

News release

Global business survey finds 65% in Singapore not aware of pending lease accounting changes

Singapore, Tuesday 25, October 2011

According to research from Grant Thornton's international business report, 65% of businesses in Singapore and 54% of businesses globally are not aware of, and are therefore unprepared for, one of the most impactful global accounting changes in the past decade - moving all but short-term leases onto the balance sheet.

“Without doubt, the proposed lease accounting standard will have tremendous impact on entities of whatever size as long as there is a leasing element in the business,” commented Kon Yin Tong, Managing Partner of Foo Kon Tan Grant Thornton LLP.

“Businesses will have to understand and analyse the impact on the bottom line. The fact that many businesses are not aware and are not prepared for such a major change is worrying.”

The survey of 2,800 businesses globally was completed in early September 2011 and also found that, of those who were aware of the changes, 33% thought the change would increase cost and complexity but only 15% thought it would increase transparency. 12% of businesses indicated they would alter the way they structure leases in the future.

Awareness of the change is greatest in the US (69%), Mexico (68%) and Chile (63%), and lowest in mainland China (5%), Denmark (8%) and Turkey (14%). Amongst those aware of the change, support is strongest in Latin America (74%) and ASEAN (68%), and weakest in North America (32%). Businesses in the BRIC economies (59%) are much more supportive than their counterparts in the G7 (36%).

With the IASB and FASB set to re-expose their latest proposals early next year, Grant Thornton stresses the need for businesses to assess the impact of the potential changes and for investors to consider whether the new model will deliver the transparency they are rightly calling for.

“There is no question that a global review of lease accounting is long overdue,” said Grant Thornton International CEO Edward Nusbaum. “The lack of transparency with regard to leases has festered for years, but a major change to lease accounting is a once in a generation event and the IASB and FASB need to be patient to get things right. Our survey findings should give the Boards pause for thought as businesses are seeing costs and complexity in the proposals but are questioning whether there is any improvement in transparency. Some of the proposals we've seen could create a different set of incentives to structure leases to

achieve desired accounting outcomes. Change for the sake of change is not the goal, and a rush to a new standard could actually make things worse.

“Grant Thornton welcomes the Boards’ decision to consult publicly on their latest thinking. We desire a new standard that is practical for business – avoiding undue complexity and excessive estimation uncertainty. Investors need transparent, comprehensible information both on leasing obligations, and also on the related revenue and costs. The Boards have a difficult task, but we encourage them to look closely at two issues: first, whether the leasing proposal is sufficiently aligned with the ongoing review of revenue recognition – these areas are interrelated; second, whether they have adequately distinguished leases from other types of contract (so-called executory contracts) which, under current standards, are not generally recognised in the financial statements at all.

The most critical thing now is that affected businesses and investors engage with the process to help ensure these goals are achieved.”

The US Securities and Exchange Commission has estimated the undiscounted value of future lease payments among US listed companies alone at more than US\$1.25 trillion - an amount that is greater than the gross domestic product of many countries. Globally, the figure is far higher.

Although there are legitimate tax and legal advantages to lease financing, too many transactions have been structured for the purpose of arriving at a desired accounting treatment. The current balance sheet does not present a complete and transparent financial picture. Basic analytical tools like return on investment and debt-to-equity ratios are useless when neither the investment nor the debt is on the books. Before conducting even elementary financial statement reviews, users must look to the notes, and then make their own adjustments to published accounts based on what is, in many ways, incomplete information.

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Notes to editors

The Grant Thornton International Business Report (IBR) provides insight into the views and expectations of over 11,000 businesses per year across 39 economies. This unique survey draws upon 19 years of trend data for most European participants and nine years for many non-European economies. For more information, please visit:

www.internationalbusinessreport.com.

Data collection

The research is carried out primarily by telephone interview lasting approximately 15 minutes with the exception of Japan (postal), Philippines and Armenia (face to face), mainland China and India (mixture of face-to-face and telephone) where cultural differences dictate a tailored approach. Telephone interviews enable Grant Thornton International to conduct the exact number of recommended interviews and to be certain that the most appropriate individuals are interviewed in an organisation which meets the profile criteria.

Data collection is managed by Grant Thornton International's core research partner - Experian. Questionnaires are translated into local languages with each participating country having the option to ask a small number of country specific questions in addition to the core questionnaire. From 2011, fieldwork takes place on a quarterly basis every quarter with fieldwork lasting approximately one month and a half.

Sample

IBR is a survey of medium to large privately held businesses*. The data for this release are drawn from interviews with 2,800 businesses across the globe conducted in early September 2011.

The target respondents are chief executive officers, managing directors, chairmen or other senior executives (title dependent on what is most appropriate for the individual country) from 39 economies primarily across five sectors: manufacturing (25 per cent), services (25 per cent), retail (15 per cent) and construction (10 per cent) with the remaining 25 per cent spread across all sectors.

Locally, the sample tends to cover the sectors mentioned previously, with some countries being able to have local valid data for specific sectors or regions when the sample size is large enough.

Group/region	Economies included in IBR
Asia-Pacific (APAC)	Australia, Hong Kong, India, Japan, China (mainland), Malaysia, New Zealand, Philippines, Singapore, Taiwan, Thailand, Vietnam
Association of Southeast Asian Nations (ASEAN)	Malaysia, Philippines, Singapore, Thailand, Vietnam
BRIC	Brazil, Russia, India, China (mainland)
European Union (EU)	Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Poland, Spain, Sweden, United Kingdom
G7	Canada, France, Germany, Italy, Japan, United Kingdom, United States of America
Latin America	Argentina, Brazil, Chile, Mexico
Nordic	Denmark, Finland, Sweden
North America	Canada, United States of America
Other	Armenia, Botswana, Georgia, South Africa, Switzerland, Turkey, United Arab Emirates

*some counties may include a small proportion of listed businesses in their sample when reporting locally.

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