
STATUTORY BOARD FINANCIAL REPORTING STANDARD GUIDANCE NOTE 3

Accounting and Disclosures for Trust Funds

SB-FRS Guidance Note 3 *Accounting and Disclosures for Trust Funds* applies to Statutory Boards for annual periods beginning on or after 1 January 2023.

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Statutory Board Financial Reporting Standard Guidance Note 3 *Accounting and Disclosures for Trust Funds* is set out in paragraphs 1 - 29. All the paragraphs have equal authority. SB-FRS Guidance Notes are issued to standardise the accounting and disclosure requirements of Statutory Boards in specific areas and are to be complied with by Statutory Boards. These Guidance Notes rank behind SB-FRS and INT SB-FRS in terms of importance.

Statutory Board Financial Reporting Standard (SB-FRS) Guidance Note 3

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. According to SB-FRS Conceptual Framework (SB-FRS CF) Paragraph 4.23, a SB controls a resource if it has the present ability to direct the use of the resource and obtain the benefits that may flow from it. Control includes the present ability to prevent other parties from directing the use of the resource and from obtaining the benefits that may flow from it. It follows that, if one party controls a resource, no other party controls that resource.
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. In some cases, SBs earn management or agency fees from administering trust funds. Such fees or income are financial benefits earned in their roles as the agent or manager, and should not result in the SBs being considered owners of the funds.

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; the SBs do not have the ability to direct the use of the funds. 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 is the party that directs the use 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 as it effectively has the ability to direct the use of the funds.

Characteristics of Trust Funds

8. The definition of trust funds depends on the substance rather than form of the fund, legal or otherwise. In assessing whether the fund is a trust fund, a SB shall consider the following characteristics:
 - 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;
 - 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; and
 - v. The principal often has unconditional rights to remove an agent.

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.
11. In assessing whether the SB bears/enjoys the risks and rewards associated with the fund, some examples of factors that can be considered are as follows (non-exhaustive and in no order of importance):

- i. Whether the SB or the Principal bear losses associated with the fund

Where the Principal is required to bear losses of the fund that are not a result of the SB's negligence in managing the fund, this means that the risk associated with the fund lies with the Principal.

Losses that will be incurred by the SB as a result of its own negligence do not mean that the SB bears the risk associated with the fund, as it is simply paying for its own negligence.

- ii. Whether the rewards associated with the fund belong to the SB or the Principal

There are some situations whereby the income associated with the funds (e.g. interest income earned from placing excess funds into fixed deposits or other bank deposits) have to be remitted back to the Principal. In this case, the Principal enjoys the rewards associated with the fund.

Fund can only be used for specified purposes determined by the principal

12. 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 of an owner.

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

13. 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.

The principal often has unconditional right to remove agent

14. A principal often has unconditional right to remove an agent that is undertaking the activities on behalf of the principal. The unconditional right to remove an agent ensures that the principal maintains the power to direct the use of the fund. Protective rights like removal of agents in circumstances like bankruptcy or breach of contract are not unconditional rights of removal of agent.

Trust Funds and Other Funds

15. 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.
16. 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 redesignate their use.
17. **Annex A** explains via a flowchart, the differences between trust funds, designated funds and restricted funds. 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

18. Trust funds (i.e. funds that fulfil the definition in Paragraph 3) should not be included in the primary statements of the SBs, i.e. Statement of Financial Position, Statement of Comprehensive Income, Statement of Cash Flows and Statement of Changes in Equity. The net assets of the trust funds should instead be presented at the bottom of the Statement of Financial Position with disclosures in the notes of the financial statements of SBs in accordance with Paragraph 26. **Annex C** provides an illustrative example of the presentation (highlighted in yellow).
19. In most cases, SBs maintain bank accounts for the trust funds separate from the SBs' own bank accounts. However, there may be instances where SBs place cash held on behalf of trust funds in their own bank accounts. If any cash of trust funds are maintained within the SBs' own bank accounts, these amounts held in trust for the trust funds should be included as part of the cash and cash equivalent balances of the SBs in the Statement of Financial Position with a corresponding liability to the trust funds. Cash belonging to the trust funds should not be included as part of the SBs' cash and cash equivalents in the Statement of Cash Flows.
20. 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, in consultation with the owners of the fund, if any.

Accounting for Discontinued Trust Funds

Disposal of Assets and Proceeds Returned to Principal

21. When a trust fund is discontinued, the SB shall reclassify the non-current assets held under the trust fund as current assets (hereafter known as “reclassified asset”) within the Statement of Financial Position of the trust funds, if it is probable that the assets of the trust fund will be disposed through sale within one year from the reporting date. The discontinuation of a trust fund is usually communicated by the Principal or may be specified within the Trust Deed or similar documents.
22. The SB shall measure the reclassified assets at the lower of its carrying amount and fair value less costs to sell.
23. Within the notes to the financial statements of the trust fund, the SB shall recognise:
 - An impairment loss for any initial or subsequent write-down of the reclassified assets to fair value less costs to sell.
 - A gain for any subsequent increase in fair value less costs to sell off the reclassified asset, but not in excess of the cumulative impairment loss that has been recognised.
24. The SB shall not depreciate (or amortise) a reclassified asset. Interest and other expenses attributable to the liabilities of the reclassified asset sale shall continue to be recognised.

Assets to be returned to Principal

25. When a trust fund is discontinued, the SB shall not reclassify the non-current assets held under the trust fund as current assets within the Statement of Financial Position of the trust funds, if the intention is to return the assets to the Principal because its carrying amount will be recovered principally through continuing use. The non-current assets shall continue to be accounted for according to the relevant Standards.

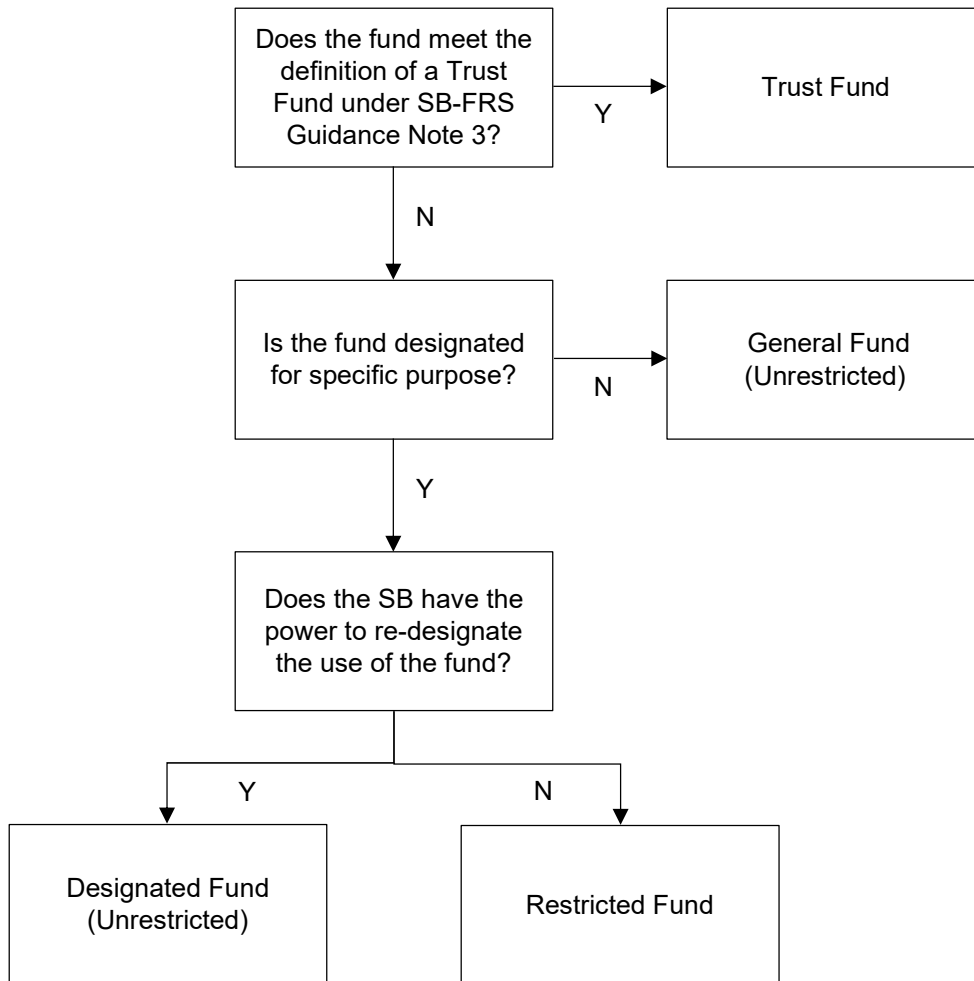
Disclosures for Trust Funds

26. The following disclosures of trust funds shall be made in the notes to the financial statements subject to the requirements of relevant legislation, if any:
 - i. The nature of the trust funds;
 - ii. Statement of Comprehensive Income of the trust funds;
 - iii. Statement of Financial Position of the trust funds;
 - iv. For any cash or cash equivalents belonging to trust funds that have been included as part of the SB’s cash and cash equivalent balance, the amount of cash and cash equivalents held in trust and the trust funds which own these amounts;
 - v. Basis of accounting for the trust funds; and
 - vi. For any discontinued trust funds, separately disclose (i) to (v), including the date of discontinuation of trust fund and how excess funds will be handled (e.g. returned to Principal).
27. The decision to discontinue a trust fund could be made with a later effective date. In such an instance, and before the fund is accounted as a discontinued trust fund in accordance with Paragraphs 21 to 25, the SB shall disclose the plan to discontinue the trust fund, including the expected date of discontinuation of trust fund and how excess funds will be handled.
28. **Annex D** provides illustrative examples on the disclosure of Trust Funds.

Effective Date

29. This Guidance Note is operative for financial statements covering periods beginning on or after 1 January 2023. Earlier adoption is permitted.

Difference between Trust, Designated and Restricted Funds



Examples: Application of Definition of Trust Funds

Trust Fund of SB

Scenario

SB A has been appointed by Ministry B as an agent to build a series of infrastructural assets. The financial and operating policies of the fund to build the infrastructure assets are set by Ministry B and the assets will belong to Ministry B. SB A's role is to engage contractors to build the assets, receive funds from Ministry B and use them to make payments to the contractors. As agreed between SB A and Ministry B, funds are to be remitted from Ministry B to SB A at most one month in advance before the payments are made to the contractors. Risks of the project such as cost escalations, reside with Ministry B, unless losses are the result of SB A's negligence.

All interest income arising from the monies disbursed from Ministry B have to be remitted back to Ministry B on a monthly basis. Residual amounts upon the completion of the infrastructural assets have to be returned to Ministry B.

Application

Although SB A is the party holding the funds and executing the project, it is doing so as an agent. The use of the funds has been dictated by Ministry B and Ministry B is the beneficiary of the fund since the resulting infrastructural assets belong to Ministry B. As such, Ministry B is the party that controls the fund.

SB A also does not bear/enjoy the majority of the risks and rewards incidental to the activities of the fund because:

- a. Risks of the project such as cost escalations, reside with Ministry B, unless losses are the result of SB A's negligence;
- b. All interest income arising from the monies disbursed from Ministry B have to be remitted back to Ministry B on a monthly basis; and
- c. Residual amounts upon the completion of the infrastructural assets have to be returned to Ministry B.

The fund is therefore considered a trust fund of SB A, whereby SB A is managing the fund on behalf of Ministry B.

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 as the trustees are the chairman, chief executive and other board members of the SB. Hence, the fund is not a trust fund but a restricted fund.

ANNEX C

Presentation of Trust Funds on Statement of Financial Position

	Note	31 Dec 20X8	31 Dec 20X7
ASSETS			
Non-current assets			
...	3		
Current assets			
...	4		
Total assets			
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
...	5		
Total equity			
Non-current liabilities			
...	6		
Current liabilities			
...	7		
Total liabilities			
Total equity and liabilities			
<hr/>			
Net Assets of Trust Funds			
Trust Fund X	8.1		
Trust Fund Y	8.2		

Note: SB may elect to present the net assets of different trust funds either separately as different line items (as shown above) or in aggregation as a single line item on the Statement of Financial Position. Regardless of which presentation method is adopted, the SB shall disclose each trust fund separately in the accompanying notes to the accounts.

Example 1: General Disclosures of Trust Funds

The illustrative disclosure below assumes the SB manages 2 trust funds, namely Trust Fund X and Trust Fund Y, on behalf of its Principal. As at the financial year end, both trust funds continue to be in operations.

2 Significant accounting policies

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2.xx Trust Funds

Trust Fund X

[Insert Description of accounting policy and basis of accounting for trust funds]

Trust Fund X is set up for the purpose of <insert purpose of Trust Fund X>. The net asset of the fund is presented at the bottom of the Statement of Financial Position as prescribed by SB-FRS Guidance Note 3 *Accounting and Disclosures for Trust Funds*. Income and expenditure relating to the fund are accounted for directly in the fund to which they relate using <insert basis of accounting, e.g. cash basis or accrual basis>. Details of income, expenditure, assets, and liabilities relating to the trust fund are disclosed separately in Note 8.

Trust Fund Y

Refer to illustration for Trust Fund X.

8 Trust Funds

The net assets of the trust funds are:

	Note	20x1 \$	20x0 \$
Trust Fund X	8.1		
Trust Fund Y	8.2		
Total			

8.1 Trust Fund X

[Insert Description of nature of trust fund]

Trust Fund X is set up <insert nature of trust funds, such as purposes of fund, usage of fund, dissolution requirements, etc.>.

[Insert financial information of Trust Fund, namely Statement of Comprehensive Income and Statement of Financial Position]

<insert financial information of Trust Fund>

8.2 Trust Fund Y

[Insert Description of nature of trust fund]

Trust Fund Y is set up <insert nature of trust funds, such as purposes of fund, usage of fund, dissolution requirements, etc.>.

[Insert financial information of Trust Fund, namely Statement of Comprehensive Income and Statement of Financial Position]

<insert financial information of Trust Fund>

Example 2: Disclosure of Discontinued Trust Fund

The illustrative disclosure below assumes the SB manages 2 trust funds, namely Trust Fund A and Trust Fund B, on behalf of its Principal. As at the financial year end, both trust funds have been discontinued. The Principal of Trust Fund A requires the SB to sell all assets under the fund before returning the cash to it, while the Principal of Trust Fund B requires the SB to return the assets in their as-is condition to the Principal.

2 Significant accounting policies

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2.xx Trust Funds

Trust Fund A

Refer to illustration of Trust Fund X in Example 1.

Trust Fund B

Refer to illustration of Trust Fund X in Example 1.

8 Trust Funds

The net assets of the trust funds are:

	Note	20x1	20x0
		\$	\$
Trust Fund A	8.1		
Trust Fund B	8.2		
Total		<hr/>	<hr/>

8.1 Trust Fund A

[Insert Description of nature of trust fund]

Trust Fund X is set up <insert nature of trust funds, such as purposes of fund, usage of fund, dissolution requirements, etc>.

[Insert only if trust fund has been discontinued]

The trust fund will be discontinued on <insert date>. All remaining assets of the fund will be liquidated. The remaining fund balances, including proceeds from sale of remaining assets, will be returned to <insert name of Principal or party to return remaining assets to>.

[Insert financial information of Trust Fund, namely Statement of Comprehensive Income and Statement of Financial Position]

<insert financial information of Trust Fund>

8.2 Trust Fund B

[Insert Description of nature of trust fund]

Trust Fund B is set up <insert nature of trust funds, such as purposes of fund, usage of fund, dissolution requirements, etc>.

[Insert description only if trust fund has been discontinued]

The trust fund will be discontinued on <insert date>. All remaining assets of the fund will be returned in their as-is condition to <insert name of Principal or party to return remaining assets to>.

[Insert financial information of Trust Fund, namely Statement of Comprehensive Income and Statement of Financial Position]

<insert financial information of Trust Fund>