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FINANCIAL REPORTING MATTERS

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A new year, a new set of financial reporting considerations.

In 2013, one of the most significant changes to accounting standards is *FRS 113 Fair Value Measurement* coming into effect. In this issue, we highlight the top 10 questions that you should be considering in the transition to the new standard.

A Better Singapore: Quality Growth, An Inclusive Society. This was the focus for Singapore Budget 2013 that was delivered on 25 February 2013. We provide an overview of the measures introduced this year for businesses and their accounting implications. We also take an in-depth look at the Integrated Investment Allowance scheme that was introduced in Budget 2012.

In December 2012, we informed you that the review of Singapore Companies Act was completed. As promised, in this issue, we looked at how the re-write of the Act would affect you.

Contents

Have you tried the new XBRL tool?

From October 2013, most Singapore-incorporated companies will be required to file a full set of financial statements in XBRL. ACRA has provided a trial version of its new XBRL tool free of charge for members of the public to provide feedback on its usability. The closing date for the public consultation is 19 April 2013. The new tool is targeted for release in June 2013.

This is your last chance to influence the development of the tool. You may be required to file your very next set of financial statements in full in the new XBRL tool if these are not filed by 30 September 2013.

Need help with converting or mapping your financial statements to the new XBRL taxonomy?
Speak to your usual KPMG contact

1. Time for Transition: FRS 113 *Fair Value Measurement*

This article is contributed by:

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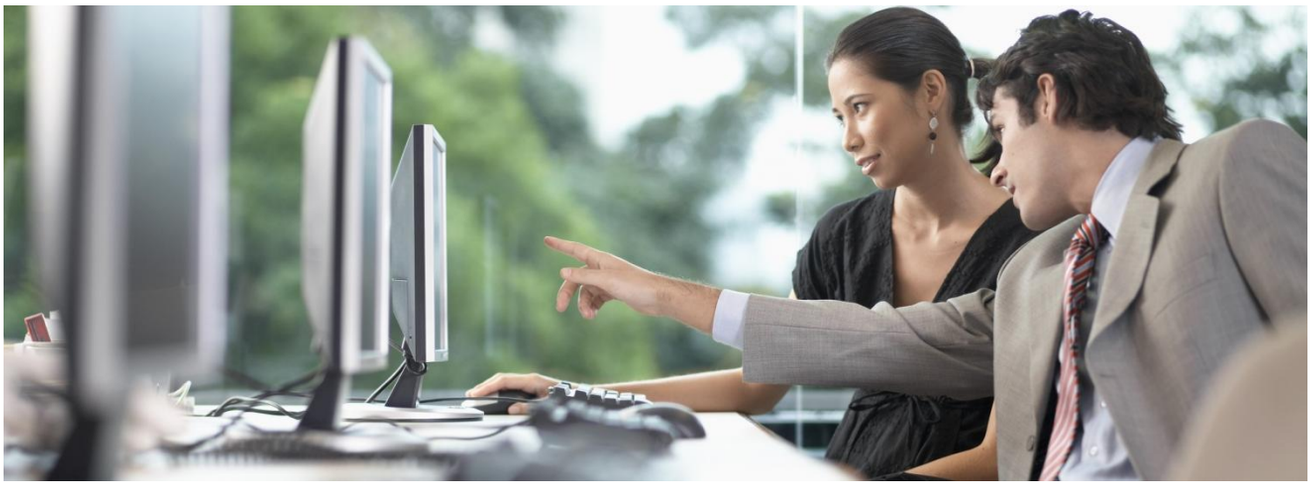


The effective date of 1 January 2013 is upon us ...

New fair value definition, new considerations

Some businesses will already have analysed the impact of applying the new fair value measurement standard FRS 113 *Fair Value Measurement*. Others may have waited until the period of application – having assumed that no real changes would be required.

However, subtle as some of the changes may be, the impact on your business may not. Therefore, the issue now requires your immediate attention.

Under the new standard, many old concepts regarding fair value have been changed.

In particular, FRS 113 now requires fair value to be measured as an exit price from the perspective of market participants in the 'principal' market, even if you normally transact in a different market.

Even if there may be no impact on your fair value measurement, FRS 113 includes new disclosure requirements that may require additional data collection. For example, information pertaining to the fair value measurement levels in the fair value hierarchy is required even if the fair value measurements are used only for disclosure purposes.

In this article, we list the top 10 questions that you should be considering in the transition to FRS 113.

Find out more

Need a recap on the principles and concepts of FRS 113 and its potential impact on entities and financial statements?

- *First Impressions: Fair Value Measurement*
- *A standard for fair value measurements and disclosures, Financial Reporting Matters, March 2012*

1. Do you have transactions for which alternative markets exist?

Fair value is measured in the principal market

Only in the absence of a principal market can fair value be measured in the 'most advantageous market'

FRS 113 includes new concepts of 'principal market' and 'most advantageous market' that an entity is able to access at the measurement date.

Fair value is measured based on the price in the principal market – i.e. the market with the greatest volume and activity.

Only in the absence of a principal market is fair value measured based on the price in the most advantageous market – i.e. the market that either 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).

Unless evidenced otherwise, the principal (or most advantageous) market is presumed to be the market in which the entity normally enters into transactions to sell the asset or transfer the liability.

If you have previously measured fair value assuming that transactions always take place in the most advantageous market , and had not searched for a principal market even if it was different from the most advantageous market, then this may require a change.

The good news is that FRS 113 does not require entities to undertake an exhaustive search for all possible markets to identify the principal market or in its absence, the most advantageous market. However, the entity should take account of all information that is reasonably available. For example, if reliable information about volumes transacted in the respective markets is available in trade magazines, then it should not be ignored.

2. Do you have derivatives?

If yes, your own credit risk should be considered

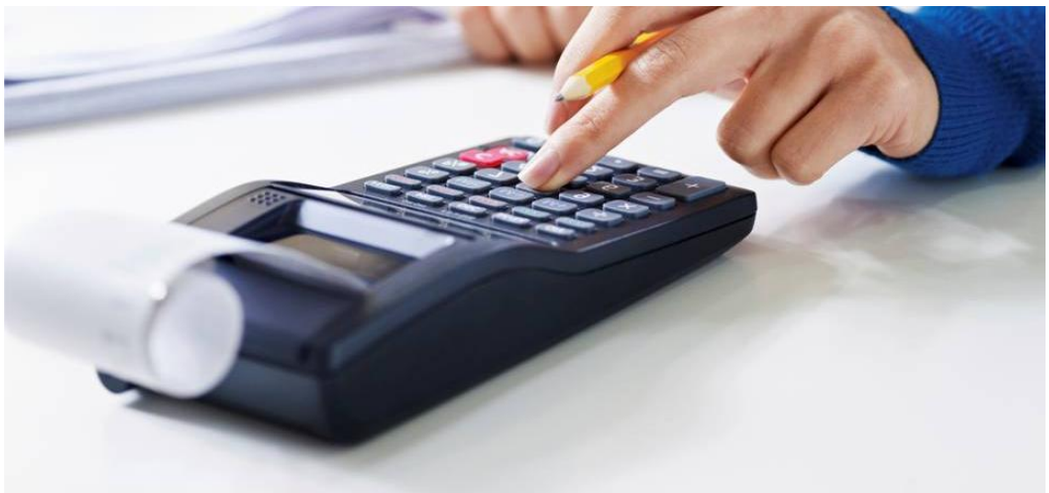
Under FRS 113, the fair value of a liability takes into account the effect of the entity's own credit risk if market participants would do so.

Previously, there has been diversity in practice regarding whether and how entities made adjustments for their own credit risk when measuring the fair value of derivatives. If you had not previously considered your own credit risk when measuring derivatives, then this may require a change.

This is especially important for derivatives that might change their classifications from being an asset to a liability or vice versa – e.g. an interest rate swap or a forward contract. For such derivatives, FRS 113 requires an entity to consider both its own and the counterparty's credit risk if market participants would do so. Therefore, the entity would need to design and implement a method for appropriately considering credit risk adjustments in valuing these derivatives. The method should consider the credit risk adjustment based on the potential for the classification of the derivative as either an asset or a liability, and not just based on its current classification.

In determining the adjustment for own credit risk, you need to consider all of the relevant characteristics that market participants would consider, such as collateral and margin requirements.

So even if your current contracts provide for collateralisation of all your derivative contracts, a review of all contractual arrangements may be necessary to be able to draw a robust conclusion on whether and how to adjust for your own credit risk.



3. Do you have hedge accounting relationships?

The fair value of a hedged item or a hedging instrument may change following the application of FRS 113 – e.g. because the measurement now includes the effect of the entity's own credit risk that was not previously considered.

Hedge effectiveness may be influenced by changes in the requirements for measuring fair value

This may lead to hedge ineffectiveness. In some cases, this may even lead to the termination of a hedging relationship if it causes the hedging relationship to fail the effectiveness requirements under FRS 39 *Financial Instruments: Recognition and Measurement* .

You should assess the effect of the application of FRS 113 on your existing as well as new hedging relationships.

4. Do you manage a group of financial assets and financial liabilities on the basis of its net exposure to either market risk(s) or credit risk?

FRS 113 permits an entity to measure the fair value of a group of financial assets and financial liabilities with offsetting risk positions on the basis of its net exposure, subject to the following conditions:

- the group is managed on the basis of the net exposure to a particular market risk (or risks) or credit risk of a particular counterparty in accordance with a documented risk management or investment strategy;
- the entity provides information to key management personnel on that basis; and
- the underlying financial assets and financial liabilities are either required, or permitted to be measured at fair value in the statement of financial position at the end of each reporting period.

There are new conditions for measuring the fair value of a group of financial assets and financial liabilities on a net basis

This may represent a change from current practice under FRS 39 because for fair value measurement on a net basis, the unit of account under FRS 113 is the entire portfolio as a whole; whereas previously under FRS 39, fair value is based on the sum of the fair values of the individual instruments.

5. Have you made any adjustments to fair value previously?

FRS 113 introduces new requirements for determining when it is appropriate to include premiums and discounts (e.g. a control premium) in a fair value measurement

FRS 113 includes new requirements regarding when it is appropriate to make an adjustment to a fair value measurement. Examples of such adjustments include control premiums, marketability or liquidity discounts and non-controlling interest discounts.

Under FRS 113, such an adjustment will generally be justified only if it is consistent with the item's unit of account. The unit of account is usually determined under the relevant standard that requires or permits the fair value measurement.

For example, it is generally not appropriate to include a control premium or block discount in a fair value measurement of an investment in equity securities if the unit of account in FRS 39 is the individual security.

However, such an adjustment may be appropriate in a valuation of an aggregate holding of securities that represents a controlling interest – e.g. in determining the fair value less costs to sell of a listed subsidiary that constitutes a cash-generating unit (CGU) for impairment testing purposes under FRS 36 *Impairment of Assets*. This is because the quoted market price is for a minority interest in the CGU.

In addition, as discussed earlier, if the fair value of a group of financial assets and financial liabilities is measured on a net basis, then the fair value is based on the price for the net risk exposure.

To determine whether an adjustment is appropriate, FRS 113 requires the entity to distinguish between the following types of characteristics of an asset or a liability.

Type of characteristic	Factors to consider	Fair value adjusted?
One that market participants would take into account in a transaction for the asset or the liability being measured Example: Collateral that is part of the contractual terms of an individual financial instrument	• Transferable to a (potential) buyer? • Imposed on a holder by regulation? • Part of the contractual terms of the asset? • Attached to the asset through a purchase contract or another commitment?	√
One that arises from the entity's holding of the asset or the liability (entity-specific), rather than of the asset or the liability itself Example: Blockage factor		×

6. Do you have fair value measurements based on bid and ask prices?

The price used within the bid-ask spread for measuring fair value may now be different

Under FRS 113, if assets and liabilities have a bid and an ask price, then the entity uses the price within the bid-ask spread that is most representative of fair value in the circumstances.

FRS 113 does not prohibit using mid-prices or other pricing conventions generally used by market participants as a practical expedient. However, it appears that the use of this practical expedient is subject to the condition that it provides a reasonable approximation of an exit price. For example, if the bid-ask spread is particularly wide, or if the applicable bid-ask spread has widened significantly for a specific asset or a specific liability, then a mid-market price may not be representative of fair value.

This may be a change from current practice because under FRS 39 the fair values of financial assets and financial liabilities were usually determined using the bid and ask prices respectively; whereas FRS 113 also permits entities to use mid prices, if not misleading.

7. Do you have investment properties?

The fair value measurement of investment property may now be different

Under FRS 113, the fair value of investment property may change as a result of the consequential amendment to FRS 40 *Investment Property*.

Under the current FRS 40, expected cash flows from planned improvements of the investment property were generally not taken into account in measuring fair value, unless it was clear that a buyer (market participant) would refurbish or redevelop the property.

Under the revised FRS 40, the effect of future capital expenditure is considered in measuring fair value, if market participants would consider the future improvement in determining the fair value of the property.

8. Do you have non-financial assets (e.g. property, plant and equipment) measured at fair value?

You now have to determine the assets' 'highest and best use'

FRS 113 explicitly introduces the concept of 'highest and best use'.

Under FRS 113, the fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use, or by selling it to another market participant who would use the asset in its highest and best use.

The highest and best use of a non-financial asset takes into account the use of the asset that is physically possible, legally permissable and financially feasible.

The good news is unless evidenced otherwise, an entity's current use of an asset is assumed to be its highest and best use. In other words, you are not required to engage in exhaustive efforts to identify other potential highest and best uses. However, if readily available market information or other factors suggest that a different use by a market participant would maximise the value of the asset, then such information should not be ignored.

When using appraisers to help you estimate fair value, you may need to update the terms of engagement with them in order for the valuation reports to continue to be useful for accounting purposes.

9. Do you fair value your liabilities or own equity instruments?

You may now be required to fair value these from the perspective of the asset holder

It is quite common that quoted prices for the transfer of an identical or a similar liability, or the entity's own equity instruments are not available. Under FRS 113, if another party holds the identical item as an asset, then the entity measures the item's fair value from the perspective of a market participant that holds the identical item as an asset (rather than a liability or equity).

In these circumstances, the entity adjusts the asset's quoted price (if any) for features that are present in the asset but not in the liability or the equity instrument, or vice versa.

For example, certain restrictions on asset transfers that are not a feature of the liability should be ignored.

10. Do you have the information for disclosure?

The new disclosure requirements should not be underestimated

FRS 113 contains a comprehensive disclosure framework that combines new disclosure requirements as well as 'old' fair value measurement disclosures previously required by other FRSs.

Some of the new disclosure requirements include:

- Fair value measurement levels in the fair value hierarchy for non-financial assets and liabilities (e.g. investment property) and for fair value measurements used only for disclosure purposes.
- Quantitative information about unobservable inputs used for fair value measurements, sensitivity to these inputs, and the inter-relationships between them.
- A reconciliation from the opening to the closing balance for recurring fair value measurements categorised as Level 3 in the fair value hierarchy. For non-financial assets and liabilities, this includes the amount of unrealised gains and losses for the period.
- Disclosures for non-financial assets whose highest and best use differs from their current use.

You may need to 'upgrade' your current systems and processes to capture the information required for the new disclosures.

How can we help?

KPMG has experience in applying the new requirements across many sectors, and can help you consider the impact on your business from accounting, tax and regulatory perspectives, as well as the impact on your systems and processes, business and people.
Speak to your usual KPMG contact

2. Highlights of Budget 2013 – Tax Measures for Businesses

This article is contributed by:

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Reinhard Klemmer
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On 25 February 2013, Deputy Prime Minister and Minister for Finance Tharman Shanmugaratnam delivered the Budget Statement for the financial year 2013. Budget 2013 sets out the strategies and directions for building a better Singapore through quality growth and an inclusive society. In this section, we provide an overview of some of the tax measures for businesses and highlight how these measures will affect you.

From the accounting perspective, you should consider these tax changes when computing the amount of current and deferred taxes if your reporting period ends after 25 February 2013. However, if your reporting period ended before 25 February 2013 (Budget Day), then the changes introduced during Budget 2013 should not affect your current and deferred tax computations.

> "The focus of Budget 2013 is on creating a better Singapore and a more inclusive society for all Singaporeans. This is a laudable goal, and demonstrates that the Government has listened carefully to feedback from all segments of society. It is heartening to see help for Singaporeans who would otherwise be left behind. We applaud the Government's efforts to encourage greater social cohesion expanding our social safety network for those in need."
>
> Mr Tham Sai Choy, Managing Partner, KPMG in Singapore

Three-year Transition Support Package

A Quality Growth Programme, which is aimed at helping businesses to upgrade, create better jobs and raise wages, was introduced in Budget 2013. Included in this Quality Growth Programme is a three-year Transition Support Package to help businesses through this period of restructuring. The package comprises the following three components:

1. Wage Credit Scheme
2. Productivity and Innovation Credit (PIC) Bonus
3. Corporate Income Tax (CIT) Rebate

We will briefly go through the above measures and provide our insights on how these measures will affect you.

Wage Credit Scheme

The Government will co-fund 40 percent of the increase in gross monthly wages effected in any year from 2013 to 2015. The co-funding will be on the portion of wage increases given to Singaporean employees earning gross monthly wages of up to $4,000, and will cover wage increases that are given in 2013 to 2015.

To qualify for co-funding in 2013, employees must be Singapore citizens who were employed for at least three months in 2012 and are on the employer's payroll for at least three months in 2013. Owners of businesses (i.e. sole-proprietors, partners of partnerships, shareholders cum directors of companies) are not considered as employees under the scheme.

Government-related entities and entities not registered in Singapore are not eligible for the scheme. Eligible employers will receive the Wage Credit automatically annually, based on the CPF contributions that they make for their employees. The first payout will be in the second quarter of 2014, and the last payout will be in 2016.

How will this affect you?

- You do not need to apply for the Wage Credit. As the first payout will only be in the second quarter of 2014, the cash flow benefit will not be immediate.
- As the Wage Credit is a co-funding of wage increase, it is a taxable revenue grant in the hands of the employers.

PIC Bonus

To encourage more businesses to invest in productivity, the PIC Bonus is introduced. Businesses that spend a minimum of $5,000 in qualifying PIC investments (net of grants and subsidies) in a YA (from YA 2013 to YA 2015) will receive a dollar-for-dollar matching cash bonus. The maximum amount of PIC Bonus available for businesses is $15,000 for all the three YAs combined, given in addition to the existing PIC benefits, and is taxable.

To be eligible for the PIC Bonus, the business (i.e. companies, sole proprietorships, partnerships) must have active business operations in Singapore and employs at least three local employees (i.e. Singaporeans or Singapore permanent residents with CPF contributions) excluding sole-proprietors, partners under contract for service and shareholders who are directors of the company.

Businesses can claim the PIC Bonus any time after the end of each financial quarter, but no later than the due date for the filing of their income tax returns for the relevant year.

How will this affect you?

- You do not need to apply for the PIC Bonus separately. The PIC Bonus will be disbursed by the IRAS from July 2013 (if claimed together in the PIC cash payout application) or from October 2013 (if claimed together in the income tax return).
- The PIC Bonus is given over and above the existing PIC benefits. For example, if you incur PIC qualifying expenditure of $10,000 in YA 2013, you will receive PIC Bonus of $10,000 on top of the existing PIC benefits of $40,000 tax deduction or allowance (or $6,000 cash payout if you opt for the cash payout).
- If you incur PIC qualifying expenditure lower than $5,000 per year, you may still avail yourself of the existing PIC benefits.

CIT Rebate

A 30 percent CIT rebate, subject to a cap of $30,000 per YA, will be granted to all companies and registered business trusts for YA 2013 to YA 2015. The CIT rebate is computed based on the tax payable amount after deducting the set-offs (e.g. double tax relief and unilateral tax credit). The rebate is however not applicable to income of a non-resident company that is subject to final withholding tax.

How will this affect you?

- The CIT rebate would relieve some cost pressures faced by companies. You need not apply for the rebate as the IRAS will compute the amount when assessing your income tax returns.
- You can immediately enjoy the cash flow benefit by factoring in the CIT rebate when you file your estimated chargeable income (ECI). If you have already filed your ECI for YA 2013, you can consider filing amended ECI to enjoy the cash flow benefit.
- To maximise the benefit of the CIT rebate, you may consider deferring your capital allowance claims or plan your group relief for YA 2013 to YA 2015.

Other Income Tax Changes for Businesses in Brief

	Income tax changes
All sectors	The PIC scheme has been further enhanced to expand the scope of automation equipment that will qualify for the PIC benefits and to include intellectual property in-licensing as a qualifying activity under the "acquisition of intellectual property" qualifying activity.
Investment holding and property development companies	The following companies that are incorporated on or after 26 February 2013 will no longer qualify for the Start-up Tax Exemption Scheme. • A company whose principal activity is that of investment holding and which derives only passive income such as rent, dividends or interest. • A company whose principal activity is that of developing properties for sale, for investment, or for both investment and sale.
Financial Services	The Financial Sector Incentive (FSI) Scheme is extended and enhanced. • The bulk of the separate awards under the FSI scheme which are expiring on 31 December 2013 will be extended for another five years to 31 December 2018. • Several enhancements and refinements will be made to the FSI scheme, including broadening of the range of incentivised activities and financial instruments for certain awards.
	The Qualifying Debt Securities (QDS) and Qualifying Debt Securities Plus (QDS+) Incentive Schemes are extended and refined. • The QDS and QDS+ incentive schemes which are expiring on 31 December 2013 will be extended for another five years to 31 December 2018. • For QDS scheme, in relation to debt securities issued during the period from 1 January 2014 to 31 December 2018, the requirement that the QDS has to be substantially arranged in Singapore will be rationalised to provide greater certainty and ease of compliance. • The QDS+ scheme will be refined to allow debt securities with standard early termination clauses to qualify, subject to conditions.
	The following two incentive schemes will be extended for another five years to 31 December 2018: • Tax Exemption on Income Derived by Primary Dealers from Trading in Singapore Government Securities • Tax Incentive Scheme for Approved Special Purpose Vehicle (ASPV) Engaged in Securitisation Transactions (ASPV Scheme).

	Income tax changes
Insurance	The Tax Exemption Scheme for Underwriting of Offshore Specialised Insurance Risks is enhanced. • With effect from 25 February 2013, tax exemption will be granted on qualifying income derived from offshore Catastrophe Excess of Loss (CAT-XOL) reinsurance layers (providing coverage for more than one risk arising from a single event and against natural perils).
	The Tax Incentive Scheme for Offshore Insurance Broking Business is extended and enhanced. • The scheme which expired on 31 March 2013 will be extended for another five years to 31 March 2018. • Insurance broking activities will be incentivised if the risks being insured or reinsured are offshore risks with effect from 1 April 2013. • With effect from 1 April 2013, a new 5%-tier award will be introduced for fees and commissions derived by businesses that provide offshore specialty insurance broking and advisory services.
	The Offshore Insurance Business Scheme for Islamic Insurance and Reinsurance will be allowed to expire. • Scheme expired on 31 March 2013. Insurers which conduct offshore Islamic insurance and reinsurance activities may apply to MAS for the existing 10% Offshore Insurance Business Scheme.
Shipping	The maximum tenure of the Maritime Sector Incentive – Approved International Shipping Enterprise (MSI-AIS) Award is extended. • The maximum tenure of the MSI-AIS award will be extended from 30 years to 40 years.
Others	The following tax incentive or deduction schemes will be allowed to expire or are withdrawn. • Deduction Scheme for Upfront Land Premium (allowed to expire for leases granted on or after 28 February 2013) • Further Tax Deduction for Relocation or Recruitment of Overseas Talent Scheme (allowed to expire on 30 September 2013) • Tax Exemption Scheme for Family-Owned Investment Holding Companies (expired on 31 March 2013) • Overseas Enterprise Incentive Scheme (withdrawn from 25 February 2013) • Approved Cyber Trader Scheme (withdrawn from 25 February 2013).

Find out more

More details on the tax changes and new initiatives unveiled in Budget 2013 are available in IRAS website or MOF website.

You may also refer to KPMG's Singapore Budget 2013 at:
http://www.kpmg.com/SG/en/IssuesAndInsights/ArticlesPublications/Documents/SingaporeBudget2013.pdf

	Accounting impact on 31 December 2012 year-end financial statements
Income tax changes	If an entity's financial year ended on 31 December 2012, should the financial statements be adjusted for the effect arising from the new measures introduced during Budget 2013? 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 ended on 31 December 2012, the measurement of current and deferred taxes should not take into consideration the effect of the new tax measures introduced in the 2013 Budget Statement.
Wage Credit Scheme and PIC Bonus	Under FRS 10 *Events after the Reporting Period*, entities should adjust the amounts recognised in their 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 Speech and were not in place as at 31 December 2012. Therefore, they are considered non-adjusting events under FRS 10. If the entity's financial year ended on 31 December 2012, the financial statements should not take into consideration the effect of these new measures even though some of these measures are to be applied retrospectively to 2012 (or YA 2013).
Disclosure as subsequent event	If the authorisation of the entity's financial statements is after 25 February 2013 (the date of the Budget Speech), the entity should disclose as a subsequent event, the nature of the new measures (tax or otherwise) and an estimate of their financial effect, if material to the financial statements.

Accounting impact on interim financial statements ended 31 March 2013

Income tax changes

If a calendar year-end entity prepares interim financial statements for the period ended 31 March 2013, the effect of the new tax measures on the opening current and deferred taxes is recognised immediately in the interim period or as an adjustment to the effective tax rate as appropriate.

Recommended accounting treatment – Wage Credit Scheme

The Wage Credit is a transfer of resources to entities by the government in return for meeting certain conditions related to the operating activities of the entities. Therefore, it falls within the scope of FRS 20 *Accounting for Government Grants and Disclosure of Government Assistance*.

Under FRS 20, the Wage Credit is recognised as a government grant when there is reasonable assurance that the conditions under the Wage Credit Scheme will be complied with and that the amount will be received. This will typically be the case when the qualifying employees receiving the wage increases have provided their services and have stayed in employment with the eligible entity for at least three months in 2013.

Hence, for the co-funding in 2013, eligible entities should recognise a Wage Credit receivable with a corresponding credit to profit or loss in the same period that the related wage increases for qualifying employees are recognised.

The Wage Credit can be presented as a reduction of staff costs or as income in profit or loss. The presentation format, once chosen, has to be applied consistently to similar government grants.

Recommended accounting treatment – PIC Bonus

The PIC bonus is a cash payout that is independent of the amount of taxable profit or tax liability of the entity. Therefore, it is also a government grant within the scope of FRS 20.

Under FRS 20, the PIC bonus is recognised as a government grant when there is reasonable assurance that the conditions under the scheme will be complied with and that the amount will be received. For the PIC bonus, this will typically be the case when the qualifying expenditure exceeding $5,000 is incurred.

For PIC bonus relating to acquisition of long-term qualifying assets, there are two approaches to presenting the government grant. Both approaches should result in the same timing of recognition in the statement of comprehensive income.

- Approach 1: Gross presentation

  Under this approach, the PIC Bonus is initially recognised in the statement of financial position as deferred income and subsequently amortised to profit or loss over the useful life of the asset. The entity chooses an accounting policy, to be applied consistently, to present such grants either as income or as a reduction in the related expense.

- Approach 2: Net presentation

  Under this approach, the PIC Bonus is initially deducted against the carrying amount of the asset and subsequently recognised over the useful life of the asset as a reduction in depreciation or amortisation expense.

In other cases, the PIC bonus is initially recognised as deferred income and subsequently recognised in profit or loss when the entity recognises as expenses the related costs that the grants are intended to compensate. The entity chooses an accounting policy, to be applied consistently to similar government grants, to present the grant either as income or as a reduction in the related expense.

3. Proposed revamp of the Companies Act

This article is contributed by:

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Companies in Singapore can expect improved and modernised regulations in the near future. The Singapore government announced, in October 2012, that major changes to the Singapore Companies Act (the Act) are expected to be passed into law by the end of 2013. In this issue, we summarise the key changes expected from the revamp of the Act and how they may impact the various stakeholders.

Taking corporate regulation forward

On 3 October 2012, the Ministry of Finance (MOF) announced the government's decision on the recommendations by the Steering Committee for the Review of the Companies Act (the SC). The MOF accepted 192 and modified 17 recommendations proposed by the SC, while 8 were not accepted.

This is the largest number of changes to the Act since its enactment in 1967. The wide ranging changes are designed to meet changing business realities, reduce regulatory burden and compliance costs, provide greater flexibility for companies, and improve corporate governance.

> "Our main objective (of the review) was to reduce the regulatory burden on companies and provide for business flexibility, while protect the interests of investors where it really matters. The new corporate regulatory framework must retain a fair balance between the needs of business, including small companies, and those of investors."
>
> "In evaluating views on each of the 217 recommendations, MOF has adopted a principled, but pragmatic approach. We have sought to balance the interests of the various stakeholders while not losing sight of the objective of achieving a competitive business environment, but one that preserves investors' rights and interests where they really matter."
>
> Tharman Shanmugaratnam, Deputy Prime Minister and Minister for Finance, at the Securities Investors Association Singapore Investors' Choice Awards Dinner

To help firms grasp the changes that will impact their business ahead of the public consultation of the Amendment Bill, we set out below some of the key changes expected from the revamp of the Act, looking at what it requires now, and how the changes may impact the various stakeholders.

The requirements now	Proposed changes	Impact expected in the future?
Companies		
Public companies are governed by the "one-share-one-vote" rule and are prohibited from issuing non-voting shares and shares with multiple votes.	The requirement will be abolished, subject to new safeguards to protect the rights of existing shareholders and to ensure that shareholders know the rights attached to each class of shares. Companies listed on SGX may be subject to additional restrictions imposed by SGX.	Public companies will have more flexibility in raising capital. In addition, investors will also enjoy a wider range of investment opportunities.
Companies are not required to disclose the reasons for premature resignation of auditors under the current Act. Under SGX listing rules, listed companies are required to announce the appointment or cessation of service of auditors. But this does not include the reason for such change.	Introduction of a requirement for an auditor of a public interest company or a subsidiary of a public interest company to provide the company with the reasons for his premature resignation. Such companies will also be required to circulate the reasons to the shareholders. In addition, the said auditor will be required to seek consent from ACRA prior to such resignation.	This will enhance transparency and corporate governance for public interest companies as shareholders will be provided with the reasons when auditors resign. The requirement for ACRA's approval will allow ACRA to stop the resignation where such resignation is not appropriate, alert ACRA to any potential breaches by the company, and allow ACRA to raise any issues of concern with other regulatory bodies where appropriate.
Companies are prohibited from giving financial assistance for the acquisition of its own shares or those of its holding company, except when permitted by stipulated provisions in the Act.	The prohibition for private companies (other than subsidiaries of public companies) will be abolished. The prohibition for public companies and their subsidiaries will be refined to introduce a new exception to allow them to assist a person to acquire its own shares or those of its holding company if giving the assistance does not materially prejudice the interests of the company or its shareholders or the company's ability to pay its creditors.	Private companies will be allowed to give such financial assistance. This will enable companies to be more flexible in their schemes offered to investors. With a new 'material prejudice' exception, public companies and their subsidiaries may have more flexibility in financial transactions.

The requirements now	Proposed changes	Impact expected in the future?
Exempt private companies[1], with annual revenue of S$5 million or less (EPC exemption criterion), are exempted from statutory audit. Existing safeguards include the requirement that all companies keep proper accounting records; and that shareholders with at least 5% voting rights can request for the preparation of audited financial statements.	Introduction of a new "small company" concept for statutory audit exemption, where a private company meets two of the following three criteria: • total annual revenue of not more than S$10 million; • total gross assets of not more than S$10 million; or • number of employees not more than 50. A subsidiary may be exempted from statutory audit only if the entire group of companies meets the "small company" criteria on a consolidated basis. To achieve parity of treatment, this change will apply regardless of whether the parent company is incorporated in Singapore or otherwise. Existing safeguards will remain.	About 25,000 additional companies are expected to be exempted from statutory audit. This will translate into reduced regulatory burden and compliance costs for small companies.
Dormant companies are exempted from statutory audit requirements but are still required to prepare financial statements in compliance with SFRS.	Introduction of a new "total assets threshold test", where the dormant company (other than subsidiaries of listed companies) will be exempted from preparing financial statements if it holds total assets of less than S$500,000. New safeguards will be added: • annual declaration of dormancy by the directors; • company must be dormant for the financial period in question; and • shareholders and ACRA will be empowered to direct the company to prepare its financial statements and to lodge them unless otherwise exempted.	Dormant companies (other than subsidiaries of listed companies) that meet the test will be exempted from preparing financial statements. This will further reduce regulatory burden and compliance costs for such companies.
Non-director Chief Executive Officers (CEOs)		
Only directors are required to disclose conflicts of interests in transactions and shareholdings in the company and related corporations.	Such statutory disclosure requirements will be extended to non-director CEOs.	Companies are required to obtain similar disclosures from their non-director CEOs for inclusion in the annual report.

[1] EPCs are defined as private companies with not more than 20 members and having no corporate shareholders or private companies gazette by the Minister as EPCs.

The requirements now	Proposed changes	Impact expected in the future?
Directors		
Directors are required to append a separate directors' report to the annual report of the company.	Requirement will be abolished.	Directors have the choice to include the mandatory disclosures currently required to be reported under the directors' report, in either the separate statement by directors, financial statements or notes to the financial statements.
Directors are required to disclose directors' benefits in the separate directors' report.	Requirement will be repealed given that disclosure of directors' benefits was adequately addressed in the key management personnel compensation disclosures in the notes to the financial statements, as required under SFRS.	Directors are no longer required to disclose their benefits separately in the directors' report. Key management personnel compensation disclosures in the notes to the financial statements will continue to include directors' benefits.
A person of 70 years of age and above is prohibited from acting or being appointed as a director for a public company or a subsidiary of a public company, unless his appointment is approved by an ordinary resolution passed at an annual general meeting (AGM).	Maximum age limit for directors will be removed.	Such persons can be appointed or re-appointed without requiring approval at an AGM every year. Removing the age limit will better meet business needs and align with practices as these directors are often re-appointed.
Directors are required to reflect their residential address in ACRA's register.	Directors will be allowed to elect to reflect alternate addresses in ACRA's register, subject to certain safeguards.	This offers privacy protection option to directors.

The requirements now	Proposed changes	Impact expected in the future?
Investors		
Indirect investors are prevented from participation in shareholders meetings under these scenarios: (i) institutional or individual investors using the nominee services and custodial services of banks and capital market services license holders; and (ii) Central Provident Fund (CPF) investors using CPF funds to purchase shares of companies.	A multiple proxies regime will be introduced to give indirect investors and CPF investors the same rights as direct investors in respect of attendance at shareholders' meetings. Nominee companies and custodian banks will be allowed to appoint more than two proxies so that indirect investors can be appointed as proxies to participate in shareholders' meetings. CPF investors who purchase shares through the CPF Investment Schemes or the Special Discounted Share Scheme will also be allowed to attend shareholders' meetings. In addition to voting on a poll, proxies are also given the right to vote on a show of hands. The cut-off timeline for the filing of proxies will be extended from 48 hours to 72 hours prior to the shareholders' meetings.	Public companies will likely experience a significant increase in the number of proxies and face a larger turnout at future AGMs. This may translate into increased costs required for planning and managing the logistical challenges. The longer period given to companies to process the proxy forms may help companies better handle the expected increase in proxy form submissions.

Bottom line

The Government's decisions on the SC's recommendations will be incorporated into a draft Amendment Bill and a further public consultation will take place in 2013. The wide ranging changes are intended to keep the Act current, sustain a competitive business environment and keep up Singapore's position as a global business hub.

What are your immediate next steps?

As the proposed changes are wide-ranging, we believe all companies will be impacted. Hence, we urge you to consider the effects of the proposed changes from your perspective. By meaningfully participating in the public consultation on the draft Amendment Bill, the business community can collectively contribute to legislation that benefit all stakeholders, prior to their passing.

Key timelines

October 2007
MOF set up a SC to undertake a thorough review of the Act

April 2011
The SC completed its review and submitted 217 recommendations to MOF

June to October 2011
MOF undertook a public consultation on these recommendations

3 October 2012
MOF announced the government's decision on the SC's recommendations

2013
Public consultation on the draft Amendment Bill to the Act expected

End 2013
Draft Amendment Bill to the Act expected to be tabled at Parliament

A couple of years after implementation
Re-write of the Act to rationalise the provisions and improve the clarity, a couple of years after changes have been implemented

4. Integrated Investment Allowance Scheme

This article is contributed by:

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To keep pace with the evolving business environment, the Integrated Investment Allowance (IIA) scheme was introduced in Budget 2012 to replace the Integrated Industrial Capital Allowance (IICA) incentive. The IIA scheme was enacted into law in January 2013.

In this article, we highlight the key features of the IIA scheme and illustrate with an example, how businesses can maximise their tax savings by planning carefully their claims for expenditure qualifying under both the IIA scheme and the existing Productivity and Innovation Credit (PIC) scheme.

From the accounting perspective, the tax benefits available under this scheme may be accounted for as a government grant or as an income tax credit. The impact on the income statement is completely different under the two accounting approaches. We have included in this article an example to illustrate the accounting under each of the approaches. We hope that this will assist you in evaluating and selecting the most appropriate approach to account for the tax benefits.

Introduction

In Singapore, businesses are allowed to claim capital allowances (CA) against their income for tax purposes if they incur capital expenditure on the provision of plant and machinery for their own trade or business. Generally, CA is allowed if the plant and machinery are used directly by the taxpayer to produce goods for his business. In addition, for investments in qualifying automation equipment, businesses are allowed to claim additional allowances (known as enhanced allowances) against their income under the PIC scheme.

For companies that invest in equipment that contributes to greater efficiency in resource utilisation or introduce new technology to the industry, they may apply for investment allowance (IA) in respect of the capital expenditure on such equipment used for approved projects carried out by them. The IA is an additional allowance on top of the normal CA that companies can claim against their chargeable income for tax purposes.

As for Singapore companies that choose to outsource certain activities (e.g. production activities) to their subsidiaries located outside Singapore, they will not be able to claim any CA for productive equipment provided to their subsidiaries as the equipment is not used for their own trade or business in Singapore. However, before Budget 2012, they could apply for the IICA incentive, which would have allowed them to claim CA on these productive equipment, provided such equipment is leased to their wholly-owned subsidiaries located outside Singapore and is used solely in connection with the Singapore business.

The IICA incentive was replaced by the IIA scheme during Budget 2012. Compared to the IICA incentive, the IIA scheme allows more flexibility for companies to structure their overseas operations to support their activities in Singapore as the equipment need not be leased to a wholly-owned subsidiary.

Comparison of the various schemes

We will highlight in this section the key features of this new IIA scheme by making a comparison with the existing IA scheme and PIC scheme (in relation to automation equipment).

The following table gives a comparison of the key features under these schemes:

	PIC	IA	IIA
Who is eligible?	All businesses that have incurred expenditure on qualifying automation equipment[1] for their trade or business	Any company that intends to carry out project to • manufacture product; • provide specialised engineering or technical services; • undertake research & development; • undertake construction operations; • reduce consumption of water; • provide computer related services, develop/ produce industrial design etc.; • promote tourism industry; • operate space satellite; • provide maintenance, repair and overhaul services to aircraft; or • improve energy efficiency	Any company that intends to carry out a project overseas through another company (referred to as "project co") to manufacture or increase the manufacture of any of its products for the company or to provide specialised engineering or technical services on behalf of or to the company
Period for which the tax benefits are available	The tax benefits under this scheme are available for Year of Assessment (YA) 2011 to YA 2015	There is no end date to the scheme, except for projects relating to: • aircraft rotables used by aerospace maintenance, repair and overhaul industry in Singapore: the incentive is open for application from 1 April 2010 to 31 March 2015 • improving energy efficiency: the incentive is open for application from 1 April 2010 to 31 March 2015	The incentive is open for application from 17 February 2012 to 28 February 2017

	PIC	IA	IIA
What is the qualifying expenditure?	Capital expenditure (net of grant or subsidy received) on purchase and lease of qualifying automation equipment[1], including installation costs that have been incurred as part of costs of acquiring the equipment	Capital expenditure on following items used for carrying out the approved project: • factory building (excluding land) in Singapore; • acquisition of know-how or patent rights; and • productive equipment to be used in Singapore. In relation to approved projects relating to satellites and aircraft , it includes productive equipment which is used outside Singapore	Capital expenditure (including capital expenditure on alteration of building incidental to the installation of the qualifying equipment) on qualifying equipment for the approved project
What are the tax benefits under the scheme?	400% tax deduction/ allowances • CA of 400%, comprising 100% base allowance & 300% enhanced allowance on the first $400,000[2] of qualifying expenditure incurred per YA • 100% CA for balance expenditure Cash payout option Subject to conditions, option to convert 60% of up to $100,000 of qualifying expenditure per YA into non-taxable cash payout for YA 2013 to YA 2015 Tax deferral option Option to defer tax payable for each YA to the following year. The amount of tax payable that can be deferred is calculated based on the amount of qualifying expenditure incurred during each YA, subject to a cap of $100,000 per year. The last YA for which tax payable can be deferred is YA 2015	Allowance (on top of the normal CA) calculated based on an approved percentage (not exceeding 100%) of the amount of qualifying expenditure incurred during the qualifying period can be used to set off against income from all sources (after setting off all other losses and CA) Profits exempt under the scheme are available for distribution as exempt dividends to ordinary shareholders of the company	Allowance (on top of the normal CA) based on an approved percentage (not exceeding 100%) of the qualifying expenditure incurred during the qualifying period can be used to set off against income from all sources (after setting off all other losses and CA)

[1] The list of automation equipment qualifying for enhanced allowances under the PIC scheme can be found in the Income Tax (PIC Automation Equipment) Rules 2012 which was gazetted on 18 May 2012. As announced in Budget 2013, the list has been expanded to allow more equipment to qualify for PIC automatically. The updated list, now known as the PIC Information Technology (IT) and Automation Equipment List, can be found on the IRAS website.

[2] A combined expenditure cap of $1,200,000 applies for YA 2013 to YA 2015.

	PIC	IA	IIA
Any minimum ownership period?	Yes	Yes	Yes
Any other conditions/ restrictions?	Cannot claim PIC if • IA or IIA has been claimed on the same dollar of equipment cost incurred • the equipment is used for project approved under the IICA scheme • CA has previously been granted on the equipment to the same business	Cannot claim IA if • PIC or IIA has been claimed on the same dollar of equipment cost incurred • the approved project gives rise to certain tax-exempt income	Cannot claim IIA if • PIC or IA has been claimed on same dollar of equipment cost incurred • project gives rise to certain tax-exempt income exempt unless approval given
Can unutilised amount be carried forward?	Yes, but subject to the satisfaction of the same business test[3] and the shareholding test[4]	Yes, indefinitely without the need to satisfy the same business test and the shareholding test	Yes, indefinitely without the need to satisfy the same business test and the shareholding test
Can unutilised amount be carried back or transferred under group relief?	Yes, but subject to satisfaction of the conditions under the carry-back relief system or group relief system	No	No

As can be seen from the above comparison:

- An entity cannot claim for both IIA and enhanced allowance under PIC on the same dollar of the qualifying equipment. However, IIA may still be claimed on the portion of the asset cost that does not qualify for enhanced allowance under PIC (e.g. remaining cost of the equipment exceeding the expenditure cap).

- The IIA scheme is very similar to the IA scheme, except that the scope of qualifying activities and qualifying expenditure for the IIA scheme is narrower. However, the IIA scheme does not have the restriction that the productive equipment has to be used in Singapore for the approved project by the company (as required for the IA scheme except for approved projects relating to satellites and aircraft).

[3] If the same business test is applicable, it means that the unutilised amount can be carried forward for offset against income of a subsequent YA so long as the company continues to carry on the trade in respect of which the allowance is granted.

[4] If the shareholding test is applicable, it means that the unutilised amount can be carried forward for offset against income of a subsequent YA provided the ultimate shareholders of the company on the last day of the YA in which the allowance arose are substantially (i.e. at least 50%) the same as the shareholders of the company on the first day of the YA in which such allowance is used for offset against the company's income.

How businesses can benefit from the IIA scheme

Some businesses may have plans to relocate their labour-intensive manufacturing activities to lower-cost areas in the region while retaining the high value-added and knowledge intensive activities in Singapore. While others may have plans to provide specialised engineering or technical services such as plastic injection moulding services through an overseas company while operating the headquarters and marketing activities in Singapore. Such businesses may potentially benefit from the IIA scheme under which additional tax allowance is available for the productive equipment placed overseas for the operations conducted there.

If the productive equipment that is approved for IIA is also an automation equipment qualifying for PIC, the taxpayer is not precluded from benefitting from the enhanced allowance available under PIC. However, as the taxpayer is not allowed to claim both IIA and PIC on the same dollar of the qualifying equipment, it is important to evaluate carefully how much to claim under each scheme, taking into consideration the expenditure caps and whether there are other automation equipment (not qualifying for IIA) for which the taxpayer can claim PIC. This would enable a taxpayer to derive the maximum benefits out of these incentive schemes.

Illustrative Example

Facts

Company A has obtained approval for IIA and has purchased one item of qualifying automation equipment costing $1.8 million for the approved project during the financial year ended 31 December 2012 (i.e. YA 2013). Company A does not expect to incur any further expenditure on automation equipment in 2013 and 2014.

Question

How should Company A claim under each scheme so as to derive the maximum tax benefits?

Analysis

Company A may claim enhanced allowance under PIC on the first $1,200,000 of the expenditure and IIA on the balance of $600,000 (Option C as shown in the table below). This would give Company A higher tax savings for YA 2013.

	Option A – Claim only PIC	**Option B – Claim only IIA**	**Option C – Claim both PIC & IIA**
PIC claim (capped at $1,200,000 for YA 2013 to YA2015 combined)	Enhanced allowance = $1,200,000 x 300% = $3,600,000	-	Enhanced allowance = $1,200,000 x 300% = $3,600,000
IIA claim (assume approved expenditure is $1.8m and approved percentage is 50%)	-	Additional allowance = $1,800,000 x 50% = $900,000	Additional allowance = $600,000 x 50% = $300,000
Total additional/ enhanced allowance (on top of normal CA)	$3,600,000	$900,000	$3,900,000
Additional tax savings (based on prevailing corporate tax rate of 17%)	$612,000	$153,000	$663,000

Generally, the IIA certificate would specify the maximum and minimum amount of capital expenditure to be incurred and the maximum amount of IIA to be granted for each approved project. In determining whether such capital expenditure requirements are met, the full cost of the equipment would be taken into consideration even if IIA is computed on part of the cost.

The IIA scheme is administered by the Economic Development Board (EDB) and the application forms can be obtained directly from EDB.

Recommended accounting treatment

From the accounting perspective, further tax deductions or allowances such as the enhanced allowance under the PIC scheme and the additional allowance under the IIA scheme that are available only upon making qualifying expenditure are generally regarded as investment tax credits (ITCs).

The accounting for ITCs is, however, not directly addressed in FRSs. In practice, ITCs are generally accounted for using either FRS 12 or FRS 20 by analogy.

An entity therefore has to make the choice of applying either FRS 12 or FRS 20 to account for the enhanced allowance under the PIC scheme and additional allowance under the IIA scheme. The choice depends on management's assessment of the approach that best reflects the economic substance of the tax incentive, taking into consideration all relevant facts and circumstances. Factors that might be considered in this assessment include:

Factors to consider	Comments
In addition to the condition that expenditure is made on a particular asset or activity, are there any other substantive conditions attached to the benefits available under the tax incentive scheme that relate to the operating activities of the entity?	Generally, when substantive conditions are attached, applying FRS 20 will be more appropriate.
Does the tax incentive scheme involve the receipt of cash (or refundable tax credit)?	Generally, when cash or tax is refundable, applying FRS 20 will be more appropriate.
Is the utilisation of the tax benefits under the tax incentive scheme dependent on current or future taxable income or tax liability?	If the utilisation of the tax benefits is dependent on current or future taxable income or tax liability, applying FRS 12 will be more appropriate.

The approach, once selected, must be applied consistently to similar tax incentives.

The two possible accounting approaches are outlined below:

i) Applying FRS 12 by analogy

- ITCs are presented in profit or loss as a deduction from current tax expense to the extent that an entity is entitled to claim the credit in the current reporting period.
- Any unused ITC is recognised as a deferred tax asset and income if it meets the recognition criteria.

ii) Applying FRS 20 by analogy

- ITCs are recognised as income over the periods necessary to match them with the related costs that they are intended to compensate.
- The ITC initially is shown in the statement of financial position as a receivable from the government when there is reasonable assurance that an entity will comply with the conditions of the ITC and that the ITC will be received. If the entity is claiming the further tax deduction/allowance, the receivable from the government is offset against current tax payable when the entity is entitled to claim the ITC.
- For ITCs relating to acquisition of long-term assets, the ITC is either
  - initially recognised as deferred income and subsequently amortised to profit or loss over the useful life of the long-term asset either as "other income" or deduction from the related expense; or
  - initially offset against the cost of the long-term asset and reduces future depreciation or amortisation expense.
- For all other ITCs, the ITC is initially recognised as deferred income and subsequently presented in profit or loss either as "other income" or deduction from the related expense as appropriate.

Illustrative Example

Facts

Same facts as the above illustrative example. In addition,

- The automation equipment is depreciated for accounting purposes over a period of five years.
- Company A plans to claim capital allowance for the cost of the automation equipment over one year.
- Company A has sufficient taxable profits in 2012 to utilise all tax deductions/allowances.

Question

How should Company A account for the tax benefits if Company A intends to claim the allowances under both the PIC and the IIA schemes (Option C) as at 31 December 2012?

Analysis

When filing its tax return, an entity has to reflect its election whether to claim the enhanced allowance under the PIC scheme or to claim the additional allowance under the IIA scheme or both in its tax return. Current and deferred taxes should generally be measured as of and subsequent to substantive enactment date based on an entity's expectations of elections that would be made in filing its tax return.

Therefore, if Company A expects to claim part of the qualifying expenditure under the PIC scheme and the rest under the IIA scheme when it files its tax return, this should be reflected in the income tax provision for financial reporting purposes.

The accounting entries are illustrated below.

	FRS 12	FRS 20
On recognition of PIC and IIA		Dr Government grant receivable $663,000[2, 5] Cr Productive equipment or Deferred income $663,000
On recognition of depreciation of automation equipment in P&L (per annum)		Dr Automation equipment or Deferred income $132,600[3] Cr Other income or depreciation expense $132,600
On entitlement to claim the tax allowance	Dr Current tax payable $969,000[1] Cr Current income tax benefit $969,000	Dr Current tax payable $969,000[1] Cr Government grant receivable $663,000 Cr Current income tax benefit $306,000[4]
Recognition of deferred tax liability	Dr Deferred tax expense $244,800 Cr Deferred tax liability $244,800[6]	Dr Deferred tax expense $244,800 Cr Deferred tax liability $244,800[6]

1 Total allowance = capital allowance of $1,800,000 x 17% + PIC enhanced allowance $1,200,000 X 300% x 17% + IIA additional allowance of $600,000 x 50% x 17% = $969,000

2 PIC enhanced allowance $1,200,000 X 300% x 17% + IIA additional allowance of $600,000 x 50% x 17% = $663,000

3 Tax benefits under both PIC and IIA schemes (as per note 2 above) of $663,000/Useful life of automation equipment of 5 years

4 Capital allowance of $1,800,000 x 17% = $306,000

5 Amount is recognised when there is reasonable assurance that Company A would comply with the conditions of the PIC/IIA schemes and that the enhanced/additional allowance would be received. This is typically the case when the incentive is approved, the equipment is purchased and it is reasonably assured that the entity would be able to fulfil all ongoing conditions under the schemes.

6 The deferred tax liability relates to the temporary difference between the net book value (NBV) of the automation equipment in the financial statements ($1,440,000) and the tax written down value (TWDV) in the tax return ($nil) multiplied by the applicable tax rate of 17%.

The amounts recorded for this transaction as at 31 December 2012 would be as follows:

	FRS 12	FRS 20
Income statement	$	$
Depreciation expenses	(360,000)	(360,000)
Government grant[7]	-	132,600
Loss before tax	(360,000)	(227,400)
- Current tax benefit	969,000	306,000
- Deferred tax expense	(244,800)	(244,800)
	724,200	61,200
Profit /(Loss) after tax	364,200	(166,200)
Statement of financial position		
Automation equipment	1,440,000	1,440,000
Deferred government grant[8]	-	(530,400)
Cash	(1,800,000)	(1,800,000)
Current tax receivable	969,000	969,000
Deferred tax liability	(244,800)	(244,800)
(Retained earnings) / Accumulated losses	(364,200)	166,200

[7] The government grant income can be presented either as other income or a reduction in depreciation expense.

[8] The deferred government grant can be presented as a deferred income or offset against the cost of the automation equipment.

Is this a critical judgement made by management in the process of applying accounting policy?

As can be seen in the above illustrative example, the selection of the accounting approach (income tax credit under FRS 12 or government grant under FRS 20) is very important as the impact on profit or loss under the two approaches is completely different.

In the above example, the total tax benefit of $663,000 is recognised immediately as income if FRS 12 is applied but the same amount is recognised as income over five years if FRS 20 is applied.

FRS 1 *Presentation of Financial Statements* requires disclosure of critical judgements made by management in the process of applying the entity's accounting policies. In situations where the effect on the amounts recognised on the financial statements is significant, the necessary disclosure under FRS 1 should not be forgotten.

5. International developments

Expected credit losses – Impairment of financial assets

For details, refer to:
In the Headlines – March 2013: A Step Change for Accounting for Impairment

New on the Horizon: Financial instruments - Expected credit losses

In March 2013, the IASB issued its long-awaited revised proposals on accounting for the impairment of financial assets, addressing concerns about 'too little, too late' provisioning for loan losses in a move that would accelerate recognition of losses.

The proposals introduce a new 'expected loss' impairment methodology that would reflect deterioration in the credit quality of financial assets such as loan portfolios. Entities would recognise lifetime expected credit losses for financial assets whose credit risk has deteriorated significantly since initial recognition, and 12 months' expected credit losses for other financial assets.

The changes are expected to have far-reaching implications for banks and similar entities, affecting credit systems and processes and widening the scope of already-difficult judgements. They would also introduce extensive disclosure requirements.

Although corporates would also be affected, the impact on short-term receivables is likely to be small.

Comments to the IASB are due by 5 July 2013, and the comment period to the Singapore ASC closes on 3 June 2013.

> "Estimating impairment is an art, rather than a science, involving difficult judgements about whether loans will be paid as due and, if not, how much will be recovered and when. The proposed model widens the scope of these judgements."
>
> Chris Spall, KPMG global IFRS financial instruments deputy leader

Continuing hedge accounting after derivative novations

For details, refer to In the Headlines – March 2013: Continuing hedge accounting after derivative novations

Laws and regulations on over-the-counter (OTC) derivatives are changing in several jurisdictions, requiring many of them to be novated to a central counterparty (CCP). The *European Market Infrastructure Regulation* is one such example. Many derivatives that are, or may be, subject to these requirements have been designated in hedging relationships by one or both counterparties.

On 28 February 2013, the IASB published for public comment the Exposure Draft *Novation of derivatives and continuation of hedge accounting (proposed amendments to IAS 39 Financial Instruments: Recognition and Measurement)*. Corresponding requirements are proposed to be included in the forthcoming hedge accounting chapter in IFRS 9 *Financial Instruments*.

The ED proposes adding as an exception to IAS 39 and IFRS 9 to require an existing hedging relationship to continue if a novation that was not contemplated in the original hedging document meets specific criteria.

The IASB considered the fact that the legislative changes that would require such novation of derivatives would be widespread across jurisdictions. These legislative changes were prompted by a G20 commitment to improve transparency and regulatory oversight of over-the-counter derivatives in an internationally consistent and non-discriminatory way.

The IASB is aware that these new laws or regulations could come into effect in some jurisdictions very soon. Consequently the IASB has published this ED with a short (30-day) comment period. The IASB requests comments on the Exposure Draft by 2 April 2013. The ASC comment deadline closed on 11 March 2013.

> "The proposals would provide some relief – but do they go far enough?"
>
> Andrew Vials, KPMG's global IFRS financial instruments leader

Revenue – The road to 2017

For details, refer to: IFRS Newsletter – Revenue Issue 8

The IASB and the FASB (the Boards) are working towards a converged standard that would supersede most existing IFRS and US GAAP guidance on revenue recognition.

In February 2013, the boards substantively completed their re-deliberations of the ED. The IASB targets to issue the final IFRS in the second quarter of 2013. The new standard would be effective for annual reporting periods commencing on or after 1 January 2017.

In its March meeting, the IASB decided that entities reporting under IFRS can adopt the new revenue standard early, reversing its February decision to prohibit early adoption of the new standard. The decision to permit early adoption will please those keen to move on from long-running interpretative issues with existing guidance. However, it will reduce comparability between those who choose to early adopt and those who do not.

Assuming that the new standard is released as currently scheduled in mid-2013, those considering early adoption will need to start work on their implementation plans right away – including determining which of the transition options to select.

Our latest issue of *IFRS Newsletter: Revenue* examines what the early adoption option could mean for you, and includes an index to earlier decisions on the revenue project.

> "The combination of a 2017 effective date and new transition options will give entities more time to assess the impact of the new revenue requirements and prepare for implementation."
>
> Phil Dowad, KPMG's global IFRS revenue recognition leader

Moving towards global insurance accounting

For details, refer to IFRS Newsletter – Insurance Issue 34

Both the IASB and the FASB have now completed the technical discussions needed to finalise their upcoming exposure drafts. With both the IASB and the FASB expecting to issue exposure drafts by June, now is the time for insurers to get organised.

The complexities of the new models and their interaction with the proposed financial instruments models will have significant and far-reaching operational impacts for insurers. With two exposure drafts expected within weeks of each other, insurers need to start reviewing the proposals and thinking about the expected impacts on their business.

The *IFRS Newsletter: Insurance* provides a comprehensive round-up of the current status of the project and the key decisions made to date.

> "The time to get organised is now! The Boards' exposure drafts are expected by June of this year. The complexities of the new models and their interaction with the proposed financial instruments models will have significant and wide-reaching reporting and operational impacts for insurers."
>
> Joachim Kölschbach, KPMG's global IFRS insurance leader

Enhanced disclosure taskforce recommendations and Basel 3 impact on classification of financial assets

For details, refer to IFRS Newsletter – Banking Issue 8

The *IFRS Newsletter – Banking* is a quarterly publication that provides updates on IFRS developments directly impacting banks, considers accounting issues affecting the sector, and discusses potential accounting implications of regulatory developments.

Highlights of this issue include:

- The IASB decided on the final features of the impairment model to be re-exposed in early 2013. The criteria for the recognition of lifetime expected losses have been simplified to alleviate the operational burden.
- The IASB issued its exposure draft on limited amendments to IFRS 9 in respect of the classification and measurement of financial assets and financial liabilities. The amendments are described as 'limited' but nonetheless may have an important impact on the way financial assets are measured.
- Extensive and sometimes overlapping disclosures may contribute to a perception that financial reporting is a compliance exercise rather than a means of channelling key messages to stakeholders. The EDTF recommendations on enhancing risk disclosures may help banks to improve investor confidence.
- The introduction of the Basel 3 leverage ratio may in certain cases result in disposals of financial assets. We consider potential accounting implications of the new regulatory requirements on the classification of financial assets.

> "Banks will need to decide on their strategic response to the EDTF initiative for improving risk disclosures. This will require understanding the views of regulators and key stakeholders, and conducting an analysis to identify gaps and overlaps."
>
> Martin Wardle
> Financial Services, KPMG in China;
> Leader, Capital Adequacy and Risk-Weighted Assets workstream, EDTF

Common abbreviations

ASC	Accounting Standards Council in Singapore
ACRA	Accounting and Corporate Regulatory Authority
CPF	Central Provident Fund
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
LM	Listing Manual of the Singapore Exchange
MAS	Monetary Authority of Singapore
MOF	Ministry of Finance
PCAOB	Public Company Accounting Oversight Board
REIT	Real Estate Investment Trust
SGX	Singapore Exchange
XBRL	eXtensible Business Reporting Language

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