RECOMMENDED ACCOUNTING PRACTICE **RAP 7**

Reporting Framework for Investment Funds

The Statement of Recommended Accounting Practice, RAP 7, was first approved by the Council of the Institute of Singapore Chartered Accountants (ISCA) (formerly known as Institute of Certified Public Accountants of Singapore) in March 2002. It was then revised and approved by the Council of ISCA, and reissued in January 2004, May 2005, June 2012, and June 2016 respectively.

This RAP was revised and approved by the Council of the ISCA and issued in December 2019.

This RAP 7 has been updated from RAP 7 (revised March 2017) for amendments to include the reporting framework for Variable Capital Companies (“VCCs”).

RECOMMENDED ACCOUNTING PRACTICE 7
REPORTING FRAMEWORK FOR INVESTMENT FUNDS

(Effective for annual periods beginning on or after 1 July 2020)

CONTENTS

RECOMMENDED ACCOUNTING PRACTICE **RAP 7**

Foreword

This statement of Recommended Accounting Practice (”RAP”) was first approved in 2002 and is based on the Statement of Recommended Practice (“SORP”) on Financial Statements of authorised unit trusts schemes issued by the Investment Management Regulatory Organisation Limited (“IMRO”) in the United Kingdom. This RAP was subsequently revised in 2004 and 2005 based on the SORP on Financial Statements of Authorised Funds issued by the Investment Management Association (“IMA”) in the United Kingdom. The Institute acknowledges its gratitude to both IMRO and IMA.

This RAP sets out recommendations on the way in which the financial statements of investment funds should be prepared. This RAP is intended to be applicable to all authorised unit trusts and authorised Variable Capital Companies (“VCCs") in the Republic of Singapore, regardless of their constitution, size or complexity. Managers, directors and trustees, where appropriate, are encouraged to comply with the recommendations set out in this RAP.

For the purposes of this RAP 7,

(a) an authorised unit trust is a collective investment scheme constituted in Singapore and authorised by the Monetary Authority of Singapore under Section 286 of the Securities and Futures Act (Chapter 289) or any other unit trust that elects to adopt RAP 7 in the preparation of its financial statements. The Code on Collective Investment Schemes requires authorised unit trusts and authorised VCCs to prepare their annual and semi-annual financial statements in the manner prescribed under RAP 7.

(b) a VCC is a body corporate incorporated in Singapore by forming one or more collective investment schemes. It is regulated by the Variable Capital Companies Act which is administered by the Accounting and Corporate Regulatory Act (“ACRA”). The Variable Capital Companies Act provides an option for authorised VCCs to prepare financial statements under RAP7.

Introduction

Status

1 This statement of Recommended Accounting Practice (“RAP”) sets out recommendations as to how the managers of a unit trust authorised by the Monetary Authority of Singapore (“MAS”), including unit trusts registered with the Central Provident Fund Board (“CPF”) should prepare the unit trust’s financial statements for unitholders, and how directors should prepare its financial statements for VCCs.

2 This RAP is issued by the Institute of Singapore Chartered Accountants (“ISCA”) in consultation with the Investment Management Association of Singapore (“IMAS”).

3 Managers of unit trusts are required to comply with the Securities and Futures Act (Chapter 289), its subsidiary legislation and the Code on Collective Investment Schemes (“Code”) issued by MAS, and where applicable, guidelines issued by the CPF (collectively referred to as the “Regulations and Guidelines”). They are also required to comply with the provisions of the trust deeds governing the respective unit trusts.

A VCC must be managed by a fund manager registered or licensed by the MAS, unless exempted under section 99(1) (a),(b),(c) or (d) of the Securities and Futures Act (Cap. 289) (“SFA”), and subject to Anti-Money Laundering/Countering the Financing of Terrorism (“AML/CFT”) procedures, which would be supervised by MAS for compliance.

4 The recommendations of this RAP have been arrived at taking into consideration the accounting standards in force.

General Accounting Recommendations

5 Accounting policies should generally comply with the principles relating to recognition and measurement of the Singapore Financial Reporting Standards (“FRSs”) issued by the Accounting Standards Council, unless prescribed by RAP 7. Appropriate disclosure of the accounting policies should be made in the notes to the financial statements.

Other Regulations and Guidelines

6 For unit trusts, the recommendations of this RAP should be read in conjunction with the Code and any Regulations and Guidelines relating to unit trusts which are in force. For VCCs, the recommendations of this RAP should be read in conjunction with the Code and Variable Capital Companies Act. The financial statements of a unit trust or VCC should state whether they have been prepared in accordance with RAP 7.

In the extremely rare circumstances in which the managers and trustees, or directors conclude that compliance with a requirement in this RAP would be so misleading that it would conflict with the objective of financial statements set out in the Framework of FRS, the unit trust or VCC shall depart from that requirement in the manner set out in paragraph 7 if the relevant regulatory framework requires, or otherwise does not prohibit, such a departure.

7 When a unit trust or VCC departs from a requirement of this RAP in accordance with paragraph 6, it shall disclose:

(a) that the managers and trustees or directors have concluded that the financial statements present fairly the unit trust’s or VCC’s financial position and total return for the period/year ended;
(b) that it has complied with RAP 7 except that it has departed from a particular requirement to achieve a fair presentation;
(c) the nature of the departure, including the treatment that RAP 7 would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in the Framework of FRS, and the treatment adopted; and
(d) for each period presented, the financial impact of the departure on each item in the financial statements that would have been reported in complying with the requirement.

When a unit trust or VCC has departed from a requirement of RAP 7, and that departure affects the amounts recognised in the financial statements for the current period, it shall make the disclosures set out in paragraph 7(c) and (d).

8 This RAP also takes into consideration the Regulations and Guidelines relevant to the manager’s annual and interim report to unitholders/shareholders. However, the manager will need to ensure that its reports comply with the Regulations and Guidelines and with any relevant IMAS guidelines.

9 Where a VCC is concerned, the director(s) shall ensure that the annual report comply with the Variable Capital Companies Act and other relevant legislations and regulations.

Approach

10 In preparing this RAP, ISCA has been greatly assisted by a working party consisting of representatives from the accounting profession, the asset management industry, the trustees and other service providers to the industry. The approach has been to seek to give the clearest possible information to unitholders/shareholders in the light of current developments in the market place. This has led to the concept of the Statement of Total Return.

Contents of the Report

11 The main thrust has been to concentrate on the Statement of Total Return. By showing in one statement the combined return of net income and net gains/losses to the unit trust or VCC, the unitholders/shareholders will be given a complete picture of the financial performance of the unit trust or VCC during that period.

12 The annual report will contain the financial statements as set out below, together with the reports of the managers and trustees for unit trust, and directors' statement for VCC.

13 The recommendations concerning the annual and interim reports of unit trusts are set out in paragraphs 18 and 19.

Review and Future Changes

14 It is intended that this RAP will be reviewed periodically. During the period from which RAP is effective until the next re-issue of the RAP 7, the RAP will not be subject to any mandatory changes resulting from changes in accounting standards.

15 Where recommendations change as a result of changes in Regulations and Guidelines, product developments or adoption of new and/or revised FRS, the implications for this RAP may be dealt with by ISCA guidance until such time as the RAP itself is revised.

Date from which Effective

16 It is intended that the recommendations of this RAP will be applicable to unit trusts and VCCs with annual periods beginning on or after 1 July 2020.

As a transitional provision, in the first year of application, a unit trust need not provide comparative information exempted by the FRSs as specified in the transition provisions of the FRSs.

Where comparative information is not provided, a disclosure highlighting the difference in presentation should be made in the year of application.

Contents of Financial Statements

Annual Report and Financial Statements

17 The annual report to unitholders or shareholders should contain the audited financial statements and the information required to be disclosed by the Regulations and Guidelines, and where VCCs are concerned, the Variable Capital Companies Act as well. For unit trust, it should also contain the investment report prepared by the manager together with the reports of the auditor and the trustee.

The audited financial statements should contain appropriate information on the transactions in the portfolio during the period, the total return over the period, comprising net capital gains/losses and net income, and distributions for the period, the movement of the net assets attributable to unitholders/shareholders together with the value of the portfolio at the period end. The following items should be included:

- Statement of Total Return
- Statement of Financial Position
- Statement of Movements of Unitholders' Funds (for unit trust)
- Statement of Changes in Net Assets Attributable to Shareholders (for VCC)
- Statement of Portfolio
- Notes to the financial statements including material accounting policies used in preparing the financial statements

For Property Funds, the following items should be included in addition to the above:

- Statement of Cash Flows
- Distribution Statement

Pro-forma financial statements, which meet the recommendations set out in this RAP, are included in Appendix 1. In addition, a pro-forma Statement of Directors, pro-forma Statement of Changes in Net Assets Attributable to Shareholders, pro-forma Statement of Cash Flows and pro-forma Distribution Statement are set out in Appendix 2 to Appendix 5, accordingly. These pro-forma statements as set out in the Appendixes are not prescriptive. Additional disclosure is recommended to reflect any special circumstances and to ensure that the financial statements are presented fairly, in all material respects.

Interim Report and Financial Statements

18 The interim report to unitholders or shareholders should contain the interim financial statements and information required to be disclosed by the Regulations and Guidelines. It should also contain an investment report prepared by the manager.

The interim financial statements (which are not required to be audited) should be prepared using the same accounting policies and format as the annual financial statements and include the following items:

- Statement of Total Return
- Statement of Financial Position
- Statement of Movements of Unitholders' Funds (for unit trust)
- Statement of Changes in Net Assets Attributable to Shareholders (for VCC)
- Statement of Portfolio

For Property Funds, the following items should be included in addition to the above:

- Statement of Cash Flows
- Distribution Statement

Comparative figures should be given for all items in the Statement of Total Return, Statement of Financial Position, Statement of Movements of Unitholders' Funds, for sector percentage totals in the Statement of Portfolio, Statement of Changes in Net Assets Attributable to Shareholders (for VCC), Statement of Cash Flows (for Property Funds) and Distribution Statement (for Property Funds). There should be comparative figures for the same interim period in the previous financial year for the Statement of Total Return, but the last audited figures (i.e. at the end of the last full accounting period) for the other statements.

19 In preparation of the interim financial statements, a unit trust should include a disclosure (where applicable), to provide additional information that are useful for the reader of financial statements, such as the scenario when de-consolidation applied.

Statement of Total Return

20 As new products have developed, with the increasing use of financial derivatives and other complex financial instruments to meet the needs of different groups of investors, the distinction between capital and income has become increasingly blurred. As a result, comparability of performance between unit trusts and VCCs has become difficult because of the conversion of capital to income and vice versa and, therefore, the definition of income, and its subsequent distribution, has become contentious.

21 It is considered, therefore, that the best way to report to unitholders or shareholders is to provide a Statement of Total Return, which sets out the total return comprising net investment gains or losses together with income after tax.

22 The Statement of Total Return should show, with corresponding figures for the preceding equivalent period:

- Income
- Expenses
- Net income
- Net gains or losses on the value of investments and financial derivatives

23 These components will require more detailed analysis in the financial statements; examples of which are given in Appendix 1.

Income

24 Income shall include dividend income, interest income, rental income (property funds), service charges (property funds), rental/income support (property funds) and other income such as fee income from securities lending.

Expenses

25 The following expenses should be shown separately, if applicable:

- Management fee (with gross amount less rebate, if any)
- Performance fee
- Trustee fee (for unit trusts)
- Directors' fee (for VCCs)
- Valuation fee
- Custodian fee
- Audit fee

Net Income/Expense

26 The section for net income/expense should show gross income and total expenses, with details of the individual components being given either on the face of the Statement of Total Return or in the notes to the financial statements. An example of the disclosure required is included in Appendix 1.

Net Gains or Losses on the Value of Investments and Financial Derivatives

27 The investment gains or losses should be analysed to show separately the net gains/losses on investments and the net gains or losses in financial derivatives (if not already included within investments).

28 For investment in financial derivatives, the intention can be derived from the stated investment objectives of the unit trust or VCC, and the accounting treatment would normally reflect this. For example, return from financial derivatives used to protect investors' capital should be included in net gains or losses on investments in the Statement of Total Return.

There may be circumstances when this treatment is not appropriate, and it will be necessary to consider the economic substance of the transactions as a whole. In particular, where the return of the financial derivative is essentially interest (i.e. the financial derivative closely resembles a deposit arrangement), it should be included in net income in the Statement of Total Return. Whether the return is essentially interest is to be determined by reference to all the facts and circumstances of the particular case, including (but not limited to):

- the relationship with prevailing rates
- susceptibility to market fluctuations
- any evidenced intention, including the way in which the unit trust or VCC is promoted by the managers

Interest and Income on Securities

29 Interest and income on securities should be recognised when earned. Interest income on debt instruments should be recognised using the effective interest method. The effective interest is the rate that discounts future cash flows of a debt instrument to the initial cost at inception. Recognising interest income using this method automatically includes amortisation of premiums or discounts in the initial costs.

Deduction of Income Tax

30 In cases where income is received after the deduction of income tax, whether Singapore or overseas, the income should be shown gross of income tax, and the tax consequences should be shown within the tax charge.

Stock Lending

31 Any fees arising from stock lending should be recognised as income on an accrual basis.

Expenses

32 Transaction costs should be presented in expenses before net income, either as a separate line item or included as part of other expenses. These costs should not form part of the net gains/(losses) on financial instruments which are accounted for at fair value through profit or loss.

When a financial asset or financial liability is recognised initially, a unit trust or VCC shall measure it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

33 Pre-operating expenses such as incorporation expenses, professional fees, etc. should be expensed as and when incurred.

Income Tax

34 Where applicable, the following items should be separately identified within the notes to the financial statements together with any other material components of the income tax charge:

- income tax credits recovered (being the excess of income tax deducted at source over Singapore income tax payable, as a result of offsetting allowable expenses against total income)
- Singapore income tax
- overseas income tax
- adjustments in respect of prior periods

35 If necessary, an explanation of the relationship between tax expense/(credit) and accounting profit in either or both of the following forms should be disclosed within the notes to the financial statements:

(i) a numerical reconciliation between tax expense/(credit) and the product of accounting profit multiplied by the applicable tax rate(s), also disclosing the basis on which the applicable tax rate(s) is (are) computed, or

(ii) numerical reconciliation between the average effective tax rate and the applicable tax rate, also disclosing the basis on which the applicable tax rate is computed.

Overseas Income Tax

36 Overseas withholding tax on income suffered should be separately shown in the financial statements. In addition, there may be a large amount of overseas income tax recoverable under double tax treaties. There may often be a significant time lag between the receipt of the overseas dividend net of income tax and the receipt of the tax refund. Whether the distribution should assume that all tax claims will be recovered in full will depend on the circumstances and recovery experience in respect of the investments and territories involved as well as any restrictions provided in the Singapore tax legislation (e.g. for unit trusts invested overseas, the recoverable foreign tax in the form of double tax relief is restricted to the actual Singapore tax payable on that income). If provision is considered necessary owing to significant uncertainty as to receipt, this should be deducted from the amount receivable and included as part of overseas income tax. The estimated expense of recovering the income tax should also be provided for and included within expenses.

Deferred Taxation

37 There may be temporary differences between the accounting treatment of certain items and their taxation. Because it is important to maintain equity in entitlements between accounting periods, deferred taxation should be provided on all temporary differences, with details being given in the notes to the financial statements as required by FRS 12 “Income Taxes”.

Statement of Financial Position

Stock Lending Activities

38 Securities lent should be included in the financial statements as if they were registered in the name of the unit trust, and no account should be taken of any collateral held unless the recoverability of the securities lent is in doubt. In order that the unitholder is aware of the extent to which the unit trust’s securities are the subject of stock lending arrangements, disclosure should be given in a note to the financial statements of the aggregate value of securities on loan at the reporting date.

Securities Awaiting Settlement

39 Purchases and sales of investments should be accounted for on the trade date. Balances due to and due from brokers in respect of these trades should be separately shown in the Statement of Financial Position or in the notes to the financial statements under “Receivables and Payables”. Balances due to and from the same broker can be netted off only where there is a legal right of set-off and intention to set-off.

Borrowings

40 Unit trusts are permitted to borrow only in accordance with the Regulations and Guidelines and the Trust Deed. Borrowings should be shown in the Statement of Financial Position if the borrowings are secured or unsecured. For secured borrowings, the nature and carrying amount of the assets pledged as collateral should also be disclosed.

VCCs are only allowed to exercise their borrowing power in accordance with s37(2)(d) Variable Capital Companies Act applying s100 CA.

Financial Derivatives (including foreign exchange contracts)

41 Financial derivatives held by the unit trust/VCC should be stated at fair value at the reporting date. In the notes to financial statements, the aggregate nominal value of positions held on financial derivatives should be shown in the description of the item, together with the fair value.

Statement of Movements of Unitholders’ Funds/Statement of Changes in Net Assets Attributable to Shareholders

42 The unit trust/VCC shall classify the units/shares, or its component parts, on initial recognition as equity. The net assets attributable to unitholders/shareholders comprise the residual interest in the assets of the unit trust/VCC after deducting its liabilities.

43 The financial statements should contain a Statement of Movements of Unitholders’ Funds for unit trust, or Statement of Changes in Net Assets Attributable to Shareholders for VCC.

44 The Statement of Movements of Unitholders’ Funds should summarise the movements in the total value of the unit trust. This Statement reconciles the changes in net assets during the period in summary form. It draws on the Statement of Total Return for the net increase/decrease in assets attributable to the investment activities, shows the extent to which the unit trust has grown or contracted as a result of the creation or cancellation of units as well as any reduction in fund size due to distributions to unitholders during the period.

The Statement of Changes in Net Assets Attributable to Shareholders should detail the change in owners’ equity over an accounting period by presenting the movement in retained earnings and reserves comprising the shareholders’ equity, and the extent of any share issuances and redemptions during the period.

The format and content of the information to be provided is summarised in the pro-forma financial statements in Appendix 1.

Distributions

45 Accruals for distributions should be made at the point in time when the necessary approvals have been obtained and a legal or constructive obligation has been created. When the manager has the discretion to declare distributions without further approvals from the trustee or unitholders, or the directors has declare distribution for shareholders of VCCs, the distributions are accrued at the point

in time when they are appropriately authorised by the board of directors of the manager (if required by the corporate governance practices of the manager) and a legal or constructive obligation has been created. The format and content of the information to be provided about distributions is summarised in the pro-forma financial statements in Appendix 1. Details of the various types of distribution being made should be given in the notes to the financial statements.

46 If the number of units increases as a result of a capitalisation, bonus issue, rights issue or unit/share split, or decreases as a result of a reverse unit/share split, the calculation of distribution per unit/share for all periods presented shall be adjusted retrospectively. If these changes occur after the reporting period but before the financial statements are authorised for issue, the per unit/share calculations for those and any prior period financial statements presented shall be based on the new number of units/shares. The fact that per unit/share calculations reflect such changes in the number of units/shares shall be disclosed. In addition, distribution per unit/share of all periods presented shall be adjusted for the effects of errors and adjustments resulting from changes in accounting policies accounted for retrospectively.

An illustration of the retrospective adjustments to distribution per unit as a result of a bonus issue and rights issue are set out in Appendix 6.

Statement of Portfolio

Investments in Securities

47 Investments of the unit trust or VCC should be stated at fair value at the reporting date. Fair value is determined in accordance with the principles set out in FRS 113 “Fair Value Measurement”. Where applicable, income on investments should be accrued separately and the investments should be valued to exclude any element of accrued income. The value of foreign currency securities should be translated into the reporting currency at exchange rates prevailing at the reporting date.

48 If an asset or a liability measured at fair value has a bid price and an ask price, it is required that the valuation input is based on a price within the bid-ask spread that is most representative of fair value. It is allowable to use last traded, mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread. In exceptional circumstances when the last quoted price of equity securities is not used, for example when the market is suspended, the notes should describe clearly the basis of valuation applied and the reasoning behind it.

49 In most unit trusts or VCCs, the determination of the fair value of the portfolio should be reasonably straightforward since the values are readily available through published sources. Where the value cannot be readily determined, the securities should be stated at the manager’s valuation and the notes to the financial statements should include adequate details about the basis of the manager’s valuation.

50 For each holding in the portfolio, the value and the percentage (in relation to the net asset of the unit trust or VCC) of the value of the property of the unit trust or VCC that the holding represents should be shown. The percentage should also be shown for each category of holding in the investment of the unit trust or VCC. These categories should be the most appropriate in the light of the investment policy of the unit trust or VCC (e.g. industry, geography or currency). Comparative percentages for these sector statistics (rather than comparative percentages for each holding) should be given in the Statement of Portfolio. A suggested format for the Statement of Portfolio is set out in Appendix 1.

51 The Statement of Portfolio should be presented based on key segment considerations.

52 There will be a primary and secondary segment reporting. The investment objectives of the unit trust or VCC will provide guidance for determining the primary format of segment reporting. For a predominantly single-country unit trust or VCC, it will report by industry segment. Similarly, for a unit trust or VCC that invests predominantly in a particular industry, its primary reporting format will be by geographical segment.

53 If a unit trust's or VCC's primary format is geographical segment, the required secondary format is to disclose the industry segment (aggregated amount by industry and not by individual security) in a tabular form. Similarly, if the primary segment is industry segment, the required secondary format is to disclose the geographical segment (aggregated amount for each geographical segment, not listed by individual security). An illustration of the primary and secondary format reporting is set out in Appendix 1.

54 The Statement of Portfolio should distinguish between quoted and unquoted securities.

Investment in Units of another Collective Investment Scheme

55 Where a unit trust or VCC invests in shares/units of another collective investment scheme, the shares/units should be stated at fair value, as with any other investment. The valuation of units held at the reporting date should be the price within the bid-ask spread that is most representative of fair value or net asset value of the underlying fund, whichever is applicable.

Property Funds

56 A valuation for each immovable property in the trust should be conducted by the Independent Valuers of the unit trust/VCC to support the carrying values. Immovable property should be valued at fair value.

57 The name and qualifications of the valuers should be given by way of note to the financial statements, together with details of the basis of valuation of the properties, and the date of the most recent full valuation of each property.

58 The information on the individual properties held by the unit trust/VCC to be shown in the annual financial statements is set out in the Code applicable to property funds.

Notes to the Financial Statements

Financial Instruments: Disclosures

59 As a general rule, financial instruments should be disclosed and presented in accordance with generally accepted accounting principles, with reference to FRS 107 "Financial Instruments: Disclosures" and FRS 113 "Fair Value Measurement" wherever possible. Appropriate risk management policies should be disclosed and analysed in the notes to the financial statements in order to provide unitholders/shareholders with a perspective of the risk management of the unit trust or VCC in which they have invested in. An illustration of the disclosures on financial instruments is set out in Appendix 1.

60 In accordance with FRS 32 "Financial Instruments: Presentation" and FRS 107 "Financial Instruments: Disclosures", financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the fund or the counterparty.

Net Assets Attributable to Unitholders or Shareholders

61 At times, the application of different valuation policies or treatment of expenses between pricing net asset values used for the subscription and redemption of units/shares, and the accounting net asset values determined based on accounting policies adopted under the RAP 7 may result in differences between pricing net asset values per unit/share and accounting net asset values per unit/share. Where the difference is considered material, a reconciliation of net assets attributable to unitholders/shareholders per unit/share for issuing/redeeming units/shares at the reporting date and the net assets attributable to unitholders/shareholders per unit/share per the financial statements should be presented in the notes to the financial statements. An illustration of the disclosures on financial instruments is set out in Appendix 1.

62 Where there are different classes of units/shares, the investments of the unit trust or VCC remain as a single pool, and are not separately allocated to unit/share classes. Where there is a different fee structure for each class, such differences will be reflected in the price of each class and the proportion of the pool of investments attributable to each class. The price will determine the amount receivable or payable by the unit trust or VCC in respect of issues and cancellations of units/shares. The share of the unit trust's or VCC's net assets, the net asset attributable to unitholders/shareholders of each unit in each class (at the beginning and end of the period) and the distributions attributable to each class should be included in the financial statements. The different rights and terms attached to each unit/share class, including the rights on winding-up and the policy for allocating taxation and distributable income, should be summarised in the notes to the financial statements.

Related Party Transactions

63 Transactions and balances with related parties should be set out in the financial statements. Related parties will include the manager and trustee and parties by reason of their relationship with the manager and trustee. Related party transactions should be disclosed in accordance with FRS 24 "Related Party Disclosures".

Consolidation and disclosure of interests in other entities

64 A unit trust or VCC that has a controlled subsidiary should prepare consolidated financial statements, unless it fulfils the definition of "Investment Entity" as defined in FRS 110 "Consolidated Financial Statements". A unit trust or VCC that is an investment entity shall measure an investment in a subsidiary at fair value through profit or loss.

65 A unit trust or VCC, in particular, fund of funds and feeder fund will need to make an assessment of whether it meets the definition of an "Investment Entity". An Investment Entity is defined as an entity that:

(a) obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;
(b) commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
(c) measures and evaluates the performance of substantially all of its investments on a fair value basis.

A unit trust or VCC will also need to consider a set of typical characteristics. These, combined with the above definition, are intended to allow for an appropriate balance between creating a clear scope and allowing judgement in assessing whether an entity is an Investment Entity. The characteristics are:

(a) holding more than one investment;
(b) having more than one investor;
(c) having investors that are not related parties of the entity; and
(d) having ownership interests in the form of equity or similar interests.

The absence of one or more of these characteristics does not prevent the unit trust or VCC from qualifying as an Investment Entity.

66 A unit trust or VCC shall disclose information about significant judgements and assumptions it has made (and changes to those judgements and assumptions) in determining:
(a) that it has control of another entity, ie an investee as described in paragraphs 5 and 6 of FRS 110 Consolidated Financial Statements;
(b) that it has joint control of an arrangement or significant influence over another entity; and
(c) the type of joint arrangement (ie joint operation or joint venture) when the arrangement has been structured through a separate vehicle.

67 A unit trust or VCC that invests in other funds (that are unconsolidated structured entities as defined in FRS 112 “Disclosure of interests in other entities”) should disclose information that enables users of its financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

Contingent Liabilities and Commitments

68 A unit trust or VCC should disclose any outstanding contingent liabilities and commitments at the reporting date. A commitment may exist on partly paid shares, nil paid shares and warrants. Even though there may be intention to sell these shares before the calls become due, the aggregate commitment on partly paid shares, nil paid shares and warrants should be shown.

Financial Ratios

69 The ratio of expenses to average net asset value ("expense ratio") and the turnover ratio should be presented in the notes to the financial statements. The expense ratio should be calculated in accordance with the guidelines laid down by the Investment Management Association of Singapore ("IMAS"). The turnover ratio should be calculated in accordance with the guidelines laid down in the Code.

70 For interim financial statements, comparative figures for financial ratios should be computed and presented on the same basis as the current period.

APPENDIX 1

TYPICAL UNIT TRUST

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 20CY

This pro-forma report is an illustration of the annual report and financial statements of a typical unit trust.

Users for VCCs or property funds should tailor the annual report and financial statements using the appropriate disclosures.

The figures included in this pro-forma report are provided for illustrative purposes only.

(Information on service providers)

MANAGERS

DIRECTORS OF THE MANAGERS

BOARD OF DIRECTORS (Specific notation to those that are independent)

INVESTMENT ADVISERS

TRUSTEE

CUSTODIAN

REGISTRAR

INDEPENDENT VALUERS (for property funds)

AUDITORS

CONTENTS[1]

**Specimen wording not provided, as this is dealt with either by the Regulations and Guidelines or each reporting unit trust/VCC will have its own specific wording.*

[1] Users should tailor the annual report and financial statements to the appropriate disclosures for the respective funds. For VCC, Report of Trustee should be replaced with Statement of Directors; and Statement of Movements of Unitholders' Funds replaced by Statement of Changes in Net Assets Attributable to Shareholders.
Throughout this illustration, the term "unitholders" may need to be replaced by the term "shareholders".

REPORT OF THE TRUSTEE[2]

The Trustee is under a duty to take into custody and hold the assets of the Fund in trust for the unitholders. In accordance with the Securities and Futures Act (Cap. 289), its subsidiary legislation and the Code on Collective Investment Schemes, the Trustee shall monitor the activities of the Manager for compliance with the limitations imposed on the investment and borrowing powers as set out in the Trust Deed in each annual accounting period and report thereon to unitholders in an annual report.

To the best knowledge of the Trustee, the Manager has, in all material respects, managed the Fund during the period covered by these financial statements, set out on pages xx to xx, in accordance with the limitations imposed on the investment and borrowing powers set out in the Trust Deed.

For and on behalf of the Trustee

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[2] Applicable to unit trust only. For VCC, this should be replaced with Statement of Directors – See Appendix 2.

STATEMENT BY THE MANAGER

In the opinion of Fund Managers Limited, the accompanying financial statements set out on pages xx to xx, comprising the *Statement of Total Return, Statement of Financial Position, Statement of Movements of Unitholders' Funds*[3]*, Statement of Portfolio* and *Notes to the Financial Statements* are drawn up so as to present fairly, in all material respects, the financial position and the portfolio holdings of the Fund as at 31 December 20CY, and the financial performance and movements in unitholders'/shareholders' funds for the year then ended in accordance with *the recommendations of Statement of Recommended Accounting Practice 7 "Reporting Framework for Investment Funds" issued by the Institute of Singapore Chartered Accountants*. At the date of this statement, there are reasonable grounds to believe that the Fund will be able to meet its financial obligations as and when they materialise.

For and on behalf of Fund Managers Limited

____

[3] Applicable to unit trust only. For VCC, the Statement of Movements of Unitholders' Funds should be replaced with Statement of Changes in Net Assets Attributable to Shareholders.

INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS/SHAREHOLDERS OF (NAME OF FUND)

(Constituted under a Trust Deed/Constitution in the Republic of Singapore)

- This Illustrative Auditor's Report has been prepared based on the following new and revised auditing standards:
  - Singapore Standard on Auditing (SSA) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*
  - New SSA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*
  - SSA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*
  - SSA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*
  - SSA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*
- This Illustrative Auditor's Report is applicable to unit trusts or VCCs with financial periods ending on or after 15 December 2016.

Opinion

We have audited the financial statements of (Name of Fund) (the "Fund"), which comprise the *Statement of Financial Position and Statement of Portfolio as at (date), the Statement of Total Return and Statement of Movements of Unitholders' Funds*[4] for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements are properly drawn up in accordance with the recommendations of Statement of Recommended Accounting Practice 7 "Reporting Framework for Investment Funds" issued by the Institute of Singapore Chartered Accountants so as to present fairly, in all material respects, the financial position and portfolio holdings of the Fund as at (date) and the financial performance and movements in unitholders'/shareholders' funds for the year ended on that date.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the Accounting and Corporate Regulatory Authority Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

[4] Applicable to unit trust only. For VCC, the Statement of Movements of Unitholders' Funds should be replaced with Statement of Changes in Net Assets Attributable to Shareholders.

Key Audit Matters ***[Only applicable for listed funds]***

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[Description of each key audit matter in accordance with SSA 701[5].]

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

[*Reporting in accordance with the reporting requirements in SSA 720 (Revised)*[6]]

Responsibilities of the Manager/Director[7] for the Financial Statements

The Fund's Manager (the "Manager") or Director is responsible for the preparation and fair presentation of these financial statements in accordance with the recommendations of Statement of Recommended Accounting Practice 7 "Reporting Framework for Investment Funds" issued by the Institute of Singapore Chartered Accountants, and for such internal control as the Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Manager is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Manager either intends to terminate the Fund or to cease the Fund's operations, or has no realistic alternative but to do so.

The Manager's or Directors' responsibilities include overseeing the Fund's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements[8]

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit

[5] SSA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*
[6] SSA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*
[7] Throughout this illustration, the term "Manager" may need to be replaced by the term "director" or another term as appropriate.
[8] For the independent auditor's report on the financial statements of a group, please refer to paragraph 39(c) and Illustration 2 of SSA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements* for the auditor's responsibility in a group audit engagement.

evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager or Directors.
- Conclude on the appropriateness of the Manager's or Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Manager or Board of Directors (for VCC) regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

[Only applicable for listed funds] We also provide the Manager or Board of Directors (for VCC) with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

[Only applicable for listed funds] From the matters communicated with the Manager or Board of Directors (for VCC), we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

[Only applicable for listed funds] The engagement partner on the audit resulting in this independent auditor's report is (name).

_________________________ (Firm)
Public Accountants and Chartered Accountants
Singapore

________________________ (Date)

STATEMENT OF TOTAL RETURN

FOR THE YEAR ENDED 31 DECEMBER 20CY

	Note	20CY S$000	20PY S$000
Income			
Dividends		417	690
Interest		7	13
Other income		-	1
		424	704
Less: Expenses			
Management fees		344	381
Less: Management fee rebates		(20)	(30)
Performance fees		-	20
Registration fees		15	17
Trustees' fees/Directors' fees		16	18
Custody fees		10	15
Valuation fees		10	10
Audit fee		17	16
Other expenses		130	60
		522	507
Net (loss)/income		(98)	197
Net gains or losses on value of investments and financial derivatives			
Net gains/(losses) on investments		2,621	(7,415)
Net losses on financial derivatives		(775)	(619)
		1,846	(8,034)
Total return for the year before income tax		1,748	(7,837)
Less: Income tax	3	(83)	(93)
Total return for the year after income tax before distribution		1,665	(7,930)

The accompanying notes form an integral part of the financial statements

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 20CY

	Note	20CY S$000	20PY S$000
ASSETS			
Portfolio of investments		28,348	32,320
Sales awaiting settlement		1,016	311
Receivables	5	51	55
Cash and bank balances	6	124	994
Financial derivatives at fair value	8	220	149
Total assets		29,759	33,829
LIABILITIES			
Payables	7	231	141
Purchases awaiting settlement		-	189
Financial derivatives at fair value	8	45	185
Total liabilities		276	515
EQUITY			
Net assets attributable to unitholders/shareholders	9	29,483	33,314

The accompanying notes form an integral part of the financial statements

STATEMENT OF MOVEMENTS OF UNITHOLDERS' FUNDS[9]

FOR THE YEAR ENDED 31 DECEMBER 20CY

	Note	20CY S$000	20PY S$000
Net assets attributable to unitholders at the beginning of financial year		**33,314**	**48,920**
Operations			
Change in net assets attributable to unitholders resulting from operations		1,665	(7,930)
Unitholders' contributions/(withdrawals)			
Creation of units		8,186	3,018
Cancellation of units		(13,582)	(10,694)
Change in net assets attributable to unitholders resulting from net creation and cancellation of units		(5,396)	(7,676)
Distributions	4	(100)	-
Total decrease in net assets attributable to unitholders		(3,831)	(15,606)
Net assets attributable to unitholders at the end of financial year	9	29,483	33,314

The accompanying notes form an integral part of the financial statements

[9] Applicable to unit trust only. For VCC, this should be replaced by Statement of Changes in Net Assets Attributable to Shareholders – See Appendix 3.

STATEMENT OF PORTFOLIO

AS AT 31 DECEMBER 20CY

Primary	Holdings at 31 December 20CY	Fair value At 31 December 20CY S$000	Percentage of total net assets attributable to unitholders/ shareholders at 31 Dec 20CY %
By geography[10]			
Quoted			
Equities and Funds			
SINGAPORE			
Singapore A	3,000	283	0.95
Singapore B	6,000	298	1.01
Etc.		Etc.	Etc.
Total Singapore		9,901	33.58
JAPAN			
Japan A	17,000	371	1.26
Japan B	25,000	102	0.34
Etc.		Etc.	Etc.
Total Japan		12,987	44.05
UNITED STATES			
USA A	50,000	258	0.88
USA B	60,000	580	1.97
Etc.		Etc.	Etc.
Total USA		3,735	12.67
Total Equities and Funds		**26,623**	**90.3**
Debt securities			
Luxembourg			
Lux A		1,600	5.43
Accrued interest receivable on debt securities		86	0.29
Total Debt securities		1,686	5.72
Unquoted			
Equity			
SINGAPORE			
Singapore 123	20,000	39	0.13
Portfolio of investments		28,348	96.15
Other net assets/liabilities		1,135	3.85
Net assets attributable to unitholders/ shareholders		29,483	100.00

STATEMENT OF PORTFOLIO (Cont'd)

AS AT 31 DECEMBER 20CY

Primary **By geography[10] (summary)**	**Percentage of total net assets attributable to unitholders/ shareholders at 31 December 20CY** **%**	**Percentage of total net assets attributable to unitholders/ shareholders at 31 December 20PY** **%**
Quoted securities		
Singapore	33.58	49.99
Japan	44.05	29.44
United States	12.67	12.68
Luxembourg	5.72	4.91
Unquoted securities		
Singapore	0.13	-
Portfolio of investments	96.15	97.02
Other net assets/liabilities	3.85	2.98
Net assets attributable to unitholders/ shareholders	100.00	100.00

Secondary **By industry[10]**	**Fair value at 31 December 20CY** **S$000**	**Percentage of total net assets attributable to unitholders/ shareholders at 31 December 20CY** **%**	**Percentage of total net assets attributable to unitholders/ shareholders at 31 December 20PY** **%**
Financial services	15,765	53.47	52.78
Manufacturing	10,434	35.39	36.77
Telecommunications	2,149	7.29	7.47
Portfolio of investments	28,348	96.15	97.02
Other net assets/liabilities	1,135	3.85	2.98
Net assets attributable to unitholders/ shareholders	29,483	100.00	100.00

The accompanying notes form an integral part of the financial statements

[10] Primary and secondary segment reporting (i.e. by geography or by industry) is determined based on the Fund's investment objectives. See RAP 7, paragraph 52 and 53.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 20CY

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1 GENERAL

[For unit trust] (Name of the Fund) (the “Fund”) is a unit trust constituted by a Deed of Trust dated ________ together with its Supplemental Deeds thereon (thereafter referred to as “Trust Deed”) between (Name of Manager) (the “Manager”) and (Name of Trustee) (the “Trustee”). The Trust Deed is governed by the laws of the Republic of Singapore

[For VCC] (Name of Fund & Registration Number) (the “Fund”) is an/a umbrella/VCC incorporated in Singapore under the Variable Capital Companies Act and is governed by the laws of the Republic of Singapore. The VCC allows shares to be bought and sold at the NAV of the VCC.

[To include a description of the Fund, investment objectives, benchmark and other relevant information]

2 ACCOUNTING POLICIES

(a) Basis of Accounting

The financial statements have been prepared under the historical cost basis, as modified by the revaluation of financial instruments at fair value, and in accordance with the Statement of Recommended Accounting Practice 7 “Reporting Framework for Investment Funds” (“RAP 7”) revised and issued by the Institute of Singapore Chartered Accountants.

The adoption of this revised RAP 7 did not result in substantial changes to the accounting policies of the Fund and had no material effect on the amounts reported for the current or prior years, except as disclosed below:

xxxx

(b) Recognition of income

(c) Distribution policy

(d) Investments

(e) Basis of valuation of investments

(f) Foreign currency translation

(g) Financial derivatives

(h) Income tax

(i) Investment entity

(j) Structured entities

Note: The accounting policies adopted should generally comply with Singapore Financial Reporting Standards.

3. INCOME TAX

The Fund has been granted the status of Designated Unit Trust and is included in the Central Provident Fund Investment Scheme. Therefore, the following income is exempted from tax in accordance with Section 35(12) and (12A) of the Income Tax Act (Cap 134):

(a) gains or profits derived from Singapore or elsewhere from the disposal of securities;

(b) interest (other than interest for which tax has been deducted under Section 45 of the Income Tax Act);

(c) dividends derived from outside Singapore and received in Singapore;

(d) gains or profits derived from foreign exchange transactions, transactions in futures contracts, transactions in interest rate or currency forwards, swaps or option contracts and transactions in forwards, swaps or option contracts relating to any securities or financial index; and

(e) distributions from foreign unit trusts derived from outside Singapore and received in Singapore.

	20CY S$000	**20PY S$000**
Singapore income tax	15	9
Overseas income tax	73	91
Income tax credit	(5)	(3)
Adjustments in respect of prior periods	-	(2)
Deferred tax expense relating to the origination and reversal of temporary differences	-	(2)
Total income tax	83	93

4. DISTRIBUTIONS

	20CY S$000	**20PY S$000**
Interim ($xx per unit/share based on units outstanding as at xx)	75	-
Final ($xx per unit/share based on units outstanding as at	25	-
	100	-

5. RECEIVABLES

	20CY $000	20PY $000
Amount receivable for creation of units/subscription of shares	8	49
Dividends receivable	38	4
Accrued interest receivable	-	1
Other receivables	5	1
	51	55

6. CASH AND BANK BALANCES

The cash and bank balances are placed with a financial institution related to the trustee.

7. PAYABLES

	20CY S$000	20PY S$000
Amount payable for cancellation of units/redemption of shares	163	15
Accruals for expenses	32	91
Other payable	11	35
Distribution payable	25	-
	231	141

8. FINANCIAL DERIVATIVES AT FAIR VALUE

Financial derivative contracts comprise options, futures and spot and forward foreign exchange contracts due for settlement within 1 year (20PY: within 1 year) from the reporting date. The contract or underlying principal amounts of these financial derivatives and their corresponding gross fair values at the reporting date are analysed below.

		20CY	
	Notional amount	Fair value assets	Fair value liabilities
	S$000	S$000	S$000
Options purchased	8,750	63	41
Futures contracts	3,670	1	-
Foreign exchange contracts	6,998	156	4
		220	45

		20PY	
	Notional amount	Fair value assets	Fair value liabilities
	S$000	S$000	S$000
Futures contracts	10,456	87	183
Foreign exchange contracts	9,327	62	2
		149	185

9 UNITS/SHARES IN ISSUE

During the year ended 31 December the number of shares issued, redeemed and outstanding were as follows:

	20CY '000		20PY '000	
	Class A	**Class B**	**Class A**	**Class B**
Units/Shares at beginning	2,000	1,485	1,933	1,463
Units/Shares created	461	198	582	193
Units/Shares cancelled	(266)	(114)	(515)	(171)
Units/Shares at ending	2,195	1,569	2,000	1,485
Net assets attributable to unitholders/shareholders – S$ '000	**24,480**	**5,003**	**25,933**	**7,381**
Net asset value per unit/share – S$	**11.15**	**3.19**	**12.97**	**4.97**

The Fund currently offers 2 classes of units, namely Class A units and Class B units. The key differences between the two classes are…… *(The fund should disclose different rights and terms attached to each unit/share class, including the rights on winding-up and the policy for allocating taxation and distributable income)*

A reconciliation of the net assets attributable to unitholders/shareholders per unit/share per the financial statements and the net assets attributable to unitholders/shareholders per unit/share for issuing/redeeming units/shares at the financial year end date is presented below:

	20CY S$'000	**20PY S$'000**
Class A		
Net assets attributable to unitholders/shareholders per unit/share per the financial statements	xx	xx
- Effect of distribution per unit/share	xx	xx
Net assets attributable to unitholders/shareholders per unit/share for issuing/redeeming units/shares	xx	xx

	20CY S$'000	**20PY S$'000**
Class B		
Net assets attributable to unitholders/shareholders per unit/share per the financial statements	xx	xx
- Effect of distribution per unit/share	xx	xx
Net assets attributable to unitholders/shareholders per unit/share for issuing/redeeming units/shares	xx	xx

10 FINANCIAL RISK MANAGEMENT

Risk Management Objectives and Policies

The Fund's activities expose it to a variety of market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Fund's overall risk management programme seeks to minimise potential adverse effects on the Fund's financial performance. The Fund may use financial futures contracts, options and/or currency forward contracts subject to the terms of the Trust Deed/Constitution to moderate certain risk exposures. Specific guidelines on exposures to individual securities and certain industries are in place for the Fund at any time as part of the overall financial risk management to reduce the Fund's risk exposures. The Manager continually monitors the Fund's exposure to risk and appropriate procedures are in place to manage the risks.

The following is a summary of the main risks and risk management policies:

a) Market risk

Market risk is ……………..

The Fund's investments are substantially dependent on changes in market prices. The Manager monitors the Fund's investments closely so as to…

i. Price risk

The Fund's sensitivity to the market is measured using its beta, a ratio that describes how the expected return of a portfolio is correlated to the return of the financial market as a whole. The daily Fund price movements are measured against the daily price movement of the benchmark to derive the beta. As at 31 Dec 20CY, the Fund's beta is calculated based on the daily returns over the preceding 12 months for the Fund and benchmark (31 Dec 20CY is based on the daily returns over the preceding 12 months for the Fund and benchmark).

For Fund-of-funds/feeder funds with no control and no consolidation required, additional disclosure is required per FRS 112 "Disclosure of Interests in Other Entities", including but not limited to the following:

- *qualitative and quantitative information about its interests in unconsolidated structured entities, including, but not limited to, the nature, purpose, size and activities of the structured entity and how the structured entity is financed;*
- *nature of risk; and*
- *information about a unit trust's exposure to risk from involvement that it had with unconsolidated structured entities in previous periods (eg sponsoring the structured entity), even if the entity no longer has any contractual involvement with the structured entity at the reporting date.*

The table below summarises the impact of increases/decreases from the Fund's underlying investments on the Fund's net assets attributable to the unitholders/shareholders as at 31 Dec 20CY and 31 Dec 20PY. The analysis was based on the assumptions that the index components within the benchmark index increased/decreased by a reasonable possible shift, with all variables held constant and that the fair value of the Fund's investments moved according to the beta.

Benchmark	Beta for 20CY/20PY	Impact of 10% (20PY: 5%) movement in benchmark on net assets attributable to the unitholders/shareholders 20CY S$000	20PY S$000
Similarly Index Fund	1.5/1.3	4,000	1,680

ii. Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates

The tables below summarise the Fund's exposure to interest rate risks. They include the Fund's assets and liabilities at fair value, categorised by interest rate types.

<u>31 Dec 20CY</u>

	Variable rates S$000	Fixed rates S$000	Non-interest bearing S$000	Total S$000
Assets				
Portfolio of investments	1,100	586	26,662	28,348
Receivables	-	-	51	51
Cash and bank balances	124	-	-	124
Financial derivatives at fair value	-	-	220	220
Sales awaiting settlement	-	-	1,016	1,016
Total assets	1,224	586	27,949	29,759
Liabilities				
Payables	-	-	231	231
Purchases awaiting settlement	-	-	-	-
Financial derivatives at fair value	-	-	45	45
Total liabilities	-	-	276	276

31 Dec 20PY

	Variable rates S$000	Fixed rates S$000	Non-interest bearing S$000	Total S$000
Assets				
Portfolio of investments	5,818	646	25,856	32,320
Receivables	-	-	55	55
Cash and bank balances	994	-	-	994
Financial derivatives at fair value	-	-	149	149
Sales awaiting settlement	-	-	311	311
Total assets	6,812	646	26,371	33,829
Liabilities				
Payables	-	-	141	141
Purchases awaiting settlement	-	-	189	189
Financial derivatives at fair value	-	-	185	185
Total liabilities	-	-	515	515

The duration, a measure of the sensitivity of the price of a fixed income security to a change in interest for the 12 month period is 1.97 (20PY: 1.45). As of 31 Dec 20CY, should interest rates lower or rise by 1% (20PY: 1%), with all other variables remaining constant, the increase or decrease in net assets attributable to unitholders/shareholders would be $0.011 million (20PY: $0.009 million).

iii. Currency risk

The Fund operates internationally and holds both monetary and non-monetary assets denominated in currencies other than the Singapore dollar, the functional currency.

31 Dec 20CY	USD S$000	JPY S$000	SGD S$000	Others S$000	Total S$000
Assets					
Monetary assets	361	-	403	2,113	2,877
Non-monetary assets	3,735	12,987	9,940	220	26,882
Liabilities					
Monetary assets	28	-	203	-	231
Non-monetary assets	-	-	-	45	45

31 Dec 20PY	USD S$000	JPY S$000	SGD S$000	Others S$000	Total S$000
Assets					
Monetary assets	208	177	263	712	1,360
Non-monetary assets	8,810	3,699	12,908	7,052	32,469
Liabilities					
Monetary assets	1	-	140	189	330
Non-monetary assets	-	-	-	185	185

Equity/mutual fund investments are non-monetary financial assets and are exposed to both currency risk and price risk. As these financial assets are non-monetary, no separate sensitivity analysis has been performed to analyse currency risk. The impact of currency risk arising from these financial assets on the Fund's net asset value has been included in the above price risk sensitivity analysis.

The Fund's monetary assets/liabilities are measured for their sensitivity to exchange rate movements based on the balance of the monetary assets/liabilities, forecasted exchange rate movements and the net asset value of the Fund.

As at 31 Dec 20CY and 20PY, with respect to the monetary assets and monetary liabilities of the Fund, had the Singapore Dollar increased/decreased by 10% and 7% (20PY: 8% and 5%) against US Dollar and Japanese Yen, respectively, with all other variables remaining constant, the increase or decrease in net assets attributable to unitholders/shareholders would be as follows:

	USD **S$000**	**JPY** **S$000**
31 Dec 20CY	33	-
31 Dec 20PY	17	9

b) Liquidity risk

The Fund is exposed to daily redemption of units in the Fund. It therefore invests the majority of its assets in investments that are traded in an active market and can be readily disposed of.

The tables below analyse the Fund's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts in the tables are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

31 Dec 20CY

	Less than 3 months **S$000**	**3 months to 1 year** **S$000**	**More than 1 year** **S$000**
Payables	231	-	-
Financial derivatives at fair value	45	-	-

31 Dec 20CY

	Less than 3 months **S$000**	**3 months to 1 year** **S$000**	**More than 1 year** **S$000**
Payables	141	-	-
Due to brokers	189	-	-
Financial derivatives at fair value	185	-	-

c) Credit risk

Credit risk is the risk that counterparty will fail to perform contractual obligations, either in whole or in part, under a contract.

The main concentration to which the Fund is exposed arises from the Fund's investments in debt securities. The Fund is also exposed to counterparty credit risk on trading derivative products, cash and cash equivalents, amounts due from brokers and other receivable balances. For purpose of impairment assessment, Fund's assets which are measured at amortised cost are considered to have low credit risk as they are not due for payment at the end of the reporting period and there has been no significant increase in the risk of default on the receivables since initial recognition. Accordingly, for the purpose of impairment assessment for these receivables, the loss allowance is measured at an amount equal to 12-month expected credit losses (ECL). The ECL for these assets as at the end of the reporting period was 123 (20PY:321).

The Fund invests mostly in financial assets, which have an investment grade as rated by Rating Plc. The credit ratings are reviewed regularly.

All transactions in listed securities are settled/paid upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

The Fund may also enter into derivatives to manage its exposures to currency risk and price risk, including foreign exchange forward contracts and options. Hence, the Fund is also exposed to the risk that its derivatives held with counterparties may not be recoverable in the event of any default by the parties concerned. The Manager minimises the Fund's credit risk by undertaking transactions with banks that are part of banking groups with good credit-ratings assigned by international credit rating agencies.

The table below analyses the Fund's investments by credit ratings.

Debt securities by rating category	**20CY**	**20PY**
AAA/Aaa	52%	54%
AA/Aa	20%	23%
A/A	15%	13%
BBB/Baa	13%	10%

The tables below summarise the credit rating of banks and custodians (source: Rating Plc) in which the Fund's assets are held as at 31 Dec 20CY and 31 Dec 20PY.

Counter party	**20CY**	**20PY**
Custodian Plc	Aa	Aa
Bank Plc 1	A/A	A/A
Bank Plc 2	AAA	AAA

d) Capital management

The Fund's capital is represented by the net assets attributable to unitholders/shareholders. The Fund strives to invest the subscriptions of redeemable participating units in investments that meet the Fund's investment objectives while maintaining sufficient liquidity to meet unitholders'/shareholders' redemptions.

e) Fair value estimation

The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and trading securities) are based on quoted market prices at the close of trading on the reporting date. The quoted market price used for financial assets held by the Fund is the current bid price; the appropriate quoted market price for financial liabilities is the current asking price. When the Fund holds derivatives with offsetting market risks, it uses mid-market prices as a basis for establishing fair values for the offsetting risk positions and applies this bid or asking price to the net open position, as appropriate.

The Fund classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table analyses within the fair value hierarchy the Fund's financial assets and liabilities (by class) measured at fair value at 31 December 20CY and 20PY:

31 Dec 20CY

	Level 1 S$000	Level 2 S$000	Level 3 S$000	Total S$000
Assets				
Equity securities and funds	26,623	-	39	26,662
Debt securities	-	1,686	-	1,686
Derivatives	64	156	-	220
Liabilities				
Derivatives	41	4	-	45

31 Dec 20PY

	Level 1 S$000	Level 2 S$000	Level 3 S$000	Total S$000
Assets				
Equity securities and funds	25,800	-	56	25,856
Debt securities	-	6,464	-	6,464
Derivatives	87	62	-	149
Liabilities				
Derivatives	183	2	-	185

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed equities and exchange traded derivatives. The Fund does not adjust the quoted price for these instruments.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. These include investment-grade corporate bonds and over-the-counter derivatives.

Investments classified within level 3 have significant unobservable inputs, as they trade infrequently.

The level 3 equity amount consists of a single private equity position. The main inputs into the Fund's valuation model for this investment include earnings multiples and discounted cash flows.

If the earnings multiple used in the price to earnings valuation model was increased/decreased by 30% (20PY: 25%), this would have resulted in an increase/decrease in value of S$12,000 (20PY: S$14,000).

The following table presents the movement in level 3 instruments for the year ended 31 December 20CY and 20PY by class of financial instrument.

31 December 20CY

	Equity Securities S$000	Debt Securities S$000	Total S$000
Opening balance	56	-	56
Purchases	-	-	-
Transfers into Level 3	-	-	-
Gains/losses recognised in the Statement of Total Return	(17)	-	(17)
Closing balance	39	-	39

31 December 20PY

	Equity Securities S$000	Debt Securities S$000	Total S$000
Opening balance	38	-	38
Purchases	5	-	5
Transfers into Level 3	2	-	2
Gains/losses recognised in the Statement of Total Return	11	-	11
Closing balance	56	-	56

11 RELATED PARTY TRANSACTIONS

In the normal course of business of the Fund, management fees and trustee fees have been paid or are payable to the Manager and the Trustee respectively, as noted in the Statement of Total Return.

[To disclose all related party transactions in tabular form, as appropriate]

12 COMMITMENTS

The Fund has committed to acquire shares of $200,000 in an initial public offering. No amount has been paid as at the date of this financial report as the subscription allocation is yet to be determined.

13 FINANCIAL RATIOS

	20CY	20PY
Expense ratio[1]	XX%	XX%
Turnover ratio[2]	XX%	XX%

[1] The expense ratio has been computed based on the guidelines laid down by the Investment Management Association of Singapore ("IMAS"). The calculation of the expense ratio at 20CY was based on total operating expenses of S$XX (20PY: S$XX) divided by the average net asset value of $xx (20PY: S$xx) for the year. The total operating expenses do not include (where applicable) brokerage and other transaction costs, performance fee, interest expense, distribution paid out to unitholders/shareholders, foreign exchange gains/losses, front or back end loads arising from the purchase or sale of other funds and tax deducted at source or arising out of income received. The Fund does not pay any performance fee. The average net asset value is based on the daily balances.

[2] The portfolio turnover ratio is calculated in accordance with the formula stated in the Code on Collective Investment Schemes. The calculation of the portfolio turnover ratio was based on the lower of the total value of purchases or sales of the underlying investments, being purchase of S$XX (20PY: sales of S$XX) divided by the average daily net asset value of S$XX (PY:XX).

APPENDIX 2: TYPICAL STATEMENT OF DIRECTORS (FOR VCC)

STATEMENT OF DIRECTORS

The directors present their statement to the members together with the audited financial statements of [Name of the VCC] (the “Fund”) for the financial year ended 31 December 20CY.

In the opinion of the directors,

(a) the financial statements as set out on pages x to xx are drawn up so as to give a true and fair view of the financial position of the Fund as at 31 December 20CY and the financial performance, changes in equity and cash flows of the Fund for the financial year covered by the financial statements; and

(b) at the date of this statement, there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they fall due.

Directors

The directors of the Fund in office at the date of this statement are as follows:

<List of names of the persons who are the directors in office at the date of the statement>

Arrangements to enable directors to acquire shares and debentures

*

Directors’ interests in shares or debentures

*

On behalf of the directors

____

*Specimen wording not provided, as each reporting VCC will have its own specific wording.

APPENDIX 3: TYPICAL STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS (FOR VCC)

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

	Note	20CY S$000	20PY S$000
Net assets attributable to shareholders at 1 January			
Proceeds from shares issued			
Redemption of shares			
Net increase from share transactions			
Increase/(decrease) in net assets attributable to shareholders from operations			
Net assets attributable to shareholders at 31 December			

APPENDIX 4: TYPICAL STATEMENT OF CASH FLOWS (FOR PROPERTY FUNDS)

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 20CY

	20CY S$'000	20PY S$'000
Cash flows from operating activities		
Net income		
Adjustments for:		
Income tax		
Asset management fees paid/payable in units/shares		
Net finance costs		
Operating income before working capital changes		
Changes in working capital:		
Trade and other receivables		
Trade and other payables		
Security deposits		
Net cash from operating activities		
Cash flows from investing activities		
Capital expenditure on investment properties Interest received		
Purchase of investment properties		
Purchase of plant and equipment		
Net cash from/(used in) investing activities		
Cash flows from financing activities		
Distributions to unitholders/shareholders		
Interest paid		
Proceeds from interest-bearing borrowings		
Proceeds from issue of units/shares, net of expenses		
Repayment of interest-bearing borrowings		
Net cash (used in)/from financing activities		
Net (decrease)/increase in cash and cash equivalents		
Cash and cash equivalents at beginning of the year		
Cash and cash equivalents at end of the year		

APPENDIX 5: TYPICAL DISTRIBUTION STATEMENT (FOR PROPERTY FUNDS)

DISTRIBUTION STATEMENT

FOR THE YEAR ENDED 31 December 20CY

	20CY $'000	20PY $'000
Amount available for distribution to unitholders/shareholders at the beginning of the year		
Total return for the year attributable to Unitholders/shareholders before distribution		
Net tax adjustments		
Taxable income		
Tax exempt income		
Income available for distribution to unitholders/shareholders		
Amount available for distribution to unitholders/shareholders		
Distributions to unitholders/shareholders:		
Distribution of xx cents per unit/share for the period from xx to xx		
Distribution of xx cents per unit/share for the period from yy to yy		
Amount available for distribution to unitholders/shareholders at end of the year		
Distribution per unit/share (cents)		

Appendix 6: ILLUSTRATIVE EXAMPLES FOR RESTATEMENT

Example 1: Bonus Issue

	20CY	20PY
Amount distributed/to be distributed to unitholders/shareholders in respect of the financial year	$600,000	$180,000
No. of units/shares as at 30 September 20CY	200,000	
Bonus issue 1 October 20CY	2 units/shares for each unit outstanding at 30 September 20CY 200,000 x 2 = 400,000	
Distributions per unit/share 20CY	$600,000 (200,000 + 400,000)	=$1.00
Distributions per unit/share 20PY	$180,000 (200,000 + 400,000)	=$0.30

Because the bonus issue was without consideration, it is treated as if it had occurred before the beginning of 20PY, the earliest period presented.

Example 2: Rights Issue

		20CY	**20PY**
Amount distributed/to be distributed to unitholders/shareholders in respect of the financial year		$1,500,000	$1,100,000
Units outstanding before rights issue	500,000 units/shares		
Rights issue	One new unit/share for each five outstanding units/shares (100,000 new units/shares total) Exercise price: $5.00 Date of rights issue: 1 January 20CY Last date to exercise rights: 1 march 20CY		
Market price of one unit immediately before exercise on 1 March 20CY:	$11.00		
Reporting date	31 December		

Calculation of theoretical ex-rights value per unit/share

$$\frac{\text{Fair value of all outstanding units/shares before the exercise of rights + total amount received from exercise of rights}}{\text{Number of units/shares outstanding before exercise + number of units/shares issued in the exercise}}$$

$$\frac{(\$11.00 \text{ x } 500{,}000 \text{ units/shares}) + (\$5.00 \text{ x } 100{,}000 \text{ units/shares})}{500{,}000 \text{ units/shares} + 100{,}000 \text{ units/shares}}$$

Theoretical ex-rights value per unit/share = $10.00

Calculation of adjustment factor

$$\frac{\text{Fair value per unit/share before exercise of rights}}{\text{Theoretical ex-rights value per unit/share}} \quad \frac{\$11.00}{\$10.00} = 1.10$$

Calculation of distribution per unit/share

		20PY	20CY
20PY DPU as originally reported:	$\frac{\$1{,}100{,}000}{500{,}000 \text{ units/shares}}$	$2.20	
20PY DPU restated for rights issue:	$\frac{\$1{,}100{,}000}{(500{,}000 \text{ units/shares x } 1.10)}$	$2.00	
20CY DPU including effects of rights issue (Note 1):	$\frac{\$1{,}500{,}000}{600{,}000}$		$2.50

Note 1: Assuming that units at the end of the period is entitled to the distributable income for the entire period.