

IMAS Forum

Discussion on RAP 7 “Reporting Framework for Unit Trusts”

8 March 2007

Agenda

Background of RAP 7

Other reporting framework

Key Financial Reporting Standards impacting RAP 7

Summary of key issues

Actions

Background of RAP 7

Background of RAP 7

- First approved in 2002 by the Council of Institute of Certified Public Accountants of Singapore (“ICPAS”)
- Industry-specific - issued in consultation with industry practitioners, including Investment Management Association of Singapore (“IMAS”)
- Based on Statement of Recommended Practice (“SORP”) on Financial Statements of authorised unit trusts schemes issued by the Investment Management Regulatory Organisation Limited (“IMRO”) in UK
- Subsequently revised in 2004 based on SORP on Financial Statements of Authorised Funds issued by the Investment Management Association (“IMA”) in UK
- Latest revision in May 2005 to align with revised Financial Reporting Standards (“FRSs”)

Background of RAP 7

- Meant to provide guidance on disclosures in financial statements
- Fundamental accounting concepts apply
- Accounting policies generally comply with principles relating to recognition and measurement of the FRSs
- Recommendations in RAP 7 to be applied in conjunction with Securities & Futures Act and its subsidiary legislation, Code on Collective Investment (“CCIS”) Schemes and guidelines issued by CPF Board.

Other reporting framework

Other reporting framework

- International Financial Reporting Standards (“IFRS”) - adopted by various countries including Hong Kong and Ireland
- US GAAP – USA
- UK SORP – United Kingdom. Last revised in December 2005.

Funds set up in tax havens (e.g. Cayman Islands, BVI, Guernsey and Jersey) generally follow either IFRS or US GAAP

Key Financial Reporting Standards impacting RAP 7

Key FRSs impacting RAP 7

FRS 21: The Effects of Changes in Foreign Exchange Rates

FRS 32: Financial Instruments – Disclosure and Presentation

FRS 39 : Financial Instruments – Recognition and Measurement

FRS 32: Financial Instruments – Presentation (effective 1 January 2007)

FRS 40: Investment Property (effective 1 January 2007)

FRS 107: Financial Instruments – Classification and Presentation (effective 1 January 2007)

FRS 108: Operating segments (effective 1 January 2009, superceding FRS 14)

Summary of key issues

Current divergence with FRS

- Cash flow statement not presented as a primary statement
- Portfolio of investments is not a mandatory primary statement, but can be included as a supplementary schedule
- Presentation, recognition and measurement of financial instruments - classification under the FRS 39 requirements and the fair value option
- Only changes in fair value on investments are shown for investments held at FVPL, ie. no splitting between realised and unrealised gains or losses
- Brokerage costs to be expensed off instead of capitalising as part of investments - but no real impact as this will flow through upon fair valuation of investments

Current divergence with FRS

- Net assets attributable to unitholders, which is currently a financial liability, is not carried at amortised cost or fair value as required under FRS
- AFS reserve for investment property funds when there is no other equity component

Future changes in Singapore FRS

- FRS 32 will be updated such that net assets attributable to unitholders (single class) will most likely become equity
- FRS 107 – Financial Instruments: Disclosures which prescribes more detailed disclosures on financial risk management policies, e.g. sensitivity analysis of portfolio
- FRS108 – Segmental reporting which may require segmental reporting for unit trusts

Actions

Actions

- ICPAS set up RAP 7 Committee comprising:
 - Representatives from ICPAS
 - IMAS
 - Big Four accounting firms (PwC as Chairman of Committee)
 - Representatives from Trustees/fund administrators (HTSG and RBC Dexia)
- Proposed set-up IMAS Reporting working group
- Benchmarking of RAP 7 against IFRS, UK SORP and US GAAP
- Recommendations/conclusions to be submitted to ICPAS RAP 7 committee

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