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# PROPOSED STATUTORY BOARD FINANCIAL REPORTING STANDARD GUIDANCE NOTE 3

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## Exposure Draft of Proposed Accounting and Disclosures for Trust Funds

*Comments to be received by 6 March 2009*

This exposure draft *Accounting and Disclosures for Trust Funds* is issued by the Accountant-General's Department Financial Reporting Branch for comment only and does not necessarily represent the views of Accountant-General's Department Financial Reporting Branch. The proposals may be modified in the light of the comments received before being issued in final form.

Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, clearly explain the problem and provide a suggestion for alternative wording with supporting reasoning.

Comments should be submitted in writing, so as to be received by 6 March 2009 preferably by email to [AGD\\_ASSB\\_Feedback@agd.gov.sg](mailto:AGD_ASSB_Feedback@agd.gov.sg) or addressed to:

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*paragraphs*

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# **Proposed Statutory Board Financial Reporting Standards (SB-FRS) Guidance Note 3**

## ***Exposure Draft of Proposed Accounting and Disclosures for Trust Funds***

### **Objective**

1. This Note provides guidance on the accounting and disclosures for trust funds held by Statutory Boards (SBs).

### **Scope**

2. This Guidance Note shall be applied to all general purpose financial statements prepared and presented in accordance with Statutory Board Financial Reporting Standard (SB-FRS).

## **Accounting and Disclosures for Trust Funds**

### **Definition**

3. A trust fund is defined as a fund for which a reporting SB acts as custodian, trustee, manager or agent but does not exercise control over.

4. Control as defined by SB-FRS 27 Consolidated and Separate Financial Statements (paragraph 4), is the power to govern of the financial and operating policies of an entity so as to obtain benefits from its activities. In instances where no entity retains absolute control over the financial and operating policies of the fund, the entity which has the power to govern majority of the financial and operating policies is the controlling party.

5. In the context of SBs, benefits can extend beyond financial gains or access to additional cash or other economic resources. If a fund assists a SB in achieving its objectives, the SB is considered to have obtained benefits from the fund.

### **Control over a Fund**

6. Certain SBs act as agents of funds that are created via contributions from their parent Ministries, or other parties. While these SBs are in charge of the day-to-day operations of the fund, the majority of financial and operating policies are set out via a trust deed, memorandum of understanding, agreement or other documents that is not decided upon by the SB. In such instances, the SB should not be considered as exercising control over the fund as it is merely operating the fund in accordance with the financial and operating policies of the fund that have already been set out. For example, the trust deed of a fund may state when and to whom the SB can disburse amounts within the fund. The trust deed may even allow for the SB to exercise its discretion within boundaries for certain disbursements. In such an instance, although the SB operates the fund, it is not considered to be exercising control over the fund, even if it is allowed discretion for certain disbursements.

7. In some cases, a committee or council decides on or has the power to vary the financial and operating policies of the fund. If the SB operating the fund has the power over more than half of the voting rights of that committee or council, or has the power to appoint or remove the

majority of the members of that committee or council, then the SB is considered to be exercising control over the fund.

## **Characteristics of Trust Funds**

8. The definition of trust funds depends on the substance rather than form of the fund, legal or otherwise. The following paragraphs further explain some of the characteristics, that individually or in combination may lead to a fund being classified as a trust fund :

- i. Fund is held in trust and/or managed by the SB as an agent;
- ii. The SB does not bear/enjoy the majority of the risks and rewards incidental to the activities of the fund;
- iii. Fund can only be used for specified purposes determined by the Principal; and
- iv. The SB does not have the right to decide how the residual amounts in the fund are to be used after the closure of the fund.

### ***Fund is held in trust and/or managed by the SB as an agent***

9. There should be a fiduciary role played by the SB to ensure that the fund is properly accounted for and used according to the objectives of the fund. In most cases, there is a trust agreement, memorandum of understanding, legislation or other documents that governs this. However, the non-existence of such documents does not necessarily mean that a fund is not a trust fund as trust can often be implicit. In this case, the SB does not exercise control over the fund to obtain benefits from its activities (which includes assisting the SB in achieving its objectives), other than payment of agency fee mutually agreed between the parties.

### ***The SB does not bear/enjoy the majority of the risks and rewards incidental to the activities of the fund***

10. The majority of the risks and rewards incidental to the activities of the fund is borne/enjoyed by the principal. Rights to the rewards and benefits of the fund's activities may be formalised through a statute, contract, agreement, or trust deed etc.

### ***Fund can only be used for specified purposes determined by the Principal***

11. The fund must be used only for the purposes specified by the trust agreement, memorandum of understanding etc, determined by the Principal. In some cases, SBs earn management or agency fees from administering trust funds. Such fees or income are not considered as financial benefits.

### ***The SB does not have the right to decide how the residual amounts in the fund are to be used after the closure of the fund***

12. Some trust funds are set up for a specified timeframe, specified project or based on a specified agreement. Upon completion of the project or termination of the agreement, the fund balance is either distributed in accordance with an agreement, deed etc, returned to contributors, or distributed as directed by a party other than the SB. The residual funds do not belong to the SB.

## **Trust Funds and Other Funds**

13. Some SBs separately disclose a portion of their equity as unrestricted (general or designated) or restricted funds. Restricted and designated funds are usually received or set aside for specific purposes and there are restrictions on the ability of the SB to distribute or

otherwise apply the funds. However, restricted and designated funds are distinct from trust funds in that the SB is still considered as exercising control over the funds and the funds are owned by the SB.

14. Designated funds are funds earmarked by SBs within their general funds for specific purposes. The SBs have the power to re-designate such funds within their general funds. This is distinct from restricted funds which the SBs do not have the power to re-designate their use.

15. Annex A provides a decision flowchart on assessing whether a fund is a trust fund. Please refer to Statutory Board Financial Reporting Standard Guidance Note 1 *Accounting and Disclosure for Funds, Grants, Accumulated Surplus and Reserves*, for the accounting and disclosure requirements for restricted funds.

## **Accounting for Trust Funds**

16. Trust funds (i.e. funds that fulfill the definition in paragraph 3) should not be included in the primary statements of the SBs, i.e. Balance Sheet, Statement of Income and Expenditure, Statement of Cash Flow and Statement of Changes in Equity. Trust funds should instead be disclosed in the notes of the financial statements of SBs in accordance with paragraph 18.

17. The basis of accounting (e.g. cash accounting or accrual accounting etc) for the disclosures of the trust funds in the financial statements of the reporting SB should be decided upon by the trustees of the fund, or other relevant decision-makers of the trust funds.

## **Disclosures for Trust Funds**

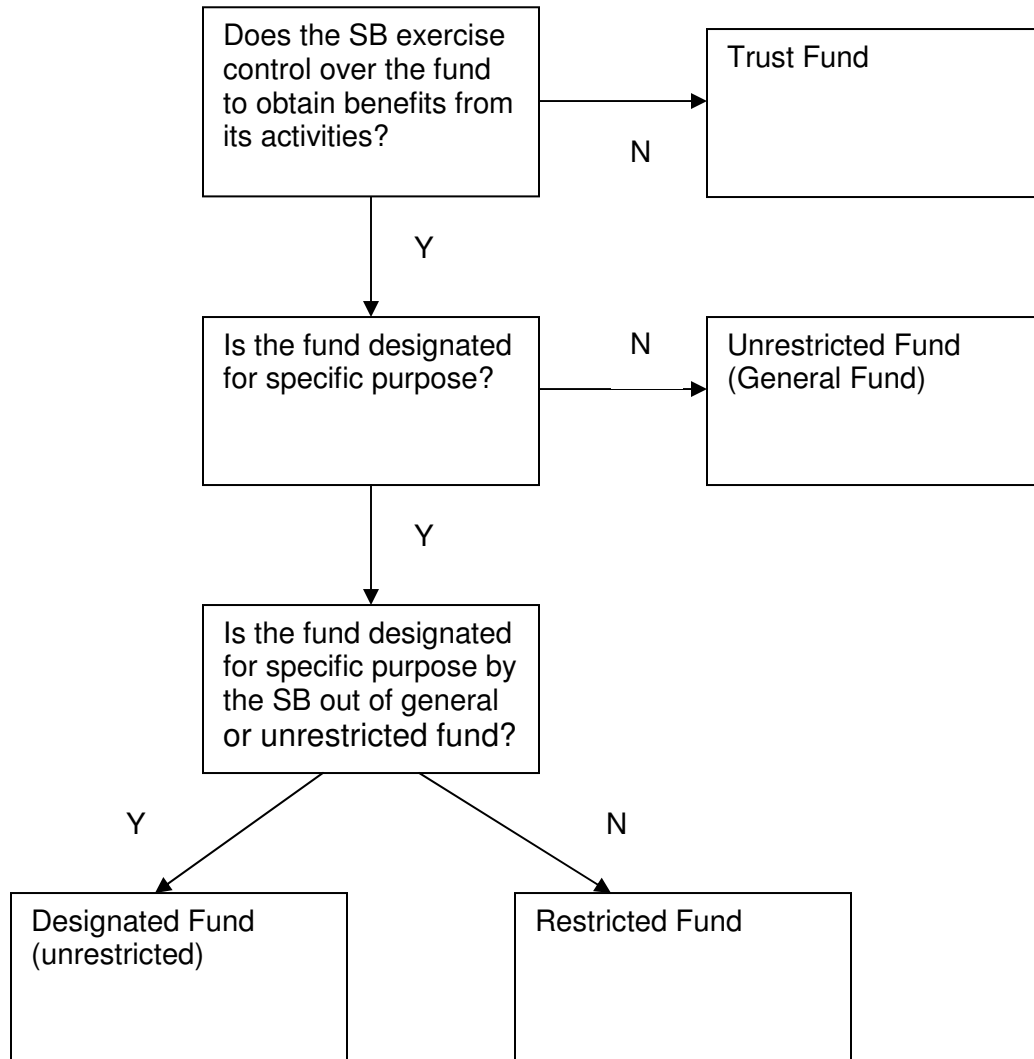
18. The following disclosures of trust funds shall be made in the notes to the financial statements:

- (i) The nature of the trust funds;
- (ii) Statement of Income and Expenditure of the trust funds;
- (iii) Statement of Financial Position (i.e. Balance Sheet) of the trust funds; and
- (iv) Basis of accounting for the trust funds.

## **Effective Date**

19. This Guidance Note is operative for financial statements covering periods beginning on or after [ ] 2009.

Decision flowchart



### Examples: Application of Definition of Trust Funds

#### *Loan Scheme Administered by SB*

##### **Scenario :**

SB A administers Scheme X whereby loans are provided to certain qualifying companies to upgrade and expand their operations. The funds for the loans are provided by Ministry B in the form of a loan. SB A in turn signs loan agreements with participating banks who then on-lend to the borrowing companies. Any profits from the loan scheme are kept within the loan scheme fund, while any losses are also borne by the fund. SB A does not gain or suffer any losses arising from the loan scheme. A set of rules decided upon by the Ministry B govern the operating and financial policies of the fund, such as which companies can qualify for the loans and how much can be disbursed etc. Any loan defaults by borrowing companies are borne by Ministry B in accordance with its agreement with SB A (this could be in the form of a contract, correspondence etc), so long as the SB has operated the scheme within the rules set out. Any residual funds at the end of the scheme are to be returned to Ministry B.

##### **Application :**

Under this scenario, although a loan agreement exists between SB A and Ministry B, and between SB A and participating banks, in substance, SB A acts more like an agent of Ministry B in operating the scheme.

SB A does not control the financial and operating policies of the fund, as these are based on rules set out by Ministry B. SB A merely operates the fund. While SB A is considered to have benefited from the fund as the scheme furthers the objectives of SB A, lack of control over the fund means that the fund is considered a trust fund of SB A.

The loan scheme fund also appears to fulfill the common characteristics of trust funds. SB A holds the fund in trust for Ministry B. It needs to ensure that the fund is properly accounted for and used in accordance with the objective of the loan scheme. The risks reside with Ministry B as it undertakes to bear the losses arising from the of loan defaults.

#### *Designated Fund of SB*

##### **Scenario :**

Polytechnic Y is a SB. The Board of Polytechnic Y decides to create a \$2m scholarship fund to sponsor deserving students on exchange programmes abroad. The \$2m is to be funded using the accumulated surplus of Polytechnic Y. The \$2m fund is not to be used for any other purposes. The management of Polytechnic Y proposes a list of students and amounts to be sponsored, which are to be approved by the Board.

##### **Application:**

There are restrictions on the ability of the SB to use the \$2m scholarship fund as it has been carved out of the Polytechnic Y's accumulated surplus for a specific purpose. Control over the fund still resides within Polytechnic Y as its Board is the approving authority for the disbursement of the funds. Hence the fund is not a trust fund of the SB. It is a designated fund as the funds are set aside from general funds for specific purposes. The SB has the power to re-designate the funds within unrestricted funds.

## ***Restricted Fund Of SB***

### **Scenario :**

A Fund is set up by SB as a trust to receive tax-exempt donations for specific purposes. There are restrictions on the SB in relation to the application of these funds. The trustees comprised of the chairman, chief executive and other board members of the SB. The activities of the Fund are within the objectives of the SB.

### **Application:**

There are restrictions on the use of the fund received from the public subject to a specific trust deed which is within the objectives of the SB. The SB exercise control over the fund to obtain benefits from its activities. Hence the fund is not a trust fund but a restricted fund.