

LTC Newsletter April 2013

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Part 1: Financial Reporting

1.1 IASB PUBLISHES REVISED PROPOSALS FOR LOAN-LOSS PROVISIONING

On 7 March 2013, the International Accounting Standards Board (IASB) published for public comment, an exposure draft (ED/2013/3) *Financial Instruments: Expected Credit Losses*. The ED contains a revised set of proposals for the impairment of financial instruments. The proposals build upon previous work to develop a more forward-looking provisioning model, which recognises expected credit losses on a more timely basis.

Financial reporting requirements both internationally and in the United States currently use an incurred loss model to determine when impairment is recognised on financial instruments. The incurred loss model requires that a loss event occurs before a provision can be made and was introduced to avoid the use of so-called 'big bath' general provisions that distorted the accurate reporting of finan-

cial performance to investors. However, during the financial crisis, the incurred loss model was criticised for delaying the recognition of losses and for not reflecting accurately credit losses that were expected to occur.

Consistent with requests from the G20, the Financial Crisis Advisory Group (FCAG) and others, the IASB and the US Financial Accounting Standards Board (FASB) have been working jointly to develop a more forward-looking impairment model that reflects expected credit losses. The proposals published on 7 March 2013 build upon the expected credit loss model previously agreed between the IASB and the FASB, but it has been simplified to reflect feedback received from interested parties. The FASB has published separately for public comment an alternative expected credit loss model and

the two sets of proposals have overlapping comment periods.

The IASB model is designed to recognise credit losses on a more timely basis. Expected credit losses are recognised on all financial instruments within the scope of the proposals from when they are originated or purchased. Full lifetime expected credit losses are recognised when a financial instrument deteriorates significantly in credit quality. This is a significantly lower threshold than under the incurred loss model today which in practice has resulted in provisioning only when financial assets are close to default.

The Exposure Draft together with a summary (i.e. snapshot) can be accessed [here](#). The deadline for submission of comments to the IASB is 5 July 2013.

1.2 IASB PUBLISHES PROPOSALS FOR AMENDMENTS TO IAS 19 DEFINED BENEFIT PLANS: EMPLOYEE CONTRIBUTIONS

On 25 March 2013, the IASB published for public comment an exposure draft (ED/2013/4) *Defined Benefit Plans: Employee Contributions (Proposed amendments to IAS 19)*.

The IASB is responding to concerns that were raised about the complexity of applying certain requirements of IAS 19. Specifically the concerns related to the accounting for contributions from employees and third parties to defined

benefit plans. The objective of the proposed amendments is to provide a more straight-forward alternative for this accounting when the contributions payable in a particular period are linked solely to the employee's service rendered in that period. The proposed guidance would be applicable, for example, to accounting for employee contributions that are calculated according to a fixed percentage of salary.

The issue originated from a submission to the IFRS Interpretations Committee, which recommended that the IASB amend IAS 19.

The Exposure Draft together with a summary (i.e. snapshot) can be accessed [here](#). The deadline for submission of comments to IASB is 25 July 2013.

Quality First



1.3 IASB ISSUES REQUEST FOR INFORMATION ON RATE REGULATION

On 28 March 2013, the IASB issued a Request for Information as an early step in its reactivated Rate-regulated Activities research project. The objective of the Request for Information is to identify a range of rate-regulatory schemes to help determine the scope of the research project.

In July 2009 the IASB published the Exposure Draft *Rate-regulated Activities* (the '2009 ED'), which focused on a particular type of rate-regulatory scheme (a cost-of-service scheme). Respondents to the 2009 ED expressed divergent views as to how

the consequences of rate regulation should be reflected in financial statements, if at all. Many suggested that the scope of the project should be expanded to look at a wider variety of rate regulation in order to identify common characteristics from which accounting guidance might be developed.

The original Rate-regulated Activities project was suspended in September 2010 but has now restarted. The Request for Information asks specific questions about the objectives of rate regulation and how those objectives are reflected in the rate-setting mechanisms

employed by rate regulators. The fact patterns identified through this Request for Information and other research will be used to develop a Discussion Paper that will analyse the common features of rate regulation. The aim of the Discussion Paper is to identify what information about the consequences of rate regulation would be most useful for users of IFRS financial statements and whether the IASB should develop specific guidance for accounting for those consequences.

The Request for Information can be accessed [here](#). The deadline for submission of comments is 30 May 2013.

Part 2: Auditing and Assurance and Ethics

2.1 INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD ISSUES ISA 610 (REVISED 2013)

On 19 March 2013, as a follow-up to its 2012 release of stronger standards dealing with the external auditor's use of an internal audit function's work, the International Auditing and Assurance Standards Board (IAASB) issued new requirements and guidance that address the auditor's responsibilities if using internal auditors to provide direct assistance under the direction, supervision, and review of the external auditor for purposes of the audit ("direct assistance").

International Standard on Auditing

(ISA) 610 (Revised 2013), *Using the Work of Internal Auditors*, now includes guidance to external auditors when determining whether they can use direct assistance from internal auditors, and if so, in which areas and to what extent. The material addressing direct assistance does not apply if the external auditor is prohibited by law or regulation from obtaining direct assistance.

In conjunction with the release of ISA 610 (Revised 2013), the International Ethics Standards Board for Accountants (IESBA) also released amendments to the

definition of engagement team in its *Code of Ethics for Professional Accountants* (IESBA Code). The amendments clarify the relationship between internal auditors providing direct assistance and the meaning of an engagement team under the IESBA Code.

The material in ISA 610 (Revised 2013) pertaining to direct assistance is effective for audits of financial statements for periods ending on or after 15 December 2014.

A copy of ISA 610 (Revised 2013) can be accessed [here](#).

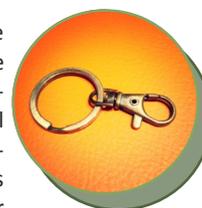
2.2 IESBA STRENGTHENS KEY SECTIONS OF CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS

On 19 March 2013, the International Ethics Standards Board for Accountants (IESBA) released strengthened provisions in its *Code of Ethics for Professional Accountants* (the Code) to address conflicts of interest and a breach of a requirement of the Code. It also released amendments to the definition of the term "engagement team" in the Code.

Conflicts of Interest

Recognising the ethical questions and challenges that can arise from conflicts of interest, the IESBA has revised the Code to establish more specific requirements and provide more comprehensive guidance to support professional accountants in identifying, evaluating, and managing such conflicts. The revisions affect professional accountants both in public practice and in business, taking into account the different circumstances in which they work. There is now a clearer explanation of what a conflict of interest means un-

der the Code. The changes also are aimed at better enabling professional accountants to identify potential conflicts of interest early for timely action to be taken by the affected parties. Importantly, the new requirements are intended to stimulate professional accountants to evaluate whether they can remain objective in those circumstances and abide by the other fundamental ethical principles in the Code.





2.2 IESBA STRENGTHENS KEY SECTIONS OF CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS (CONT...D)

Breach of a Requirement of the Code

Reflecting its view that any breach of a provision of the Code is a matter that must be treated very seriously, the IESBA has strengthened the Code with respect to a professional accountant's actions when encountering such a breach. In particular, the revisions to the Code establish a robust framework for addressing a breach of an independence requirement in the Code. They include requiring a firm to:

- Terminate, suspend, or eliminate the interest or relationship that caused the breach;
- Evaluate the significance of the breach and determine whether action can be taken and is appropriate in the circumstances to satisfactorily address the consequences of the breach;
- Communicate all breaches with those charged with governance and obtain their concurrence that action can be, or has been, taken to satisfactorily address the consequences of the breach; and
- Document, among other matters, the action taken and all the matters discussed with those charged with governance.

Definition of Engagement Team

In conjunction with the IAASB's release of its ISA 610 (Revised 2013), *Using the Work of Internal Auditors*, the IESBA is also releasing amendments to the definition of "engagement team" in the Code. The amendments clarify the relationship between internal auditors providing direct assistance on an external audit ("direct assistance") and the meaning of an engagement team under the Code.

The changes will be effective in 2014. Early adoption is permitted.

For further information, please click [here](#).

Part 3: Taxation

The Singapore Institute of Accredited Tax Professionals (SIATP) has issued the following Tax Alerts on its website (<http://www.siatp.org.sg/index.php/tax-news>) since the previous issue of the LTC Newsletter (2013/03):

- ◆ Updated Income Tax Regulations on Concessionary Rate of Tax for Approved Global Trading Companies (21 Mar 2013) [[Read more](#)]
- ◆ Singapore and Belarus Sign Agreement for Avoidance of Double Taxation (22 Mar 2013) [[Read more](#)]
- ◆ Updates on Tax treatment of life insurance premiums (13 Mar 2013) [[Read more](#)]
- ◆ Updates on Corporate Income Tax Rebate for Years of Assessment 2013 to 2015 (13 Mar 2013) [[Read more](#)]
- ◆ New e-Tax Guide on Tax Treatment of Director's Fees and Bonuses from Employment (8 Mar 2013) [[Read more](#)]
- ◆ New e-Tax Guide Taxation of Property Developers (6 Mar 2013) [[Read more](#)]
- ◆ Updates on Productivity and Innovation Credit (4 Mar 2013) [[Read more](#)]
- ◆ Updates on GST Treatments for Usage of Business Asset for Personal or Non-Business Use (1 Mar 2013) [[Read more](#)]
- ◆ Updates on GST Treatments on Gift and Sample (1 Mar 2013) [[Read more](#)]

Part 4: Regulatory Environment

SAC announces transitional arrangements related to the introduction of the Chartered Accountant of Singapore (CA Singapore) professional designation

On 1 April 2013, the Singapore Accountancy Commission (SAC) announced the

transitional arrangements related to the introduction of the Chartered Accountant of Singapore (CA Singapore) professional designation under the Singapore Accountancy Commission Act 2013 as well as the forthcoming launch of the Singapore Qualification Programme (Singapore QP) in June 2013.

Please click on the following link to download the brochure on the transitional arrangements: [http://download.icpas.org.sg/comm/010413-Transitional Arrangements-Brochure_V2.pdf](http://download.icpas.org.sg/comm/010413-Transitional%20Arrangements-Brochure_V2.pdf)

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