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Technical Bulletin

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PART 1: FINANCIAL REPORTING

1.1 ON THE INTERNATIONAL FRONT

1.1.1 Issuance of IFRS 10, IFRS 11 and IFRS 12

On 12 May 2011, the the International Accounting Standards Board (IASB) issued IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*. As a consequence of these new IFRSs, the IASB also issued amended and renamed IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*. The new requirements are effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

IFRS 10
IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. An Effect Analysis document of IFRS 10 and IFRS 12 will be published shortly by the IASB.

IFRS 10 replaces the consolidation requirements in SIC-12 *Consolidation—Special Purpose Entities* and IAS 27 *Consolidated and Separate Financial Statements* and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

IFRS 11
IFRS 11 provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case).

Under IAS 31 *Interests in Joint Ventures*, there are three forms of joint ventures, i.e. jointly controlled operations, jointly controlled assets and jointly controlled entities. Under IFRS 11, there will only be two classifications, i.e. joint operations and joint ventures.

IFRS 11 will not change the accounting for arrangements that in IAS 31 were 'jointly controlled operations' and 'jointly controlled assets'. These types of arrangement will be 'joint operations' in IFRS 11 and will have the same accounting. The accounting will, however, be affected for arrangements that in IAS 31 were 'jointly controlled entities'. For these types of arrangements, entities will have to determine whether they have an interest in a 'joint operation' or in a 'joint venture'. The effect on the financial statements of IFRS 11 will depend on this determination and on the accounting method that the entity was using for its jointly controlled entities in IAS 31. So, for example, if the entity was accounting for its 'jointly controlled entity' using proportionate consolidation and the arrangement will, under IFRS 11, be a 'joint operation', the changes will be minimal or none. But if this same 'jointly controlled entity' was being accounted for using the equity method, the entity will have to change from the equity method to accounting for assets and liabilities. Conversely, if the entity was accounting for its 'jointly controlled entity' using proportionate consolidation and this arrangement is now a 'joint venture', that entity will have to change the accounting for the arrangement from proportionate consolidation to the equity method.

IFRS 11 supersedes IAS 31 and SIC-13 *Jointly Controlled Entities—Non-monetary Contributions by Venturers*. The effective date of IFRS 11 is for annual periods beginning on or after 1 January 2013. Earlier application is permitted. If an entity applies IFRS 11 earlier, it must disclose that fact and apply IFRS 10, IFRS 12, IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* at the same time.

IFRS 12

IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities.

IFRS 12 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

Click here to view the interaction between IFRS 10, 11 and12.

1.1.2 Issuance of IFRS 13

On 12 May 2011 the IASB issued IFRS 13 *Fair Value Measurement*. IFRS 13 defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRSs or address how to present changes in fair value. The new requirements are effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

1.2 SINGAPORE

1.2.1 FSRC Observations – 1 Jan 2010 to 31 Dec 2010

The Financial Statements Review Committee of the Institute of Public Accountants of Singapore has compiled a list of frequently occurring non-compliance points based on its review of audited financial statements.

Please click http://www.icpascfr.org.sg/wp-content/uploads/2010/02/FSRC-Findings-2010-2011.pdf for more details.

1.2.2 ASC's Advice on the Accompanying Note to INT FRS 115

The Accounting Standards Council (ASC) issued the INT FRS 115 *Agreements for the Construction of Real Estate* in August 2010. The ASC also issued an Accompanying Note with INT FRS 115 (Accompanying Note), which distils the ASC's considerations in reaching its consensus on the accounting treatment for the sale of uncompleted residential properties "off-plan" in Singapore. The Accompanying Note is an integral part of INT FRS 115 and is to be read together with the interpretation.

As the Deferred Payment Scheme (DPS) is not covered in the scope of the standard form of the Sales and Purchase Agreement (SPA) prescribed under the Housing Developers Rules, the Accompanying Note does not specifically address the accounting treatment of a SPA with a DPS feature. Accordingly, the ASC advises that all the criteria set out in FRS 18 and INT FRS 115 should be carefully analysed to ensure that the requirements for applying the percentage of completion method for revenue recognition purposes are met for SPAs with a DPS feature. The ASC also advises that a proper analysis should be performed on whether the concepts articulated in the Accompanying Note can be extended to SPAs with a DPS feature.

PART 2: AUDITING AND ASSURANCE

2.1 IAASB Seeks Global Views on Enhancing the Value of Auditor Reporting

On 16 May 2011, the International Auditing and Assurance Standards Board (IAASB) released its consultation paper, *Enhancing the Value of Auditor Reporting: Exploring Options for Change*, to obtain views on enhancing the quality, relevance and value of auditor reporting on an international basis.

The consultation paper seeks to determine whether there are common views among users of audited financial statements and other stakeholders about the usefulness of auditor reporting. It describes issues with current financial reporting, including a perceived "information gap," identified by some stakeholders. It then sets out possible options for change and seeks input as to whether such options might be effective in enhancing auditor reporting and the communicative value of the auditor's report.

The IAASB is also seeking information about the potential implications of changes in auditor reporting, as well as about possible implementation challenges. The paper recognises that not all of the options explored are able to be implemented by the IAASB on its own—some would require collaboration with national standard setters, regulators and/or legislators to develop or implement.

The IAASB invites all stakeholders to respond to its consultation paper. To access the consultation paper or submit a comment, visit the IAASB's website at http://www.ifac.org/Guidance/EXD-Details.php?EDID=0163
Comments on the Consultation Paper are requested by 16 September 2011.

2.2 IAASB Issues Enhanced Overarching Assurance Standard For Comment

On 29 April 2011, the IAASB released for public comment, a proposed revised International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information.*

The proposed revised ISAE 3000 is a principles-based standard that can be applied effectively to a broad range of assurance engagements. Such engagements may range from assurance on statements about the effectiveness of internal control, for example, to direct engagements such as performance or "value for money" audits, to possible future engagements addressing integrated reporting or corporate social responsibility reporting.

The proposed revised ISAE 3000 covers both reasonable and limited assurance engagements. Among other proposals, the revised ISAE introduces guidance designed to help readers better understand these two levels of assurance. It also includes guidance addressing direct engagements that have become common in the public sector and have been undertaken increasingly in the private sector.

The proposed revised ISAE 3000 also includes material from the existing International Framework for Assurance Engagements that is necessary for the revised ISAE to be understood without reference to the Framework. Accompanying the exposure of the proposed revised ISAE are also proposed consequential amendments to the Framework reflecting the impact of the proposals in revised ISAE 3000.

The IAASB invites all stakeholders to comment on its proposals. To access the exposure draft or submit a comment, visit the IAASB's website at http://www.ifac.org/Guidance/EXD-Details.php?EDID=0161
Comments on the Consultation Paper are requested by 1 September 2011.

PART 3: TAXATION

3.1 Singapore and Spain Sign Agreement for Avoidance of Double Taxation

Singapore and Spain signed an Agreement for the avoidance of double taxation (DTA) on 14 April 2011. The DTA incorporates the internationally agreed Standard for the exchange of information for tax purposes, upon request.
Please click here for more details.

3.2 Revision of e-Tax Guide on Machinery and Plant: Section 19/19A of the Income Tax Act

This Guide provides guidance on what constitutes plant for the purposes of claiming capital allowances under section 19 or 19A of the Singapore Income Tax Act (ITA). It is intended to provide greater clarity and certainty on what Comptroller would accept as plant for purposes of claiming capital allowances.

Please click the following for more details:
http://www.iras.gov.sg/pv_obj_cache/pv_obj_id_D0DB90A8D4BAC6B2BDD6F3945591C49F02BD0200/filename/Eguide%20on%20Machinery%20and%20Plant.pdf

3.3 Tax Treatment of Operating Lease Income Under FRS 17 Leases

Under the existing tax rules, rental income derived by a taxpayer under an operating lease is subject to tax on an accrual basis (i.e. when the rental income becomes due and payable under the lease agreement). However, Financial Reporting Standard (FRS) 17 Leases requires lease income from operating leases to be recognised on a straight-line basis over the lease term to reflect the time pattern of the user's benefit. The Comptroller of Income Tax has received requests from taxpayers to allow reporting of rental income for tax purposes based on the effective rent method instead of accrual basis to minimise tax adjustments.
Please click here for the IRAS release.

3.4 Sole Proprietor Jailed for Under-Reporting Profits

Tax evasion is a criminal offence that attracts severe penalties. Businesses and individuals should come forward to report past tax evasion to IRAS immediately. IRAS will treat such disclosure as a mitigating factor when considering the penal charges.
Please click here for more details.

PART 4: REGULATORY & BUSINESS

Companies Act primed for a major facelift

On 25 May 2011, the Business Times reported that more than 200 proposed changes to the Singapore Companies Act were submitted to the Finance Ministry in April 2011, according to steering committee head Mr. Walter Woon.

Amongst the proposed changes are:

- No codification of directors' duty
- Extend the use of statutory derivative action to listed companies. This effectively allows shareholders to sue directors for a breach of duty - something they cannot do under the current Act.
- Custodian banks and nominee companies which hold shares on behalf of CPF or institutional investors be able to grant more than two AGM proxies which is the current limit.
- Exempt 'small companies' from accounts filing, currently only provided for firms known as exempt private companies. This reform, which would affect about half of all companies in Singapore - defines a small firm as one that fulfils two out of three requirements: its revenue and gross assets must not exceed $10 million, and it must not hire more than 50 employees.

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