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Quality First



Part 1: Financial Reporting

1.1 IASB AND FASB ISSUE REVISED ED ON LEASES

On 16 May 2013, the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) of the United States (collectively, the "Boards") published for public comment, a revised Exposure Draft (ED) outlining proposed changes to the accounting for leases. The proposal aims to improve the quality and comparability of financial reporting by providing greater transparency about leverage, the assets an organization uses in its operations and the risks to which it is exposed from entering into leasing transactions.

Under existing accounting standards, a majority of leases are not reported on a lessee's balance sheet. The amounts involved can be substantial. Additionally, the existing accounting models for leases require lessees and lessors to classify their leases as either finance leases (for example, a lease of equipment for nearly all of its economic life) or operating leases (for example, a lease of office space for 10 years) and to account for those leases differently.

For finance leases, a lessee recognizes lease assets and liabilities on the balance sheet. For operating leases, a lessee does not recognize lease assets or liabilities on the balance sheet. The existing standards have been criticized for failing to meet the needs of users of financial statements because they do not always provide a faithful representation of leasing transactions.

In response to this criticism, in 2006 the IASB and the FASB initiated a joint project to improve the financial reporting of leasing activities under International Financial Reporting Standards (IFRSs) and US Generally Accepted Accounting Principles (U.S. GAAP).

The Boards have developed an approach to lease accounting that would require a lessee to recognize assets and liabilities for the rights and obligations created by leases. A lessee would recognize assets and liabilities for leases of more than 12 months.

Stakeholders have informed the Boards that there are a wide variety of lease transactions with different economics. To better reflect those differing economics, the revised ED proposes a dual approach to the recognition, measurement and presentation of expenses and cash flows arising from a lease. For most real estate leases, a lessee would report a straight-line lease expense in its income statement. For most other leases, such as equipment or vehicles, a lessee would report amortization of the asset separately from interest on the lease liability. The Boards are also proposing disclosures that should enable investors and other users of financial statements to understand the amount, timing, and uncertainty of cash flows arising from leases.

The leases project is a converged effort between the FASB and the IASB. The revised ED for both organizations are nearly identical. The differences between the two proposals are primarily related to existing differences between U.S. GAAP and IFRS and decisions the FASB made related to non-public entities.

The Boards are also proposing changes to how equipment and vehicle lessors would account for leases that are off-balance-sheet. Those changes would provide greater transparency about such lessors' exposure to credit risk and asset risk.



Stakeholders are encouraged to review and provide feedback on the revised ED by September 13, 2013. The ED together with a summary (i.e. snapshot) can be accessed here. The deadline for submission of comments to the IASB is 13 September 2013.

1.2 IASB ISSUES IFRIC 21

On 20 May 2013, the IASB issued IFRIC Interpretation 21: *Levies,* an Interpretation on the accounting for levies imposed by governments. The Interpretation had been developed by the IFRS Interpretations Committee ("the Interpretations Committee"), the interpretative body of the IASB.

The Interpretations Committee was asked to consider how an entity should account for liabilities to pay levies imposed by governments, other than income taxes, in its financial statements. The principal question raised was about when the entity should recognize a liability to pay a levy.

IFRIC 21 is an interpretation of International Accounting Standard (IAS) 37 *Provisions, Contingent Liabilities and Contingent Assets*. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

The Interpretation includes guidance illustrating how the Interpretation should be applied. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014.

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1.3 IASB ISSUES NARROW-SCOPE AMENDMENTS TO IAS 36 IMPAIRMENT OF ASSETS

On 29 May 2013, the IASB published *Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36).* These narrow-scope amendments to IAS 36 *Impairment of Assets* address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

When developing International Financial Reporting Standard (IFRS) 13 *Fair Value Measurement*, the IASB decided to amend IAS 36 to require disclosures about the recoverable amount of impaired assets. The amendments published today clarify the IASB's original intention: that the scope of those disclosures is limited to the recoverable amount of impaired assets that is based on fair value less costs of disposal.

The amendments are to be applied retrospectively for annual periods beginning on or after 1 January 2014. Earlier application is permitted for periods when the entity has already applied IFRS 13.

Part 2: Auditing and Assurance and Ethics

2.1 ICPAS ISSUES SSAE 3420

In May 2013, the Institute of Certified Public Accountants of Singapore (ICPAS) issued Singapore Standard on Assurance Engagements (SSAE) 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*. This new SSAE deals with reasonable assurance engagements undertaken by a practitioner to report on the responsible party's compilation of pro forma financial information included in a prospectus. The SSAE applies where such reporting is required by securities law or the regulation of the securities exchange in the jurisdiction in which the prospectus is to be issued, or this reporting is generally accepted practice in such jurisdiction. Among other matters, it establishes minimum benchmarks for suitable criteria for the compilation of such information. It also covers related engagement acceptance and reporting considerations.

This SSAE is effective for assurance reports dated on or after 30 June 2013. A copy of SSAE 3420 can be accessed here.





2.2 ICPAS ISSUES SSAE 3410

In May 2013, ICPAS issued SSAE 3410, *Assurance Engagements on Greenhouse Gas Statements.* This new standard addresses an increasingly relevant global assurance service in support of reliable emissions reporting, whether for regulatory compliance purposes or undertaken on a voluntary basis to inform investors, consumers, and others.

SSAE 3410 addresses practitioners' responsibilities in identifying, assessing, and responding to risks of material misstatement when engaged to report on greenhouse gas statements. It sets out requirements and guidance on the work effort and reporting responsibilities of practitioners for both reasonable and limited assurance engagements, as demand for both is increasingly evident in the marketplace. The SSAE is applicable to a broad range of situations, from emissions from electricity used at a single office, to emissions from complex physical or chemical processes at several facilities across a supply chain.

This SSAE is effective for assurance reports dated on or after 30 September 2013. A copy of SSAE 3410 can be accessed here.

2.3 ICPAS ISSUES SAPN 1000

In May 2013, ICPAS issued Singapore Auditing Practice Note (SAPN) 1000, *Special Considerations in Auditing Financial Instruments* to provide important practical assistance to auditors when addressing valuation and other considerations pertaining to financial instruments. Financial instruments is an area of financial reporting involving complex issues and which has come under particular focus due to the recent difficult financial market conditions.

SAPNs are non-authoritative documents that do not impose additional requirements on auditors beyond those included in the Singapore Standards on Auditing, nor do they change the auditor's responsibility to comply with all SSAs relevant to the audit.

SAPN 1000 is the first SAPN to be issued by ICPAS following the issuance of the amended Preface to the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements in February 2013.

A copy of SAPN 1000 can be accessed here.

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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 (2013/5):

- Revised e-Tax Guide on Tax Exemption for Foreign-Sourced Income (Second Edition) (31 May 2013) [Read more]
- Basic Format of Tax Computation for an Investment Holding Company (30 May 2013) [Read more]
- Singapore Signs Convention on Mutual Administrative Assistance in Tax Matters (29 May 2013) [Read more]
- Singapore Enhances Tax Cooperation with Malta and South Korea (29 May 2013) [Read more]
- File Income Tax Return (Form C-S) (23 May 2013) [Read more]
- Businesses can Approach IRAS for Help in Making PIC Claims (16 May 2013) [Read more]
- Annual Values of Properties Reviewed Regularly: IRAS (15 May 2013) [Read more]
- Singapore to Significantly Strengthen Framework for International Tax Cooperation (14 May 2013) [Read more]
- Engaging Consultants to File PIC Claims (14 May 2013) [Read more]
- Singapore Fully Committed to Co-operating in Fight Against International Tax Offences (13 May 2013) [Read more]
- Preparing tax computation for Property Developers (8 May 2013) [Read more]
- Updates on Co-funding for GST ACAP (6 May 2013) [Read more]
- Income Tax (Exemption of Income of Foreign Trusts) (Amendment) Regulations 2013 (6 May 2013) [Read more]
- Income Tax (Exemption of Income of Non-residents Arising from Funds Managed by Fund Manager in Singapore) (Amendment) Regulations 2013 (6 May 2013) [Read more]
- Updates on FAQs on PIC Cash Payout (6 May 2013) [Read more]
- Updates on FAQs on Acquisition or Leasing of PIC IT and Automation Equipment (6 May 2013) [Read more]
- Revised election forms for carry-back of capital allowances and trade losses (6 May 2013) [Read more]
- YA 2013 Form C is now available (3 May 2013) [Read more]
  - ⇒ Updates on Essential Information to Note when Filing Form C [Read more]
  - ⇒ Tips for SMEs on Form C [Read more]
  - ⇒ Updates on How to Complete Form C [Read more]
- YA 2013 Form C-S is now available (3 May 2013) [Read more]
  - ⇒ Tips for SMEs on Form C-S [Read more]
  - ⇒ Updates on Filing Form C-S [Read more]
- Updates on Qualifying Expenditure for In-Licensing of Intellectual Property Rights under PIC (3 May 2013) [Read more]
- Singapore and Isle of Man Agreement for Avoidance of Double Taxation enters into force (2 May 2013) [Read more]
- Singapore and Jersey Agreement for Avoidance of Double Taxation enters into force (2 May 2013) [Read more]

Part 4: Regulatory Environment

Public consultation exercise on the draft Companies (Amendment) Bill 2013

The Ministry of Finance (MOF) and the Accounting and Corporate Regulatory Authority (ACRA) invite the public to provide feedback on the draft Companies (Amendment) Bill 2013. The public consultation exercise will run from 2 May to 14 June 2013.

The draft Bill sets out the proposed legislative amendments to the Companies Act arising from recommendations by the Steering Committee for the Review of the Companies Act that were accepted by MOF on 3 October 2012. In arriving at its decision, MOF had evaluated feedback from a public consultation exercise on the Steering Committee's report which was held from June to October 2011. The proposed amendments to the Companies Act are expected to reduce regulatory burden and compliance costs, provide greater flexibility for companies and improve corporate governance.

For more information on the draft Companies (Amendment) Bill 2013, please refer to the following link:

http://www.acra.gov.sg/Publications/Public+Consultation+on+draft+Companies+%28Amendment%29+Bill+2013.htm

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