

**KEYNOTE ADDRESS BY MR KENNETH YAP, CHIEF EXECUTIVE, ACCOUNTING AND CORPORATE REGULATORY AUTHORITY ON 3 MAY 2013, 9AM AT CPA AUSTRALIA FRS FORUM 2013**

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Distinguished guests

Ladies and gentlemen

Good morning. It is a great pleasure and privilege for me to be invited to deliver the keynote for CPA Australia's inaugural Financial Reporting Standards Forum 2013.

2 It is a propitious time to hold this forum. The business landscape is today far more complex and sophisticated than ever. The volatility of global markets in recent years, and the shortening of business cycles, makes it all the more important that professionals who play a key role in the financial reporting

process are able to provide accurate and timely financial information to retail and institutional investors alike.

### ***Challenges of an Evolving Financial Reporting Landscape***

3 In tandem with the evolving business environment, accounting standards have likewise increased in complexity. The introduction of new financial reporting standards (or FRS) in the last few years by the Accounting Standards Council affects many areas of accounting. Crucially, companies will need to realign various business and accounting functions and processes to meet the new requirements.

4 Take for example, the new FRS 110, which will become effective on 1 January 2014. This new FRS on consolidation has revised the definition of “control”. It will require significantly more judgement to determine whether control exists, particularly when the ownership percentage is 50% or less.

5 Control is no longer based on the “power to govern the financial and operating policies” in the current FRS 27, but rather on assessing the “power to direct activities that significantly affect the investor's returns”. This is a broader test and will require financial preparers to assess not only their company’s holdings and rights, but also the holdings and rights of the other shareholders in order to determine if your entity has the necessary power for consolidation purposes.

6 The financial impact of consolidation is significant. Hence, your role as a finance professional is key, as you put forth your assessment in support of a consolidation position of otherwise.

7 Another example is the upcoming FRS on **leases**. The International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) have been working on this joint lease project for over six years. They have recently completed their re-deliberations. This is one of the few FRSs to be re-exposed after strong feedback was received on

the 2010 exposure draft. The revised exposure draft is likely to be issued for comment this year.

8 This new FRS proposes major revisions to lease accounting from the current FRS 17, which now requires accounting as a finance lease when a lease is economically similar to purchasing the leased asset. Otherwise, all other leases are accounted for as off-balance sheet operating leases.

9 A new “right-of-use” concept is being introduced and would effectively eliminate all operating leases and require them to be capitalised on the company’s balance sheet as an asset and corresponding liability. Hence, this FRS would have far reaching consequences especially for businesses which lease equipment and properties.

10 These are just two examples of how financial reporting will change in the near future. In Singapore, several new or revised

FRSs came into effect at the start of this year. Another 6 will take effect next year.

11 And it is not only preparers of financial statements who will need to keep pace with these changes. CEOs, directors, shareholders, bankers and analysts also need to understand how economically similar transactions will be reported differently when a new FRS becomes effective.

12 Platforms such as today's forum, provide a good opportunity for you and your companies to prepare for these changes, and to understand the implications on the financial results and position of your company.

13 Speaking from the regulator's standpoint, we are pleased that professional bodies such as CPA Australia have taken the initiative to organise such discussions. It will contribute in no small measure to raising awareness and professional competence of all involved in the financial reporting process,

auguring well for Singapore's standing as a trusted financial and business hub.

### ***Financial Reporting Function – Crucial Growth Enabler***

14 Indeed, these significant changes that are taking place in the financial reporting landscape underscore one key point. Accurate and reliable financial information remains a crucial growth enabler for capital markets.

15 More than ever, transparency and accountability in the marketplace are highly valued commodities. Investors, creditors and other market participants rely on getting accurate, timely and comparable financial information from public companies. The efficient allocation of capital depends on financial reports that provide a realistic picture of firms' past performance and future prospects.

16 Each year, ACRA sees a growing demand for corporate information including financial information. In 2012 alone, over 1.2 million transactions were made on ACRA's Bizfile – our online filing and information retrieval system. Over 400,000 of these transactions pertained to purchases of corporate and business information.

17 Promoting greater transparency in the marketplace was a key reason why ACRA introduced in 2007, the filing of corporate financial statements in partial XBRL. By adopting an internationally recognised standard for the electronic communication of publicly available financial data filed with ACRA, analysis of business data could be more efficiently generated and made available to market players to make informed decisions.

18 Other countries have already recognised the value of XBRL filing. China, the US and India are some of the countries that have mandated financial reporting in XBRL. In October this

year, Singapore will follow suit. Incorporated companies will need to file a full set of financial statements in XBRL using the newly launched BizFin<sup>x</sup> platform. With about 60,000 companies which will file their returns in full XBRL, the potential for unlocking even more value from financial data with full XBRL filing amplifies manifold.

19 Hence, ensuring that financial reporting remains at the highest quality becomes even more important. And when information provides a misleading picture, the results can be devastating.

20 We witnessed first-hand in the Olam and Muddy Waters incident the damage that can be wrought when doubts are raised over financial reports. You may recall that Olam's shares plunged more than 10% in value within a day of Muddy Waters' allegation that there were, in its opinion, financial reporting irregularities. This case also goes to illustrate my earlier point that companies need to engage their stakeholders better to



understand new financial reporting concepts such as fair value measurements, in order to properly assess such challenges.

21 Coming from a non-accounting background myself, I can appreciate the confusion that can result when accountants disagree over the application of accounting standards. For example, fair value accounting can be subjective as it requires an exercise of managerial judgment in determining internal forecasts of future cash flows, as well as reliance on subjective assumptions. A colleague of mine had a novel way of explaining FRS 41 on the fair value measurement of biological assets to me. She said to think of it as essentially about “counting your chickens before they hatch”. Not every investor has the benefit of advice from a colleague who can put accounting terms into plain English.

### ***Strengthening Financial Reporting– People, Processes, Tools***

23 Indeed, as the financial and business landscape continues to evolve at a rapid pace, so too is the current accounting and reporting framework. And at times, it may even seem a race to catch up with the changing information needs of the marketplace.

24 To help ensure financial information continues to remain reliable and trusted, ACRA regulates the entire financial reporting value chain. This starts with the requirement for directors to ensure financial statements comply with FRS. There is also the requirement for auditors to perform audits according to auditing standards. Finally, the requirement for companies to file within certain timeframes so that financial information stays relevant.

25 ACRA strongly believes in the importance of supporting quality across the whole financial reporting value chain in ensuring the final output of reliable and trusted financial information for users. This year, ACRA is placing special

emphasis on strengthening the quality of financial reporting. We also believe a strong financial reporting function must be supported by ***good people, processes and tools***.

26 With regard to ***people***, the strength of your finance team makes a big difference to your ability to provide accurate and timely financial information to your stakeholders. Building capacity is not about increasing headcount but the need to upscale competencies.

27 The newly formed Singapore Accountancy Commission has two key strategic initiatives, namely the Singapore CFO Institute and the Singapore Qualification Programme, which will do much to upscale the competencies of our accounting profession. Professional bodies also continue to boost their members' competencies. Forums such as today's also enable finance professional such as yourselves to keep up to date with the rapid developments in FRS.

28 Closely linked to having good people, is the need for good ***processes***. Accountants are commonly caricatured as bean counters. But accounting has evolved and accountants of this generation aim to perform higher value added jobs and become business partners or financial advisors to the CEO and board of directors in decision making. Hence, as experienced finance leaders, you will have to review or even re-design your financial reporting processes to achieve that aim.

29 Reviews no doubt require much time and effort and at times, may even be met by resistance, but the potential for productivity gains from eliminating inefficient processes far outweighs the initial output. The government is highly committed to increasing productivity. Early last year, the Accountancy Sector was selected as one of the 4 new priority sectors in the productivity drive spearheaded by the National Productivity and Continuing Education Council (NPCEC).

30 Last year, CPA Australia published an “Accounting & Productivity” handbook to help the profession. It was released at ACRA’s annual Public Accountants Conference. I urge those of you who have yet to get a copy of the book to do so.

31 Lastly, having the right **tools** to enable your people and processes is equally important for achieving high quality financial reporting. Companies should take advantage of technological advancements to improve and automate processes. This in turn releases your people to focus their valuable time on specific areas which require professional assessment and judgement.

### ***ACRA’s role as regulator***

32 On ACRA’s part, to further strengthen the integrity and quality of corporate financial reporting, we will continue to take steps to ensure an effective and responsive regulatory

environment. This includes implementing closer supervision and compliance with Financial Reporting Standards. In late 2011, we initiated a Financial Reporting Surveillance Programme which targets enforcement of companies and directors who breach the FRS.

33 Through this programme, companies which invest resources to ensure FRS compliance are assured of an equitable system that will rectify breaches. Although in its early stages, ACRA has already issued warnings to a handful of directors and companies with proven FRS breaches, requiring restatements of current or comparative financial statements. Auditors of these companies who did not perform their duties in reporting the FRS breaches have also been warned.

### ***Conclusion***

34 Let me conclude by reiterating once more the importance of strengthening the financial reporting function.

35 In an economic climate of uncertainty which sometimes bordering on mistrust and paranoia, it is critical that as preparers, auditors or regulator, we work together to ensure that reliable and trusted financial information is made easily available to market users, who can sleep well at night knowing that their business decisions are supported by trusted data.

36 People with the integrity, right skills and expertise, robust processes and reliable tools will go a long way in strengthening the financial reporting function.

37 On this note, I wish everyone a fruitful and rewarding forum. Thank you.