENDMENTS IN IFRS-16 REGARDING RENT CONCESSIONS DUE TO COVID-19

The Exposure Draft proposes an amendment to IFRS 16 to permit lessees, as a practical expedient, not to assess whether particular covid-19-related rent concessions are lease modifications. Instead, lessees that apply the

practical expedient would account for those rent concessions as if they were not lease modifications.

The exposure draft is open for comments till 08 May 2020 and can be accessed from the following link:

<https://cdn.ifrs.org/-/media/project/ifrs-16-covid-19/ed-covid-19-related-rent-concessions.pdf?la=en>

COMMENTS ON THE REVIEW OF IFRS FOR SMEs STANDARDS

International Accounting Standards Board (IASB) is under the second review phase of the IFRS for the SMEs and requested the stakeholders to submit their comments. IASB further describes the way in which the comments can be submitted.

Comment period for the request for information (RFI) is until 27 October 2020.

Necessary information can be accessed from the following link:

<https://www.ifrs.org/news-and-events/2020/04/three-ways-to-submit-your-comments-on-the-review-of-the-ifrs-for-smes-standard/>

UPDATES

Local Corporate Regulatory Requirement

DRAFT AMENDMENTS IN THE NON-BANKING FINANCE COMPANIES AND NOTIFIED ENTITIES REGULATIONS, 2008

SECP issues draft amendments vide SRO 275(I) 2020 dated 2nd April 2020 and were open for comments from the person likely to be affected till 16th April 2020. The draft has the following proposed amendments:

- 1) A proviso is inserted in sub regulation (xiib) of regulation 2 requiring that receipt and payment of element of income is taken to Income Statement both at the time of issuance and redemption of units in case of exchange traded funds
- 2) A proviso is inserted in sub regulation (1) of regulation 63 requiring that accounting Income shall also include net of element of income created at the time of issuance and element of income paid on redemption of units in case of exchange traded funds.

The draft amendments can be accessed from the following link:

<https://www.secp.gov.pk/document/sro-275-i-2020-draft-amendments-in-the-non-banking-finance-companies-and-notified-entities-regulations-2008/?wpdmdl=39072&refresh=5ea9a0eb41aa41588175083>

AMENDMENTS IN THE CODE OF CORPORATE GOVERNANCE FOR INSURERS, 2006

Vide SRO 277(I)/2020 dated 1st April 2020, certain amendments are made relating to omission of some clauses and annexures that can be accessed from the following link:

<https://www.secp.gov.pk/document/sro-277-i-2020-amendments-in-the-code-of-corporate-governance-for-insurers/?wpdmdl=38927&refresh=5ea5a15c76e891587913052>

RELIEF FROM THE REQUIREMENTS CONTAINED IN IFRS 9

Vide SRO 278(I)/2020 dated 1st April 2020, SECP has relaxed the requirement of recording of fair value adjustments in the profit and loss account of equity instruments held under the category of FVPL as at March 31, 2020.

SECP suggest that the gain and loss due to fair value change of the equity instrument under the category FVTPL may be recorded in the Statement of Changes in Equity as a separate equity component as at March 31, 2020, However, the said fair value change shall be transferred to Statement of Profit and loss Account for the year/period ending June 30, 2020.

The said relaxation together with other clauses can be accessed from the following link:

<https://www.secp.gov.pk/document/s-r-o-278-i-2020-relief-from-requirements-contained-in-ifs-9/?wpdmdl=38929&refresh=5ea5a15c756d81587913052>

DRAFT AMENDMENTS TO THE CLEARING HOUSES (LICENSING AND OPERATIONS) REGULATIONS, 2016

Securities and Exchange Commission of Pakistan (SECP) vide SRO 293(I)/2020 dated 7th April 2020 and SRO 312(I)/2020 dated 15th April 2020 issued draft amendments to the Clearing Houses (Licensing and Operations) Regulation, 2016. The draft was available for comments till April 21, 2020.

The draft amendments pertain to the following regulations:

- Regulation 9 – Composition of board of directors and related matters
- Regulation 11 – Appointment and functions of chief regulatory officer
- Annexure-I - Fit and Proper Criteria for the Applicant and its Promoters, Substantial Shareholders, Directors and Senior Management Officers

The draft amendments can be accessed from the following link:

<https://www.secp.gov.pk/document/s-r-o-293-i-2020-amendments-to-the-clearing-houses-licensing-and-operations-regulations-2016/?wpdmdl=39059&refresh=5ea5a15c70cf91587913052>

<https://www.secp.gov.pk/document/sro-312-i-2020-draft-amendments-to-clearing-houses-licensing-and-operations-regulations-2016/?wpdmdl=39103&refresh=5ea6f2a02638b1587999392>

DRAFT AMENDMENTS TO THE CENTRAL DEPOSITORIES (LICENSING AND OPERATIONS) REGULATIONS, 2016

Securities and Exchange Commission of Pakistan (SECP) vide SRO 292(I)/2020 dated 7th April 2020 and SRO 311(I)/2020 dated 15th April 2020 issued draft amendments to the Central depositories (Licensing and Operations) Regulation, 2016. The draft was available for comments till April 21, 2020.

The draft amendments relates to the following regulations:

- Regulation 9 – Composition of board of directors and related matters
- Regulation 11 – Appointment of compliance officer
- Annexure-I - Fit and Proper Criteria for the Central Depository and its Promoters, Substantial Shareholders, Directors and Senior Management Officers

The draft amendments can be accessed from the following links:

<https://www.secp.gov.pk/document/s-r-o-292-i-2020-amendments-to-the-central-depositories-licensing-and-operations-regulations-2016/?wpdmdl=39060&refresh=5ea5a15c6f44c1587913052>

<https://www.secp.gov.pk/document/sro-311-i-2020-draft-amendments-to-central-depositories-licensing-and-operations-regulations-2016/?wpdmdl=39102&refresh=5ea6f2a0288aa1587999392>

GUIDELINES FOR PERFORMANCE EVALUATION OF BOARD OF DIRECTORS, CHIEF EXECUTIVE OFFICER AND CHIEF REGULATORY OFFICER

Securities and Exchange Commission of Pakistan (SECP) vide SRO 301(I)/2020 dated 9th April 2020 issued guidelines for the performance evaluation of the Board of Directors, Chief Executive Officer and Chief Regulatory Officer.

The guidelines have specific questions separately for the Board, Chief Executive Officer and Chief Regulatory officer that may be considered for the performance evaluation.

Further, the guidelines also specify that the performance evaluation may be conducted internally (in-house) by the Chairman or an independent advisor/consultant or specialized institute or both (in-house or independent).

The guidelines can be accessed from the following link:

<https://www.secp.gov.pk/document/sro-301-i-2020-guidelines-for-performance-evaluation-of-board-of-directors-ceos-and-cros/?wpdmdl=39073&refresh=5ea5d9fc3708c1587927548>

DRAFT AMENDMENTS TO THE COMPANIES (DISTRIBUTION OF DIVIDENDS) REGULATIONS, 2017

Securities and Exchange Commission of Pakistan (SECP) vide SRO 304(I)/2020 dated 13th April 2020 issued draft amendments to the Companies (Distribution of Dividends) Regulations, 2017. The draft was available for comments till April 21, 2020.

In the draft, an amendment in Regulation 2 – definitions is suggested by the SECP.

The draft amendment can be accessed from the following link:

<https://www.secp.gov.pk/document/sro-304-i-2020-draft-amendments-to-the-companies-distribution-of-dividend-regulations-2017/?wpdmdl=39101&refresh=5ea5d9fc329841587927548>

UPDATES **INCOME TAX**

AMENDEMENTS IN INCOME TAX RULES, 2002

Vide SRO 274 (I)/2020 dated 2 April 2020, a new chapter XVIA “Recovery of tax from persons holding money on behalf of the tax payer” has been inserted in the Income tax Rules, 2002. The same was earlier communicated as draft vide SRO 111 (I)/2020 dated 14th February 2020.

Highlights of the amendments made are:

- 1) Definition of the “tax recovery”, “defaulter” and “notice”
- 2) Notice of the recovery of tax under section 137 of the Income Tax Ordinance, 2001 to be issued by the Commissioner
- 3) Service and compliance of the notice
- 4) Any disputes between the Commissioner and the defaulter shall be determined by the order of the commissioner
- 5) Appeal against the order of the commissioner can be filled before the Chief Commissioner
- 6) The notice shall remain enforce until the withdrawal by the commissioner
- 7) If the person fails to comply with the notice, the person shall be personally liable to pay the amount to the commissioner

Notification can be accessed from the following link:

<http://download1.fbr.gov.pk/SROs/2020431443210114SRO2s74.pdf>

AMENDEMENTS IN SECOND SCHEDULE OF THE INCOME TAX ORDINANCE, 2001

- 1) Vide SRO 287(I)/2020 dated 7th April 2020 the following amendments are made:
 - a) New sub clause 24CA is inserted in part II of the 2nd Schedule of the Income tax ordinance, whereby the rate of tax for every person other than a company under clause (a) of sub-section (1) of section 153 on the

receipt of payment on the supply of certain items to the Utilities Stores Corporation of Pakistan shall be 1.5%.

This clause is not applicable in case the rate of tax under clause (a) of sub-section (1) of section 153 is less than 1.5% of the gross amount of payment under any provisions of the ordinance

- b) New sub clause 12C is inserted in part IV limiting application of the provision of section 148 in case of person importing pulses till 30th June 2020.

Notification can be accessed from the following link:

[http://download1.fbr.gov.pk/SROs/2020471942337277SRO287\(I\)of2020.pdf](http://download1.fbr.gov.pk/SROs/2020471942337277SRO287(I)of2020.pdf)

- 2) Vide SRO 300(I)/2020 dated 10th April 2020 the following amendments are made:

- a) In clause 61 and 66 of the part I of the second schedule of the Income Tax Ordinance, 2001, a new sub clause “(Ivii) The Prime Minister’s COVID-19 Pandemic Relief Fund-2020” has been added.

Now onwards, any amount donated to or Income derived by the said fund shall be exempt.

- b) In clause 11A of Part IV of the second schedule a new sub clause “(xxxv) The Prime Minister’s COVID-19 Pandemic Relief Fund-2020” has been added.

It states that provisions of section 113 regarding minimum tax shall not apply to the said fund.

New clause 116 and 117 are added in Part IV of the second schedule are added. Provision of section 115, 231A, 231AA and 236P are not applicable on the “The Prime Minister’s COVID-19 Pandemic Relief Fund-2020”

Notification can be accessed from the following link:

<http://download1.fbr.gov.pk/SROs/20204101444437572SRO300of2020.pdf>

DEDUCTION OF ADVANCE TAX ON COMMISSION PAID TO RETAIL BRANCHLESS BANKING AGENT

Vide SRO 315(I)2020 dated 1st April 2020, a new sub clause 102A is added in part IV of 2nd Schedule whereby exemption from deduction of advance tax is provided on commission paid to retail branchless banking agent by the Ehasaas Emergency Cash Fund Programme till 30th June 2020.

Notification can be accessed from the following link:

<http://download1.fbr.gov.pk/SROs/20204161845735943sro315of2020.pdf>

EXEMPTION FROM THE APPLICATION OF THE PROVISIONS OF SECTION 148 (Imports)

Vide SRO 236(I)/2020 dated 20th March 2020, a new sub-clause 12B were inserted in the Part IV of the Second Schedule of the Income Tax Ordinance, 2001.

The said sub-clause exempts the application of the provisions of Section 148 on the import of items that are necessary to combat against the COVID-19.

Vide SRO 316(I)/2020 dated 16th April 2020, table specified in the earlier notification as mentioned above has been replaced with the new table.

Notification can be accessed from the following link:

<http://download1.fbr.gov.pk/SROs/2020416194012660sro316of2020.pdf>

UPDATES **SALES TAX**

SALES TAX EXEMPTION ON THE IMPORT AND SUPPLY OF ITEMS NECESSARY TO COMBAT COVID-19

Vide SRO 237(I)/2020 dated 20th March 2020, sales tax on the import and subsequent supply of medical items necessary to combat Covid-19 has been exempted.

Vide SRO 317(I)/2020 dated 16th April 2020, FBR has replaced the table having medical

items that are eligible for exemption with new table.

Notification can be accessed from the following link:

<http://download1.fbr.gov.pk/SROs/202041619448231sro317of2020.pdf>

ADJUSTMENT OF INPUT TAX

Section 8B of sales tax Act, 1990 restricts the adjustment of Input tax to the extent of 90% of the output tax.

Vide SRO 1190(I)/2019 dated 2nd October 2019, FBR enhanced the aforesaid limit of 90% to 95% for the “Retailers importing goods and operating Chain of stores”.

In continuation of the aforesaid SRO, FBR has issued another SRO 344(I)/2020 dated 29th April 2020 whereby ability to adjust 95% for the “Retailers importing goods and operating Chain of stores” has been removed. And now, it is available for “All Tier-1 retailers who have integrated all their POSs with the Board in terms of Chapter XIV-AA of Sales Tax Rules, 2006”.

Notification can be accessed from the following link:

<http://download1.fbr.gov.pk/SROs/2020429134820294SRO344OF2020DATED29.04.2020--AMENDMENTINSRO1190OF2019.pdf>

Disclaimer

The Contents in the newsletter is of a general nature and is based on the information as of the date that is publically available. The object of this is to update the users with the major developments held accounting framework and the local corporate and taxation laws.

Any of the information is not intended to address the circumstances of any particular individual or entity. Therefore, one should act on such information with the advice of expert or professional.

We endeavour to provide accurate and timely information, but there can be no guarantee that such information is always accurate as of the date it is received or that it will continue to be accurate in the future.

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