

Review Times

MAY 2014



PART 1: FINANCIAL REPORTING

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IASB publishes Discussion Paper on Hedge Accounting

On 17 April 2014, the International Accounting Standards Board (IASB) published for public comment a Discussion Paper exploring an approach to better reflect entities' dynamic risk management activities in their financial statements, otherwise known as macro hedging.

Many financial institutions and other entities manage risks, such as interest rate risk, dynamically on a portfolio basis rather than on an individual contract basis. Dynamic risk management is a continuous process because the risks that such entities face evolve over time, as does their approach to managing those risks. However, the existing accounting requirements of IAS 39 are generally considered to be difficult to apply when accounting for such transactions.

As part of its comprehensive response to the global financial crisis, the IASB is replacing IAS 39 with an entirely new financial instruments accounting Standard, known as IFRS 9 *Financial Instruments*. That project is in the final stages of completion. However, the IASB decided to treat as a separate project the macro hedging component of these reforms in order to elicit views from a broader range of constituents. The Discussion Paper represents the first stage in this project, by seeking public comment on a possible approach to accounting for an entity's dynamic risk management activities, the portfolio

revaluation approach (PRA).

Under the PRA:

- ⇒ Exposures that are risk-managed dynamically would be revalued for changes in the managed risk through profit or loss.
- ⇒ Fair value changes arising from risk management instruments that are used to manage this risk (derivatives) would also be recognised in profit or loss.
- ⇒ The success of an entity's dynamic risk management is captured by the net effect of the above measurements in profit or loss.
- ⇒ Fair valuation of the risk exposures that are dynamically managed is not required.
- ⇒ The PRA also addresses the needs of users by providing a more comprehensive set of disclosures concerning an entity's dynamic risk management activities.

The Discussion Paper: *Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging* is available for comment until 17 October 2014.

The Discussion Paper is available on the IASB website as follows: [here](#)

A high level 'Snapshot' summary of the Discussion Paper is available [here](#).

PART 2: AUDITING AND ASSURANCE

2.1 IAASB re-proposes ISA addressing information in annual reports; and further clarifies auditor effort and reporting responsibilities

On 18 April 2014, the International Auditing and Assurance Standards Board (IAASB) released for re-exposure an enhanced International Standard on Auditing (ISA) 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*. The proposed standard clarifies and strengthens the scope and focus of auditor efforts on information included in entities' annual reports, other than the audited financial statements, and introduces new auditor reporting responsibilities.

Under the proposed ISA, the auditor would now be required to perform limited procedures to evaluate the consistency of the other information with the audited financial statements. In addition, while reading the other information, the auditor would be responsible to consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained during the course of the audit, and to remain alert for other indications that the other information appears to be materially misstated. The terms 'other information' and 'annual report' are defined and explained in the standard in order to make the scope of the standard as clear as possible, while also enabling its appropriate application in light of differing corporate reporting regimes and practices in a wide variety of jurisdictions and circumstances.

The IAASB invites all stakeholders to comment on the IAASB Exposure Draft of Proposed ISA 720. To access the Exposure Draft or submit a comment, visit the IAASB's website at www.iaasb.org/publications-resources. Comments are requested by 18 July 2014.

2.2 ISCA issues AGS 5 (Revised)

The Institute of Singapore Chartered Accountants (ISCA) has issued a revised version of Audit Guidance Statement (AGS) 5 *Audit of Entities in Specific Industries, Professions or Vocations*.

AGS 5 provides guidance to auditors on the relevant legislations and recommended audit procedures in the audit of solicitors' accounts, charities and trade unions. As there have been revisions to the relevant legislations affecting these areas since AGS 5 was last revised in January 2008, AGS 5 is revised accordingly to ensure that the guidance provided therein is updated and relevant.

AGS 5 (Revised) is applicable with effect from 10 May 2014. Please click [here](#) for AGS 5 (Revised).

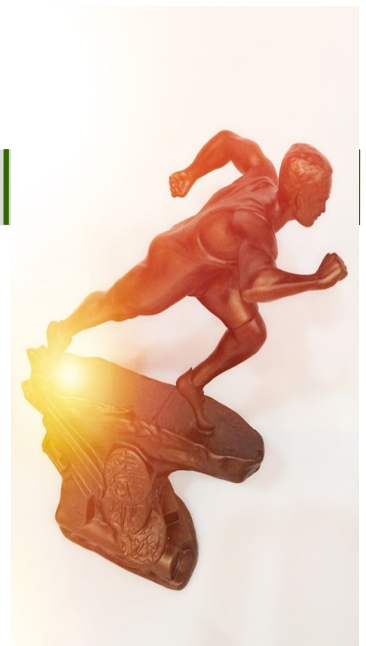


PART 3: TAXATION

Updates on SIATP website

The Singapore Institute of Accredited Tax Professionals (SIATP) has issued a significant number of Tax Alerts since the previous issue of the RT Review Times (2014/4).

For details of these tax alerts, please refer to SIATP's website: <http://www.siatp.org.sg/index.php/tax-news>





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