cutting through complexity

FINANCIAL REPORTING MATTERS

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In this issue, we feature the 2012 Budget Speech by providing an overview of the measures introduced this year and highlight how these measures can benefit businesses. We also discuss in further detail the principles and concepts of FRS 113 *Fair value measurements* and provide some insights on its potential impact on entities and financial statements.

Highlights of Budget 2012 – Measures to help businesses

Deputy Prime Minister and Minister for Finance delivered his Budget Speech for the financial year 2012 on 17 February 2012. In this section, we provide an overview of some of the measures introduced this year and highlight how these measures can benefit businesses.

Measures to help businesses

We highlight the following ten measures introduced this year that we expect would benefit most businesses in Singapore:

1. Enhancement of Productivity and Innovation Credit Scheme
2. SME Cash Grant for Companies
3. Enhancement of Special Employment Credit
4. Enhancement of Renovation and Refurbishment Deduction Scheme
5. Simplifying Capital Allowance Claims for Low-value Assets
6. Extension of Filing and Payment Deadline for Withholding Tax
7. Providing Tax Certainty on Disposal Gains from Equity Investments
8. Enhancement of Double Tax Deduction for Internationalisation Scheme
9. Introduction of Integrated Investment Allowance Scheme
10. Enhancement of Merger & Acquisition Scheme

Details of the measures are set out below.

1. Enhancement of Productivity and Innovation Credit (PIC) Scheme

Present position

Under the PIC scheme (which was first introduced in Budget 2010 and enhanced in Budget 2011), all businesses can enjoy , for the year of assessment (YA) 2011 to YA 2015, 400 percent tax deduction or allowance on up to $400,000 of their qualifying expenditure per YA incurred on each of the following six qualifying activities:

(i) Research and Development activities
(ii) Approved design projects done in Singapore
(iii) Registration of intellectual property rights (IPRs)
(iv) Acquisition of IPRs
(v) Acquisition or leasing of prescribed automation equipment
(vi) Training of employees.

The annual expenditure cap of $400,000 for each activity is pooled to give a combined cap of $800,000 for YA 2011 and YA 2012, and $1,2000,000 for YA 2013 to 2015. Any qualifying expenditure in excess of the expenditure cap will continue to enjoy 100 percent or 150 percent (for qualifying R&D expenditure incurred on R&D done in Singapore) tax deduction/ allowances under the existing tax rules.

Eligible businesses also have the option to convert 30 percent of up to $100,000 of qualifying expenditure for all six qualifying activities taken together into a non-taxable cash payout, amounting to $30,000 for each YA from YA 2011 to YA 2013. For YA 2011 and YA 2012, businesses may convert up to $200,000 of their combined qualifying expenditure. However, acquisition of automation equipment on hire purchase is not eligible for the cash payout option if the repayment straddles two or more financial years.

Please see details in the December 2010 issue and March 2011 issue of *Financial Reporting Matters*.

Budget 2012

The PIC scheme has been further enhanced as tabulated below:

	Enhancements made
Cash payout	• The conversion rate is increased to 60% (up from 30%) for up to $100,000 of qualifying expenditure per YA from YA 2013 • The option to elect for cash payout is extended to YA 2015 (previously only up to YA 2013) • The claims are allowed on a quarterly (instead of yearly) basis • The cash payout option is made available for qualifying automation equipment acquired on hire purchase with repayment schedule straddling two or more financial years
Training	• The existing requirement to obtain certification from the Workforce Development Agency and the Institute of Technical Education (ITE) for in-house training expenditure is removed for up to $10,000 qualifying in-house training expenditure per YA (with total training expenditure cap remaining unchanged at $400,000) • Principal is allowed to claim expenditure on training provided to its agents (e.g. insurance agents, financial advisers, real estate agents) subject to certain conditions
Research & development (R&D)	• Expenditure incurred on R&D cost-sharing agreements may qualify as expenditure on R&D and enjoy PIC deduction. The qualifying expenditure would be deemed to be 60% of costs incurred • The development of computer software not intended to be sold, rented, leased or hired to two or more unrelated parties may qualify as an eligible R&D activity to enjoy PIC deduction (referred to as "removal of multiple sales requirement"). However, the development of software for internal routine administration of businesses will not be considered as R&D

The above changes are effective from YA 2012 except for the increase in cash payout conversion rate (effective from YA 2013). All other existing terms and conditions of the scheme continue to apply.

IRAS will release further details by the end of June 2012.

How can businesses benefit from the enhanced PIC scheme?

✓ The increase in the cash conversion rate to 60 percent on the first $100,000 of qualifying expenditure provides a significant relief to smaller enterprises, cash strapped businesses and entities that are not paying taxes due to losses or tax exemptions.

✓ In addition to the increase in cash conversion rate, businesses are now able to claim the cash payout on a quarterly basis instead of having to wait till end of their financial year. Businesses that cannot enjoy the full benefits of the PIC tax deductions (i.e. those that have low or no taxable income) can take advantage of this cash payout option to help fund their investments in automation equipment and employee training.

✓ Businesses that acquire qualifying automation equipment on hire purchase with repayment schedules straddling two or more financial years are now eligible for the cash payout option. This gives businesses an alternative financing option for the acquisition of qualifying automation equipment.

- ✓ With the removal of the certification requirement for qualifying in-house training up to $10,000, businesses can step up on staff training without worrying about the administrative approvals for such claims.
- ✓ Businesses can now have the choice of entering into R&D cost-sharing arrangements (instead of having to undertake R&D in-house or outsource to an R&D service provider) and still get to enjoy PIC benefits.
- ✓ The removal of multiple sales requirement would especially assist businesses in the services sector where the products being offered are not tangible goods but the nature of work undertaken nonetheless involves research and innovation and quite often without a sale to two or more unrelated parties.

2. SME Cash Grant for Companies

Present position

For YA 2011, all companies and registered business trusts, regardless of their tax residency status and whether they enjoy a concessionary rate of tax, will automatically receive, after filing their YA 2011 tax return, the higher of:

- Corporate tax rebate of 20 percent on YA 2011 tax payable, capped at $10,000
- SME cash grant (which is not taxable) based on five percent of revenue for YA 2011, capped at $5,000.

Budget 2012

All companies (excluding dormant and inactive companies, trusts and Real Estate Investment Trusts) and registered business trusts will continue to receive a one-off, non-taxable SME cash grant. The cash grant is based on five percent of revenue for YA 2012, capped at $5,000. However, no corporate tax rebate is provided for YA 2012.

To enjoy the cash grant, the company must have made Central Provident Fund (CPF) contributions for at least one employee (who must not be a shareholder) during the basis period for YA 2012. Eligible companies will automatically receive the cash grant after their tax returns for YA 2012 have been filed and tax has been assessed. The cash grant may be used for set-off against tax payable.

IRAS will release more details by the end of March 2012.

How can businesses benefit from the SME cash grant?

- ✓ Although the quantum of the SME cash grant is, on the whole, not as attractive as the corporate tax rebate given in YA 2011, the SME cash grant would certainly still provide some welcome relief to businesses, especially SMEs, in the current economic climate. Businesses however can only enjoy the cash flow benefit from the SME cash grant after the submission and assessment of their income tax returns for YA 2012.

3. Enhancement of Special Employment Credit (SEC)

Present position

Under the SEC scheme which was introduced in Budget 2011, employers of Singaporean workers aged above 55 and earning up to $1,700 per month are paid a one-off SEC. The SEC given is up to 50 percent of employer CPF contributions for workers aged 55 to 60 and a higher SEC of up to 80 percent of employer CPF contributions for workers aged above 60. SEC payments are taxable in the hands of the employer.

The SEC is intended to run for three years and is applicable to employees on the payroll from January 2011 to December 2013.

Budget 2012

The SEC is enhanced as follows:

- ✓ The scheme would be in place for five years and applicable to employees on payroll from January 2012 to December 2016
- ✓ The SEC would be paid to employers who hire Singaporean workers aged above 50 and earning up to $4,000 a month
- ✓ The SEC is based on eight percent of the wages for each Singaporean worker aged above 50 and earning up to $3,000 per month. For Singaporean workers aged above 50 and earning between $3,000 and $4,000 per month, a lower amount of SEC will be given
- ✓ The scheme is extended to employers who hire Singaporean graduates from Special Education (SPED) schools, regardless of age. The actual amount of SEC to be paid depends on the income of the SPED graduate

How can businesses benefit from the enhanced SEC?

With the enhancements to SEC and in line with the Government's proposed tightening of the quota of foreign workers, employers are now enjoying enhanced tax benefits when hiring older workers as well as SPED graduates for their manpower needs.

4. Enhancement of Renovation and Refurbishment (R&R) Deduction Scheme

Present position

The R&R deduction scheme allows businesses to claim qualifying R&R costs incurred on renovating or refurbishing their business premises between 16 February 2008 to 15 February 2013. The deduction is given on a straight-line basis over three consecutive years, subject to an expenditure cap of $150,000 for every three-year period. For YA 2010 and YA 2011, businesses are given the option to claim the R&R deduction in one year instead of over three years.

Qualifying R&R costs refer to expenditure incurred on R&R works which do not qualify as revenue expenditure or plant or machinery where capital allowances apply. The R&R works should not involve structural changes for which prior approval from the Commissioner of Building Control is required. Design fees and professional fees incurred in relation to the R&R works, antiques and fine arts are not considered qualifying R&R costs.

Subject to meeting the qualifying conditions, any unutilised R&R deduction can be carried forward (to offset against income of future years) or carried back (to offset against income of the immediate preceding YA). However, the amount is not allowed to be transferred under the group relief system.

Budget 2012

As announced in Budget 2012, the R&R deduction scheme would become a permanent feature and the expenditure cap for every three-year period will be doubled to $300,000 with effect from YA 2013. IRAS has also clarified that any unutilised R&R deduction can be transferred under the group relief system with effect from YA 2013 subject to meeting the qualifying conditions.

All other existing terms and conditions of the scheme remain unchanged.

IRAS will release further details by the end of June 2012.

How can businesses benefit from the enhanced R&R deduction scheme?

- ✓ The tax savings from the R&R deduction would help businesses defray their operating costs, bringing relief in the face of increasing rental and labour costs. This is a welcome move for businesses, especially those in retail and food & beverage industries which need to constantly renovate and refresh their shop fronts to attract customers.

5. Simplifying Capital Allowance Claims for Low-value Assets

Present position

Currently, businesses may claim 100 percent write-off on each asset costing no more than $1,000, subject to a cap of $30,000 per YA on the aggregate claim on such assets. When this cap is reached, capital allowance can still be claimed based on the prescribed working life or over three years on these assets.

Budget 2012

With effect from YA 2013, the value of each asset qualifying for the 100 percent write-off is increased to no more than $5,000.

All other existing terms and conditions of the scheme remain unchanged.

IRAS will release further details by the end of June 2012.

How can businesses benefit from this tax change?

- ✓ This tax change will further ease the claim of capital allowances by businesses, as there will be a bigger pool of low-value assets which do not require the tracking of tax written down values over a few years.

6. Extension of Filing and Payment Deadline for Withholding Tax

Present position

Generally, when making certain payments (e.g. interest, licensing fees, royalties, directors' fees and remuneration, management/ technical fees, rental of movable property) to a non-resident, the payer has to withhold tax on the payments, and file and pay the tax withheld to IRAS by the 15th of the month following the date of payment to the non-resident.

Budget 2012

The deadline for filing and payment of the tax withheld to IRAS would be extended by one additional month, i.e. by the 15th of the second month following the date of payment to the non-resident.

The change will take effect for payments made to non-residents on or after 1 July 2012.

How can businesses benefit from this extension?

The extension of the filing and payment deadline would enable businesses to have more time (up to 75 days from the date of payment) to comply with the withholding tax requirements. This would ease the administrative and cash flow pressures on payers.

7. Providing Tax Certainty on Disposal Gains from Equity Instruments

Present position

Although Singapore does not impose tax on capital gains, the definition of what constitutes capital is not addressed in the Income Tax Act or other Government sources. This has historically created a great deal of uncertainty around share transactions in Singapore with the divesting company having to justify the facts and circumstances of each case in determining whether a transaction is capital (not taxable) or revenue (taxable). Factors considered include motive of seller, means of financing the purchase, length of period of ownership of the shares disposed, reasons for sale and frequency of transactions.

Budget 2012

For companies disposing of shares on or after 1 June 2012, the gains derived therefrom would not be subject to income tax if the following conditions are met:

- the divesting company holds a minimum shareholding of 20 percent in the company being disposed of; and
- the divesting company maintained the minimum shareholding for a minimum of 24 months prior to disposal.

For disposals which do not meet the above conditions, the tax treatment of the gains/ losses will continue to be determined based on the facts and circumstances of each case.

The scheme will be reviewed after five years and IRAS will release further details by 1 June 2012.

How can businesses benefit from this tax change?

✓ This tax change would provide greater certainty to corporate groups investing in Singapore, allowing better management of Singapore tax risks relating to divestments and corporate restructuring exercises.

8. Enhancement of Double Tax Deduction (DTD) for Internationalisation Scheme

Present position

Currently, businesses may claim up to 200 percent tax deduction or DTD on qualifying expenditure incurred on qualifying market expansion and investment development activities, provided prior approval is obtained from International Enterprise (IE) Singapore or Singapore Tourism Board (STB).

Budget 2012

The process of claiming DTD has been liberalised for qualifying expenditure incurred on or after 1 April 2012. Under the liberalised DTD scheme, businesses can claim tax deduction of up to 200 percent on qualifying expenditure, up to $100,000 per YA, incurred on the following activities, without the need for approval from IE Singapore or STB:

- overseas business development trips/ missions;
- overseas investment study trips/ missions;
- participation in overseas trade fairs; and
- participation in approved local trade fairs.

For DTD claims on qualifying expenditure in excess of $100,000 or incurred on other qualifying activities, businesses must still apply to IE Singapore or STB for approval, which will be granted on a case-by-case basis.

IE Singapore and STB will release further details by the end of March 2012.

How can businesses benefit from the liberalised DTD scheme?

This tax change will ease the administrative burden for businesses when venturing abroad.

9. Introduction of Integrated Investment Allowance (IIA) Scheme

Present position

Businesses may claim capital allowances if they incur capital expenditure on the provision of plant and machinery for the purpose of their own trade. Generally, capital allowances are granted if the plant and machinery are used directly by the taxpayer to produce goods for business.

Under the Integrated Industrial Capital Allowance (IICA) Incentive introduced in Budget 2003, Singapore companies that outsource certain activities such as their production activities to subsidiaries outside Singapore can claim capital allowances on their plant and machinery (used by wholly-owned subsidiaries) for projects that are approved by the Ministry of Finance. This incentive, administered by the Economic Development Board (EDB), is for an initial period of ten years and qualifying businesses may claim capital allowances on fixed capital expenditure incurred on qualifying plant and machinery during the maximum qualifying period of five years.

Budget 2012

A new incentive, IIA scheme, is introduced to provide an additional allowance (on top of capital allowances) on fixed capital expenditure incurred on or after 17 February 2012 for productive equipment placed overseas on approved projects. This new scheme would be administered by EDB and would run for five years. Following the introduction of this scheme on 17 February 2012, the current IICA incentive would be withdrawn.

How can businesses benefit from the new IIA scheme?

✓ The new IIA scheme would help defray costs of Singapore companies that outsource their production to other lower cost jurisdictions in the region. The additional allowance to be granted under the IIA scheme would serve as an incentive for Singapore companies to remain involved in the manufacturing activities conducted overseas.

10. Enhancement of Merger & Acquisition (M&A) Scheme

Present position

Under the M&A scheme introduced in Budget 2010, a company (Acquiring Company) that acquires the ordinary shares of another company (Target Company) during 1 April 2010 to 31 March 2015 is granted the following, provided that specified qualifying conditions are met:

- M&A allowance at 5 percent of up to $100 million of the acquisition value for all qualifying deals per YA; and
- stamp duty relief on the transfer of ordinary shares for qualifying M&A projects subject to a cap of $200,000 per financial year.

Qualifying M&A includes those undertaken in the following situations listed below.

- The acquiring company acquires shares of the target company either directly or through a directly and wholly-owned subsidiary (acquiring subsidiary). The acquiring subsidiary is set up for the purposes of holding shares and does not carry on a trade or business.
- The acquiring company acquires a target where either the target company or a subsidiary directly and wholly-owned by the target company satisfies the relevant conditions i.e. to carry on a trade or business and has at least three employees working for the company for at least 12 months preceding the date of the M&A.

Please see details in the September 2011 issue of *Financial Reporting Matters*.

Budget 2012

The M&A scheme is enhanced as follows for qualifying M&A completed from 17 February 2012 to 31 March 2015:

	Enhancements made
Transaction costs	• 200% tax allowance will be granted on the transaction costs (e.g. professional fees on accounting and tax due diligence, legal fees and valuation fees) incurred on qualifying M&A, subject to an expenditure cap of $100,000 per YA • The tax allowance is to be claimed within one year
Qualifying M&A	• Acquisition through subsidiaries: The acquiring company may acquire shares of the target company through multiple tiers, instead of just one tier, of wholly-owned subsidiaries • Target company: The relevant conditions that the target company has to satisfy under the scheme may be satisfied by any of the multiple tiers of wholly-owned subsidiaries of the target company
Extension of scheme to Headquarter incentive schemes	• M&A scheme will be available, on a case-by-case basis, as an added feature for existing Headquarter incentive schemes administered by EDB • The condition that the acquiring company must be held by an ultimate holding company incorporated in, and a tax resident of, Singapore may be waived by EDB subject to conditions

[1] The Headquarter incentive schemes, administered by EDB, provide incentives to encourage companies to use Singapore as a base for conducting headquarter management activities to oversee, manage and control their regional and global operations and businesses. Such companies can enjoy a concessionary tax rate of 15 percent or lower for three to five years on incremental qualifying income from abroad. The details of the "added feature" were not announced during the Budget Speech and it remains to be seen if this feature would be automatically included under the Headquarter status or would have to be negotiated for inclusion as part of the incentive package discussion with the EDB.

All other existing terms and conditions of the scheme remain unchanged. IRAS and EDB will release further details by the end of June 2012.

How can businesses benefit from the enhanced M&A scheme?

- ✓ The 200 percent tax allowance on transaction costs will help defray costs incurred by companies carrying out qualifying M&A deals. The $100,000 annual expenditure cap effectively means tax savings of up to $34,000 per YA (based on the prevailing corporate income tax rate of 17 percent) and this could mean substantial cost savings especially for SMEs.
- ✓ The liberalisation of the parameters of what constitutes a qualifying M&A is a welcomed move as it caters to more M&A scenarios, particularly commonly used special purpose vehicles or intermediate holding companies for M&A deals.
- ✓ The extension of the M&A scheme to the Headquarter incentive schemes provides a new dimension to the M&A scheme by opening up the scheme to multi-national corporations undertaking M&A.

Other income tax changes for businesses in brief

	Income tax changes
Financial Services	– Enhancement of Liberalised Withholding Tax Exemption Regime for Specified Entities • Specified entities need not withhold tax on interest and other payments made to permanent establishments in Singapore for payments to be made from 17 February 2012 to 31 March 2021 in respect of contracts already in force before 17 February 2012, and all payments arising from contracts effective on or after 17 February 2012 to 31 March 2021 – Extension of Withholding Tax Exemption for Over-The-Counter Financial Derivative Payments • The withholding tax exemption on all payments made on qualifying over-the-counter financial derivatives will be extended to 31 March 2021 – Extension of Deductibility of Provisions for Collective Impairment Loan Losses • The tax concessions on collective impairment provisions will be extended for three years till YA 2016 or YA 2017 (depending on financial year-end of the financial institution) – Enhancement of Specified Income and Designated Investment Lists for Financial Sector Tax Incentives Schemes • The list of specified income that is applicable for the various financial sector tax incentive schemes will be revised to an exclusion list with effect from 17 February 2012. The list of designated investments will be rationalised and expanded

	Income tax changes
Real Estate Investment Trusts (REITs)	– Liberalisation of Cash Distribution Requirement for REITs • REITs that make distributions to unit holders in the form of units on or after 1 April 2012 can enjoy tax transparency, subject to certain conditions. Unit holders who elect to receive distributions in units will be taxed in the same manner as if they had received the distribution in cash
Shipping and Aviation Industry	– Maritime Sector Incentive (MSI) – Tax Exemption Certainty in Disposal Gains • With effect from 1 June 2012, qualifying ship operators and ship lessors under the MSI awards will be granted tax exemption on gains from the disposal of vessels automatically, without the need to opt for the exemption. Gains from the disposal of vessels under construction and new building contracts will also be exempt – Withholding Tax Exemption on Charter Payments on Ships • With effect from 17 February 2012, payers making bareboat, voyage and time charter payments to non-residents for the use of ships will not have to withhold tax – Enhancement of Maritime Sector Incentive – Maritime Leasing (MSI-ML) (Container) Award • MSI-ML (Container) award recipients will enjoy automatic withholding tax exemption on interest and related payments made on or after 17 February 2012 arising from loans taken to finance qualifying containers and intermodal equipment. With effect from YA 2013, they can also enjoy a concessionary tax rate of 5% or 10% on income derived from the leasing of intermodal equipment which is incidental to the leasing of qualifying containers – Extension and Enhancement of Aircraft Leasing Scheme (ALS) • The ALS will be extended to 31 March 2017. ALS award recipients will, subject to conditions, enjoy automatic withholding tax exemption on interest and qualifying payments made on or after 1 May 2012 arising from qualifying foreign loans entered into on or before 31 March 2017

Impact on 31 December 2011 year-end financial statements

If an entity's financial year ends on 31 December 2011, should the financial statements be adjusted for the effect arising from the new measures introduced during Budget 2012?

Income tax changes

Under FRS 12 *Income Taxes*, changes in income tax laws and regulations are taken into account in the measurement of current and deferred taxes from the date of substantive enactment of those changes. In Singapore, new tax measures are generally considered substantively enacted on the date of announcement by the Minister for Finance during the Budget Speech (or Budget Roundup Speech, if applicable).

If the entity's financial year ends on 31 December 2011, the measurement of current and deferred taxes **should not** take into consideration the effect of the new tax measures introduced in the 2012 Budget Statement.

Other measures

Under FRS 10 *Events after the Reporting Period*, entities should adjust the amounts recognised in its financial statements to reflect events that occur after the reporting period that provide evidence of conditions that existed at the end of the reporting period (adjusting events).

The amounts recognised in the financial statements are however, not adjusted to reflect events that occur after the reporting period that are indicative of conditions that arose after the reporting period (non-adjusting events).

The new measures are introduced during the Budget Statement 2012 and were not in place as at 31 December 2011. Therefore, they are non-adjusting events.

If the entity's financial year ends on 31 December 2011, the financial statements should not take into consideration the effect of the new measures introduced in the 2012 Budget Statement even though these measures are to be applied retrospectively to 2011.

Disclosure as subsequent event

If the authorisation of the entity's financial statements is after 17 February 2012 (the date of the Budget Speech), the entity should disclose the nature of the new measures (tax or otherwise) and an estimate of their financial effect, only when material to the financial statements, as a "subsequent event".

Find out more

For a more detailed analysis of the possible implications to businesses arising from the Budget 2012 tax measures, you can refer to KPMG's Singapore Budget 2012 at: http://www.kpmg.com/SG/en/IssuesAndInsights/ArticlesPublications/Documents/SingaporeBudget2012.pdf

For an overview of the tax changes announced in Budget 2012, you can access IRAS' website at: https://www.iras.gov.sg/irasHome/page03a.aspx?id=13120

For details of the key budget initiatives and the Budget Speech, you can access MOF's website at: http://app.singaporebudget.gov.sg/budget_2012/default.aspx

A standard for fair value measurements and disclosures

On 20 September 2011, the ASC issued FRS 113 *Fair Value Measurement*. FRS 113 replaces the fair value measurement guidance contained in individual FRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements.

FRS 113 explains 'how' to measure fair value when it is required or permitted by other FRSs. FRS 113 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. While it includes descriptions of certain valuation approaches and techniques, it does not establish standards on how valuations should be performed unless there is a quoted price in an active market for an identical asset or liability.

Scope

FRS 113 applies to assets, liabilities and an entity's own equity instruments that, under other FRSs, are required or permitted to be measured at fair value or when disclosure of fair value is provided.

Some of these FRSs for which fair value measurements are used or required in practice that would fall within the scope of FRS 113 are:

- FRS 16 *Property, Plant and Equipment* – when determining the revalued amount of an asset accounted for under the revaluation model
- FRS 36 *Impairment of Assets* – when determining the recoverable amount of an asset or a cash generating unit (CGU) using the fair value less costs to sell approach
- FRS 39 *Financial Instruments: Recognition and Measurement* – when determining the fair value of financial assets and liabilities
- FRS 40 *Investment Property* – when determining the fair value of an investment property
- FRS 103 *Business Combinations* – when determining the fair value of identifiable assets and liabilities in a purchase price allocation exercise
- FRS 105 *Non-current Assets Held for Sale and Discontinued Operations* – when determining the fair value less costs to sell of a disposal group
- FRS 107 *Financial Instruments: Disclosures* – when determining fair value of financial instruments for disclosure purposes

The standard however, **does not** apply to:

- share-based payment transactions within the scope of FRS 102 *Share-based Payment*
- leasing transactions within the scope of FRS 17 *Leases*
- measurements that are similar to but not fair value, such as net realisable value in FRS 2 *Inventories* or value in use in FRS 36 *Impairment of Assets*

Additionally, the *disclosure* requirements of FRS 113 **do not** apply to:

- plan assets measured at fair value in accordance with FRS 19 *Employee Benefits*
- retirement benefit plan investments measured at fair value in accordance with FRS 26 *Accounting and Reporting by Retirement Benefit Plans*
- assets for which their recoverable amounts are determined based on the fair value less costs to sell approach in FRS 36

Understanding 'fair value' as set out in FRS 113

Definition of fair value

FRS 113 defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date", i.e. an exit price.

A fair value measurement under FRS 113 is not an entity-specific measurement. Instead, it assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions. Therefore, a fair value measurement of an asset or liability considers the characteristics of that asset or liability (e.g., the condition and location of the asset and restrictions, if any, on its sale or use) if market participants would consider those characteristics when determining the price of the asset or liability at the measurement date.

Insights

In most cases, FRS 113 is not expected to significantly change current valuation practice.

However, this standard would likely gain prominence when IFRS 9 *Financial Instruments* becomes mandatorily effective in Singapore. Currently, certain unlisted equity investments could be accounted for at cost less impairment under FRS 39. Under IFRS 9, such measurement basis is no longer allowed and all equity investments have to be accounted for at fair value.

In Singapore, the ASC has, to date, not endorsed the adoption of IFRS 9 as FRS. When issued, FRS 113 would also apply to the fair value measurement of financial instruments within the scope of IFRS 9. To comply with IFRS 9, entities with unlisted equity investments would have to look to FRS 113 to determine the fair value of these investments.

Determining fair value under FRS 113

FRS 113 explains that a fair value measurement requires an entity to determine the following:

(a) the particular asset or liability being measured;

(b) the principal or most advantageous market in which an orderly transaction would take place for the asset or liability;

(c) for a non-financial asset, the highest and best use of the asset and whether the asset is used in combination with other assets or on a stand-alone basis; and

(d) the appropriate valuation technique(s) to use when measuring fair value. The valuation technique(s) used should maximise the use of relevant observable inputs and minimise unobservable inputs. Those inputs should be consistent with the inputs a market participant would use when pricing the asset or liability.

Principal and most advantageous market

A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place in the principal market for the asset or liability (i.e. the market with the greatest volume and level of activity for the asset or liability).

In the absence of a principal market, the transaction is assumed to take place in the most advantageous market. This is the market that maximises the amount that would be received to sell the asset or minimises the amount that would be paid to transfer the liability, after considering transaction costs and transport costs.

Absent evidence to the contrary, the principal (or most advantageous) market is assumed to be the market in which an entity normally enters into transactions for the asset or liability.

Illustrative Example 1

Facts

Company P, a company based in Singapore, holds equity shares of ABC Limited. These equity shares are accounted for as available-for-sale financial asset under FRS 39.

ABC Limited has a primary listing on Stock Exchange A, and has secondary listings on Stock Exchange B and Stock Exchange C. P normally transacts in Stock Exchange C.

	Stock Exchange A	Stock Exchange B	Stock Exchange C
Volume (annual)	30,000	8,000	10,000
Trades per month	30	8	10
Quoted bid price (also the possible fair value)	$50 per share	$48 per share	$53 per share
Brokerage fee[1]	$(1) per share	$(2) per share	$(2) per share
Net proceeds	$49 per share	$46 per share	$51 per share

[1] Consistent with current practice, transaction costs are not a component of a fair value although they are considered in determining the most advantageous market under FRS 113. However, transaction costs do not include transport costs, i.e. the costs to transport the asset to or from its principal (or most advantageous) market. If location is a characteristic of an asset (e.g. a commodity), then the price in the principal (or most advantageous market) is adjusted for any costs that would be incurred to transport the asset from its current location to that market.

The principal market for the equity shares in this example is Stock Exchange A because it has the highest volume and level of activity. The most advantageous market is Stock Exchange C because it has the highest net proceeds.

Analysis

Current standard - Under FRS 39, there is no requirement to base the fair value of an asset on prices in the principal market. However, FRS 39.AG71 states that the objective of determining fair value for a financial instrument that is traded in an active market is to arrive at the price at which a transaction would occur, at the statement of financial position date, for that instrument (i.e. without modifying or repackaging the instrument) in the **most advantageous active market to which the entity has immediate access**. If P has immediate access to all three markets, P should use the prices in Stock Exchange C, the most advantageous market, to measure its investments in ABC Limited equity shares.

FRS 113 - Under FRS 113, P is required to base the fair value of the asset on prices in Stock Exchange A when information about the volume and level of activity of each market is reasonably available and P is able to access Stock Exchange A. Pricing is taken from this market even though P does not normally transact in this market and it is not the most advantageous market. In this case, the fair value would be $50, even though P normally transacts in Stock Exchange C and could maximise net proceeds in that market.

(continued)
If P is unable to access Stock Exchange A and B, or information allowing a conclusion on which Stock Exchange has the greatest volume and level of activity is not reasonably available, then P would use the prices in Stock Exchange C, in which case, the fair value would be $53.

Insights
The above illustrative example highlights that the presumption that the principal market is the market in which the entity usually transacts will not always be appropriate. In the above example, if reliable information about volume transacted on Stock Exchange A is reasonably available, e.g. through a trade magazine or the exchange website, this information cannot be ignored.

Highest and best use and valuation premises for non-financial assets

The fair value measurement of a non-financial asset (e.g. investment property, cash generating unit, intangible asset, property, plant and equipment) considers a market participant's ability to generate economic benefits by using the non-financial asset for its highest and best use. This may be on a stand-alone basis or in combination with complementary assets or liabilities.

Highest and best use refer to the use of the non-financial asset by market participants that would maximise the value of the asset or the group of assets and liabilities, considering uses of the asset that are physically possible, legally permissible and financially feasible, as follows:
(a) A use that is physically possible takes into account the physical characteristics of the asset that market participants would take into account when pricing the asset (e.g. the location or size of a property).
(b) A use that is legally permissible takes into account any legal restrictions on the use of the asset that market participants would take into account when pricing the asset (e.g. the zoning regulations applicable to a property).
(c) A use that is financially feasible takes into account whether a use of the asset that is physically possible and legally permissible generates adequate income or cash flows (taking into account the costs of converting the asset to that use) to produce an investment return that market participants would require from an investment in that asset put to that use.

Illustrative Example 2
Facts
Company A holds a leasehold investment property. The government recently increased the plot ratio of the area for which the leasehold investment property is located.

Company A has to apply to the authority and pay a development charge to redevelop the land based on the new plot ratio.

Analysis
Current standard – Paragraph 51 of FRS 40 states that *"the fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure"*. Some may have applied this requirement and measured the fair value of the investment property based on current plot ratio.

FRS 113 – FRS 113 deleted paragraph 51 of FRS 40. It is clear that A must value the investment property based on its highest and best use from the perspective of a market participant. Given that the authority has increased the plot ratio, when determining the fair value of the investment property, A must consider whether the potential redevelopment based on the increased plot ratio reflects the highest and best use of the leasehold property from the perspective of market participants.

(continued)
If the fair value is measured based on the assumption of an increased plot ratio, then the fair value measurement should incorporate the development charges and the cost to redevelop the site, including the risk and uncertainty that such permission would not be granted.

Insights
A significant amount of guidance on fair value measurement of investment property has been deleted from FRS 40 insofar that it relates to measurement guidance that is addressed in FRS 113. FRS 113 contains guidance for all assets and liabilities rather than the investment specific guidance in FRS 40. The deletion of paragraph 51 of FRS 40 may result in changes to practice as this paragraph restricts future capital expenditure and the enhancement in benefits thereof from being included in a fair value measurement.

Liability and equity instruments

FRS 113 sets out a new hierarchy of valuation methods for liabilities and own equity instruments.

When determining the fair value of a liability or an entity's own equity instruments, FRS 113 requires the liability or the equity instrument to be measured using quoted prices for the transfer of identical or similar instruments, if available.

When such prices are not available and the instrument is held by another entity as asset, the instrument is measured from the perspective of the market participants that holds an identical instrument as an asset. Failing that, the instrument is measured using a valuation technique to value the instrument from the perspective of a market participant that owes the liability or has issued the claim on equity.

FRS 113 explicitly requires non-performance risk e.g. own credit risk to be taken into consideration when measuring the fair value of a liability.

Insights
In practice, entities in Singapore generally do not measure liabilities (except for derivative financial liabilities) and own equity instruments at fair value on a recurring basis. Therefore, the introduction of this guidance is useful, but may have limited application in practice.

Fair value at initial recognition

The transaction price to acquire an asset or to assume a liability is often referred to as the "entry price". FRS 113 requires the fair value measurements to be based on an exit price. In many cases, the entry price and the exit price are equal and therefore, the fair value at initial recognition generally equals the transaction price.

However, FRS 113 requires entities to take into account factors specific to the transaction and the asset or the liability that would indicate that the transaction price and the initial fair value might differ. These may include:
- The transaction is with related parties.
- The transaction takes place under duress or the seller is forced to accept the price in the transaction e.g. this might be the case if the seller is experiencing financial difficulty.
- The unit of account represented by the transaction price is different from the unit of account for the asset or liability measured at fair value e.g. this might be the case if the transaction price represents purchase of multiple items.
- The market in which the transaction takes place is different from the principal market (or most advantageous market).

If the transaction price is not the fair value on initial recognition, a day one gain or loss is recognised unless another FRS specify otherwise. For example, FRS 39 continues to prohibit the recognition of a day one gain or loss unless the fair value is evidenced by a quoted price in an active market for an identical asset or liability or is based on a valuation technique whose variables include only observable market data.

Valuation techniques

Various approaches available

When quoted prices in an active market for identical instruments are not available, fair value is determined using a valuation technique. The objective of using a valuation technique is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions.

The valuation technique should maximise the use of relevant observable inputs and minimise the use of unobservable inputs. Valuation techniques used to measure fair value fall into three approaches: (a) the market approach, (b) the income approach and (c) the cost approach.

Market Approach

The market approach uses prices and other relevant information generated by market transactions involving identical or comparable (i.e., similar) assets, liabilities or a group of assets and liabilities, such as a business. Examples include:

- Comparable Companies Analysis
- Comparable Transaction Analysis

The Comparable Companies Analysis provides a company's implied value in the public equity markets through analysis of comparable companies' trading and operating statistics, using market multiples such as enterprise value-to-EBITDA (earnings before interest, tax, depreciation and amortisation) ratio.

The Comparable Transaction Analysis, much like the Comparable Companies Analysis, applies multiples derived from similar or "comparable" precedent transactions (e.g. recent acquisitions or disposals of comparable companies) to the company's operating statistics.

The above techniques under the market approach are frequently considered together with the Free Cash Flow to Firm technique under the income approach (see below), to value:

- CGUs for the purpose determining the fair value less cost to sell of the CGUs under FRS 36; and
- unlisted equity investments under FRS 39.

FRS 113 does not establish requirements for specific valuation technique(s) to be used unless there is a quoted price in an active market for identical asset or liability. In some cases, only a single valuation will be appropriate to assess fair value; in other cases, however, using more than one valuation technique will be more appropriate. The fair value measurement when using multiple valuation techniques is the point within the range that is most representative of fair value in the circumstances.

Considerations of the fair value derived from different valuation techniques may increase the reliability of the resulting value conclusion. The weightings attached to the estimates arrived at using different valuation techniques are a matter of judgement, and would take into consideration, amongst other factors, an evaluation of the reliability of the resulting values and the similarity of the selected comparables.

Income Approach

The income approach converts future amounts (e.g., cash flows or income and expenses) to a single, current (i.e. discounted) amount. When the income approach is used, the fair value measurement reflects current market expectations about those future amounts. Examples include:

- Free Cash Flow to Firm (FCFF)
- Option Pricing Models
- Multi Period Excess Earnings Method

The FCFF approach values a business based on the net present value (NPV) of projected cash flows to both equity and debt providers, and requires the estimation of free cash flows during the forecast period, terminal value and discount rate to calculate the present value.

Option Pricing Models, such as the Black-Scholes-Merton model, binomial model, and trinomial model, incorporate present value techniques and are frequently used to calculate the fair value of option-based derivatives within the scope of FRS 39.

The Multi Period Excess Earnings Method is often used to measure the fair value of intangible assets, e.g. customer relationships, in a purchase price allocation exercise. This method is based on a discounted cash flow analysis and the method assumes that cash flows can only be generated from an intangible asset in conjunction with other tangible or intangible assets. In order to separate the intangible asset to be valued, hypothetical payments for the supporting assets are considered as contributory asset charges that are hypothetically included as cash outflows in the discounted cash flow analysis.

Cost Approach

The cost approach is a valuation technique that reflects the amount that would be required currently to replace or reproduce the service capacity of an asset (often referred to as current replacement or reproduction cost). Examples include:

- Net Asset Value (NAV)
- Depreciated Replacement Cost
- Reproduction Cost

The NAV method is most applicable for businesses where the value lies in the underlying assets and not the ongoing operations of the business (e.g., real estate holding companies). Net asset value is determined by marking every asset and liability on (and off) the company’s balance sheet to current market values.

The Depreciated Replacement Cost method considers how much it would cost to replace an asset of equivalent utility taking into account physical, functional and economic obsolescence or decay. It estimates the replacement cost of the required capacity rather than the actual asset. This approach is frequently used to value specialised plant and equipment in a purchase price allocation exercise.

The Reproduction Cost method is commonly used to value intangible assets such as Process Design and Technology in a purchase price allocation exercise. The underlying rationale is that the fair value of an intangible asset represents the cost, at today's prices, to build an exact replica of the intangible asset being valued. It assumes that the same quantity and quality of material and labour is utilised as when the asset was developed.

Inputs to Valuation techniques

Valuation techniques used to measure fair value shall maximise the use of relevant observable inputs and minimise the use of unobservable inputs. Observable inputs are those that are developed based on observable market data and reflect market participants' assumptions (for example, interest rate curve developed using quoted forward prices), while unobservable inputs are those for which market data are not available and which are developed based on the best available information about market participant assumptions (for example, extrapolation of observable data for 5-year maturity to a 30-year maturity).

Fair value hierarchy

FRS 113 requires a fair value hierarchy, which was introduced by FRS 107, to be applied to all fair value measurements, including fair value measurements for non-financial assets and liabilities.

The fair value hierarchy is used to prioritise the inputs to valuation techniques used to measure fair value into three levels, considering the relative subjectivity of inputs.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the fair value measurement of an asset or a liability.

FRS 113 retains the current presumption in FRS 39 that a quoted price in an active market provides the most reliable evidence of fair value and shall be used without adjustment to measure fair value whenever available.

Premiums, discounts and blockage factors

FRS 113 states that an entity shall select inputs that are consistent with the characteristics of the asset or liability that market participants would take into account in a transaction for the asset or liability. In some cases those characteristics result in the application of an adjustment, such as a premium or discount (e.g. a control premium or non-controlling interest discount). However, a fair value measurement shall not incorporate a premium or discount that is inconsistent with the unit of account in the FRS that requires or permits the fair value measurement.

Premiums or discounts that reflect size as a characteristic of the entity's holding are not permitted in a fair value measurement. An example is the application of a blockage factor that adjusts the quoted price of an asset or a liability because the market's normal daily trading volume is not sufficient to absorb the quantity held by the entity. The blockage factor is specific to the entity, not to the asset or liability itself, and therefore should not be included in a fair value measurement.

Inputs based on bid and ask prices

FRS 113 notes that when inputs are determined based on bid and ask prices, a fair value measurement should use the price in the bid-ask spread that is most representative of fair value. The use of bid prices for long positions and ask prices for short positions is permitted but not required. FRS 39 *Financial Instruments: Recognition and Measurement* has previously required the use of bid prices for asset positions and ask prices for liability positions. FRS 113 deletes this guidance and replaces it with the requirement to use the point in the bid-ask spread that is most representative of fair value.

When an entity has assets and liabilities with offsetting market risks, the current practice is to use mid-market prices as a basis for establishing fair values for the offsetting risks positions and the bid or asking price to the net open position as appropriate. This practice is largely preserved under FRS 113. Under FRS 113, if an entity manages a group of financial assets and liabilities that are measured at fair value on the basis of its net exposure to market or credit risks, it is permitted but not required to measure the fair value of the group on the basis of its net exposures to particular risks if this is in accordance with its documented strategy and information is reported on this basis to its key management personnel. The use of mid-market pricing is also not prohibited under FRS 113 if this is generally used by market participants as a practical expedient for fair value measurements within a bid-ask spread.

Disclosures

FRS 113 sets out the disclosure requirements for fair value measurements. The minimum disclosures required by FRS 113 for each class of assets and liabilities are shown in the following table.

	Recurring[1]			Non-recurring[2]			FV disclosed		
Requirement	**L1**	**L2**	**L3**	**L1**	**L2**	**L3**	**L1**	**L2**	**L3**
Fair value at end of reporting period	✓	✓	✓	✓	✓	✓			
Reasons for the measurement at fair value				✓	✓	✓			
Level within the fair value hierarchy	✓	✓	✓	✓	✓	✓	✓	✓	✓
Transfers within hierarchy and the accounting policy for determining when transfers between different levels are deemed to have occurred	✓	✓	✓						
Description of valuation techniques		✓	✓		✓	✓		✓	✓
Any changes to valuation technique and reasons		✓	✓		✓	✓		✓	✓
Quantitative information about significant unobservable inputs			✓			✓			
Reconciliation of opening and closing balance			✓						
Unrealised gains/losses from remeasurement and the line item in profit or loss in which these amounts are recognised			✓						
Description of valuation processes and policies			✓			✓			
Narrative description of the sensitivity of fair value measurement to changes in unobservable inputs			✓						
Quantitative analysis of sensitivity to changes in unobservable inputs (for financial assets and financial liabilities only)			✓						
If highest and best use of a non-financial asset differs from actual use, reasons why it differs	✓	✓	✓	✓	✓	✓	✓	✓	✓
If the liability is issued with an inseparable third-party credit enhancement (e.g. guarantee), the existence of the credit enhancement and whether it is reflected in the fair value measurement	✓	✓	✓	✓	✓	✓			
If a group of financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk meets the specified criteria in FRS 113.49, the accounting decision whether or not to use the exception in FRS 113.48 to measure the fair value on a net position basis[3]	✓	✓	✓	✓	✓	✓			

[1] Recurring fair value measurements arise from assets and liabilities measured on a fair value basis at each reporting date, e.g. investment property accounted for using the fair value model under FRS 40, held for trading financial assets, derivatives.

[2] Non-recurring fair value measurements are fair value measurements that are triggered by particular circumstances, e.g. asset or liability acquired in a business combination, or an asset being classified as held for sale.

[3] If an entity manages a group of financial assets and liabilities that are measured at fair value on the basis of its net exposure to market or credit risks, it is permitted but not required under FRS 113 to measure the fair value of the group on the basis of its net exposures to particular risks if this is in accordance with its documented strategy and information is reported on this basis to its key management personnel.

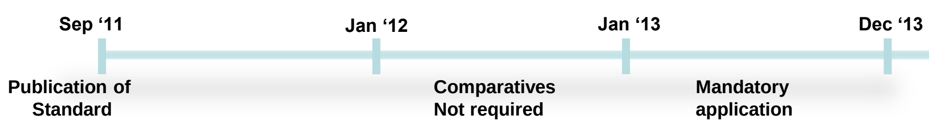
Insights
For financial instruments measured at fair value, the disclosure requirements in FRS 113 are largely similar to the current requirements in FRS 107. However, these disclosures are now extended to fair value measurements of non-financial assets and non-financial liabilities. Furthermore, the fair value hierarchy disclosure is also required for those fair value measurements disclosed in the notes to the financial statements.

We expect entities holding investment properties to be most significantly affected by the extensive disclosures as most of these disclosures are not currently required by FRS 40.

Affected entities can refer to the illustrative examples that accompany FRS 113 for examples that illustrate the possible ways to disclose the information.

Effective date

FRS 113 specifies prospective application for annual periods beginning on or after 1 January 2013. Prospective application will mean that any changes from adjustments to valuation techniques will be recognised in profit or loss in the period of adoption. Entities may be required to disclose the impact, if significant. Comparative disclosures and measurements are not required for the first period of application. The diagram below demonstrates the transitional requirements of FRS 113.



FRS 113 may be applied earlier, in which case this fact should be disclosed.

Insights
Although comparative information is not required, entities with investment properties accounted for using the fair value model under FRS 40 should take note that on first time implementation, the fair value hierarchy at the beginning of the reporting period is still required as the entity has to disclose transfers between classes of the hierarchy for recurring fair value measurements.

Find out more
First Impressions: Fair value measurement is a publication produced by KPMG International Standards Group. This publication includes a discussion of the key elements of the fair value measurement requirements and highlights the various application issues of the standard.

This publication may be downloaded free of charge at:
http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/first-impressions/Documents/first-impressions-fair-value-measurement.pdf

International developments

Draft Q&As on IFRS for SMEs published for public comments

On 21 November 2011, the SME Implementation Group (SMEIG) published two Questions & Answers (Q&As) on the International Financial Reporting Standards for Small and Medium sized Entities (IFRS for SMEs).

The draft Q&As published sought feedback on the following areas:

- in a reporting entity's consolidated financial statements, exchange differences arising on translation of a foreign subsidiary into the group presentation currency are recognised in other comprehensive income. The SMEIG proposes to clarify that such exchange differences would be prohibited from recycling to profit or loss upon disposal of the foreign subsidiary.

- in accounting for its financial instruments, a reporting entity can currently opt to apply the recognition and measurement provisions of either IAS 39 or of Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instruments Issues* of the IFRS for SMEs. IAS 39 is currently being replaced in phases by IFRS 9 *Financial Instruments*. With respect to this however, the SMEIG proposes to prohibit SMEs from applying the recognition and measurement provisions of IFRS 9.

The comment period on these draft Q&As have closed.

Final Q&As on IFRS for SMEs published

On 7 December 2011, the SMEIG published the following final Q&As on the IFRS for SMEs to help entities assess whether they are eligible to use the IFRS for SMEs in accordance with the eligibility criteria of Section 1 of the IFRS for SMEs.

- Q&A 2011/02 *Entities that typically have public accountability*
  It is not automatically assumed that all entities who hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses will be considered as publicly accountable. Judgement is required to be applied to the facts and circumstances of the entity to determine whether it is publicly accountable. A key factor in the consideration would be the extent of external (non-related) parties for whom the assets are being held.

- Q&A 2011/03 *Interpretation of 'traded in a public market'*
  A debt or equity instrument will be considered as being 'traded in a public market' when the market has a facility for trading of these instruments by buyers and sellers, and the market is accessible by a broad group of outsiders.

Entities that have public accountability, or whose debt or equity instruments are traded or to be traded in a public market, would not be eligible to use the IFRS for SMEs.

Amendments to IAS 32 Financial Instruments : Presentation – Offsetting Financial Assets and Financial Liabilities

On 16 December 2011, the IASB issued the Amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* to address the divergence in practice that existed when the offsetting criteria in IAS 32 *Financial Statements: Presentation* is applied. The amendments to IAS 32 do not change the principles of offsetting in IAS 32, but only provide further guidance on the application of these offsetting criteria.

The amendments clarify that the right of set-off must not be contingent on a future event, and must be legally enforceable in all circumstances of the entity and its counterparties, including in the event of default, insolvency or bankruptcy. The amendments further clarify that a gross settlement mechanism may be considered equivalent to net settlement when it has features that eliminate or result in insignificant credit and liquidity risk, and where the receivables and payables will be processed in a single settlement process or cycle.

The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively. Earlier application is permitted, together with the disclosures required under the Amendments to IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*.

In Singapore, the ASC has yet to issue the equivalent amendments to FRS 32 *Financial Instruments: Presentation*.

Amendments to IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities

On 16 December 2011, the IASB issued the Amendments to IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*. These amendments stipulate new disclosure requirements which are intended to enable a user to better understand, assess and compare the effect or potential effect of offsetting arrangements on a company's financial position. These disclosure requirements cover all recognised financial instruments that are:

- set-off in the statement of financial position in accordance with the offsetting criteria in IAS 32; or
- subject to master netting arrangements or similar agreements, including those that are not set-off in the statement of financial position because they do not meet the offsetting criteria in IAS 32.

The disclosures of offsetting arrangements would include the effect of any related rights to financial collateral pledged or received.

The amendments are effective for annual periods beginning on or after 1 January 2013. The required disclosures should be provided retrospectively.

In Singapore, the ASC has yet to issue the equivalent amendments to FRS 107 *Financial Instruments: Disclosures.*

Amendments to IFRS 9 and IFRS 7 Financial Instruments – Mandatory Effective Date of IFRS 9 and Transition Disclosures

On 16 December 2011, the IASB issued the Amendments to IFRS 9 and IFRS 7 *Financial Instruments – Mandatory Effective Date of IFRS 9 and Transition Disclosures*.

Under the amendments, the mandatory effective date of the IFRS 9 *Financial Instruments* chapters issued in 2009 and 2010 respectively has been deferred to annual periods beginning on or after 1 January 2015 (originally on or after 1 January 2013). However, earlier application of IFRS 9 (2009) and IFRS 9 (2010) continues to be permitted.

The amendments have also modified the transition relief given with respect to restatement of prior periods. Additional disclosures have also been stipulated to disclose the effect of the transition from IAS 39 to IFRS 9 on the classification and measurement of financial assets and financial liabilities at the date of initial application. The applicable revised requirements are as follows:

Date of initial application of IFRS 9 (reporting periods)	Restatement of prior periods	Disclosures on effect of transition
Beginning before 1 January 2012	Not required	Not required
Beginning on or after 1 January 2012 and before 1 January 2013	Entity to elect to either restate prior periods or provide transition effect disclosures	
Beginning on or after 1 January 2013	Not required	Required

In Singapore, the ASC has yet to issue these equivalent amendments.

ED/2011/7 Proposed Amendments to IFRS 10 Consolidated Financial Statements – Transition Guidance

On 20 December 2011, the IASB issued the Exposure Draft ED/2011/7 Proposed Amendments to IFRS 10 *Consolidated Financial Statements – Transition Guidance* to address a lack of clarity in the transitional requirements of IFRS 10.

The ED proposes that the date of initial application be defined as 'the beginning of the annual reporting period in which IFRS 10 is applied for the first time'. For example, an entity that is preparing its financial statements for the annual period ending 31 December 2013 and is adopting IFRS 10 for the first time would identify its date of initial application of IFRS 10 as 1 January 2013.

The ED also proposes to clarify that where the consolidation conclusion as at the date of initial application remains unchanged, then restatements of prior periods are not required. This proposed clarification would extend the scope of circumstances in which the relief from restating prior periods can be applied; for example, it now includes interests in investees that were disposed of during the comparative period, but for which the criteria for consolidation under IFRS 10 would otherwise be met at the beginning of the earliest comparative period.

The ED further proposes to clarify that any adjustments to prior periods for the differences in carrying amounts of the investees arising from the adoption of IFRS 10 would be recognised in retained earnings at the beginning of the earliest comparative period presented.

The ED proposes for the transition guidance to be effective for annual periods beginning on or after 1 January 2013.

The IASB has invited comments on the ED by 21 March 2012.

In Singapore, the ASC issued the IASB's ED on 22 December 2011. The comment period for ASC has closed.

Amendments to IFRS 1 First-time Adoption of IFRSs – Government Loans

On 13 March 2012, the IASB issued the Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Government Loans* to provide first-time adopters with an exception to the retrospective application of IAS 39/IFRS 9 *Financial Instruments* and IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* to government loans received at a below-market rate of interest.

With the amendments, a first-time adopter will not be required to re-measure previous government loans received that are at below-market rate of interest using the fair value measurement principles of IAS 39/IFRS 9. Consequently, the first-time adopter will also not recognise the benefits arising from such loans as a government grant. The carrying amount of the loan as at the date of transition to IFRS, as determined under the previous GAAP, shall be the carrying amount of the loan in the opening IFRS statement of financial position, IAS 39/IFRS 9 will then be applied in the subsequent measurement of these loans after the date of transition to IFRS.

Notwithstanding the above, a first-time adopter may apply the requirements of IAS 39/IFRS 9 and IAS 20 retrospectively to any previous government loans received at below-market rate of interest if the necessary information to determine the re-measurement had been obtained at the time of initially accounting for that loan.

On date of transition to IFRS, the first-time adopter would also need to determine and classify all government loans as a financial liability or an equity instrument in accordance with the principles of IAS 32 *Financial Instruments: Presentation*.

The amendments are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

In Singapore, the ASC has yet to issue the equivalent amendments to FRS 101 *First-time Adoption of Financial Reporting Standards*.

KPMG Seminar Series
Financial Reporting Standards
2012 Update

Date & Time:
Thursday, 10 May 2012
(0830 – 1730)

Venue:
Orchard Hotel Singapore

Registration Closing Date:
Tuesday, 1 May 2012

Enquiries:
Wong Woon Ling
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Seminar Fees:
Client/KPMG Alumni
S$480 per participant
Non-Client
S$550 per participant

Fees are inclusive of GST at the prevailing rate, seminar materials, lunch and refreshments.

Information and registration available online at kpmg.com.sg/seminar or scan the above QR code. QR scanner now available at the Apple App Store and Android Marketplace.

Please make cheque payable to KPMG Services Pte Ltd, 16 Raffles Quay, #22-00 Hong Leong Building, Singapore 048581. KPMG Services Pte Ltd will provide a tax invoice upon clearance of your cheque. Refunds will only be made if written notice is received no later than 1 May 2012. Please inform KPMG Services Pte Ltd of substitution(s) prior to the event date to avoid inconvenience. In circumstances beyond our control, we reserve the right to cancel the event, or make changes to the schedules, venue and speaker(s). Photography, audio, and/or video recording are not permitted during the event unless authorised by KPMG.

Let KPMG help you cut through the complex web of accounting developments. Join our upcoming seminar to gain a comprehensive update on the changes in accounting requirements with a focus on practical implications of the changes.

Module 1
This module covers the accounting standards that are effective in calendar years 2012 and 2013 such as:
- amendments to FRS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*
- amendments to FRS 1 *Presentation of items of Other Comprehensive Income*
- FRS 113 *Fair Value Measurement*
- FRS 110 *Consolidated Financial Statements* & FRS 27 *Separate Financial Statements*
- FRS 111 *Joint Arrangements* & FRS 28 *Investments in Associates and Joint Ventures*
- FRS 112 *Disclosure of Interests in Other Entities*
- FRS 24 *Related Party Disclosures*: Review of first disclosures under the revised standard

Module 2
Forthcoming changes in accounting requirements will be covered to help you consider the impact on your business and processes. Topics that will be covered include:
- planning for proposed changes to financial instruments accounting
- proposed overhaul of lease accounting requirements
- impact of proposed changes to recognising revenue from contracts with customers

Who Should Attend
CFOs, Financial Controllers, Accountants and those involved in the preparation and interpretation of financial statements. Users of financial information will also find this seminar beneficial.

Presenters
Reinhard Klemmer, Head of Accounting Advisory Services and the Department of Professional Practice at KPMG in Singapore, as well as members of Accounting Advisory Services at KPMG in Singapore.

Additional Benefits
- Certificates of attendance will be awarded upon successful completion of the seminar based on public accountant competency map A1.
- Organisations may enjoy **tax deductions of 400 percent** on up to S$400,000 of the training expenditure per year under the enhanced Productivity & Innovation Credit Scheme.

Accounting training can offer tax benefits

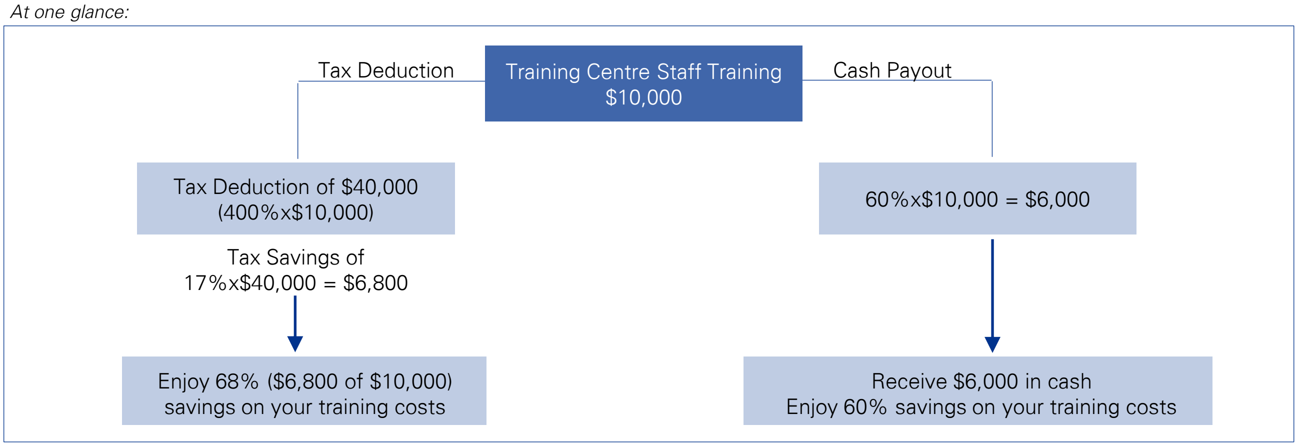
Companies investing in employee training can now enjoy both tax and cash benefits under the enhanced Productivity and Innovation Credit (PIC) scheme.

The Productivity and Innovation Credit (PIC) scheme enhanced in the recent Budget 2012 currently allows all businesses to enjoy deduction/allowances at 400 percent on up to $400,000 of their expenditure per year instead of the 100/150 percent tax deduction/allowances under the existing tax rules. Alternatively, businesses with low or no taxable income can choose to convert up to 60 percent of $100,000 of their expenditure in each YA on employee training into a non-taxable cash payout for YA 2013 to YA 2015.

KPMG's Accounting Advisory Services offers extensive IFRS and SFRS training sessions, ranging from basic accounting principles to advanced sessions on specific accounting standards that are relevant to your industry. As IFRS and SFRS adopt many of the new requirements retrospectively (i.e. as if the revised standards have always been effective), there is a greater need to stay up-to-date with the latest developments. Best practices suggest that management and finance staff alike can make informed and effective business decisions by understanding its financial and operational implications to prepare for upcoming changes.

KPMG training sessions are led by KPMG trainers who are qualified CPE programme providers. Each hour of attendance at a KPMG training session is equal to one CPE hour.

At one glance:



The above information is based on the Budget Statement for the Financial Year 2012 which was delivered in Parliament on 17 February 2012. It may be amended before enactment. For more information, please refer to http://www.iras.gov.sg/irashome/PIcredit.aspx.

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Common abbreviations

ASC	Accounting Standards Council in Singapore
ACRA	Accounting & Corporate Regulatory Authority
DP	Discussion paper
ED	Exposure Draft
FASB	U.S. Financial Accounting Standards Board
FSP	FASB Staff Position
FRS	Singapore Financial Reporting Standard
GAAP	Generally Accepted Accounting Principles
IAS	International Accounting Standard
IAASB	International Auditing and Assurance Standards Board
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
ICPAS	Institute of Certified Public Accountants of Singapore
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standard
INT FRS	Interpretation of Financial Reporting Standard
IRAS	Inland Revenue Authority of Singapore
SGX	Singapore Exchange

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