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FINANCIAL REPORTING MATTERS

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Integrated reporting, the new buzz word for corporate reporting. Who are the leaders and who needs to keep up? Are there good causes for change? In this issue, we help you answer these interesting questions.

Achieving quality growth based on innovation and deeper capabilities; building a fair and equitable society: These were the focus points for the Singapore Budget 2014 that was delivered on 21 February 2014. We provide an overview of the measures introduced this year that aim to help businesses achieve quality growth and their accounting implications.

The offsetting disclosure requirements in FRS 107 *Financial Instruments: Disclosures* are effective for the first time for 31 December 2013 year-end. In this issue, we provide you with practical insights to help you implement the new offsetting disclosure requirements.

On the international front, the new accounting standard for financial instruments IFRS 9 is likely to be effective in 2018 and lease accounting is back on the drawing board.

Read the section on International developments to find out more.

Contents

MANDATORY XBRL FILING WITH EFFECT FROM 3 MARCH 2014

With effect from 3 March 2014, Singapore incorporated companies (unless exempted) are required to file a full set of financial statements in eXtensible Business Reporting Language (XBRL) based on the revised filing requirements through BizFin^{x} at www.bizfinx.gov.sg.

To ease the transition to the revised XBRL filing requirements, companies other than public listed companies are given more time to hold their Annual General Meeting (AGM) and to file their Annual Return (AR) form. ACRA has also issued Practice Direction 01/2014 to provide more information on the revised XBRL filing requirements and BizFin^{x} filing system.

1. Integrated Reporting – Leaders and Laggards

This article is contributed by:

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The current reporting model needs to change. Stakeholders as well as regulators are demanding greater transparency, investors want forward-looking information about the strategy, business models and the ability of the company to create a sustainable long-term value. Standard setters are equally critical about the current state of corporate reporting. The International Reporting Framework is a key milestone on the journey to better business reporting.

1. What is Integrated Reporting?

Integrated Reporting (IR) is a new corporate reporting model, designed to support a more resilient business environment and better decision making by providers of financial capital. It integrates strategy, governance, performance and prospects over the short, medium and long term.

IR offers the opportunity to centre business reporting on strategy and value creation, to demonstrate how the business uses capital and the extent to which it should continue to be invested in the business. Integrated reporting is about better communication between companies and the capital markets.

It does not intend to replace other reporting streams such as financial, corporate social responsibility or corporate governance reporting. Its vision is that preparers should draw together relevant information produced under other more detailed reporting frameworks.

The IR Framework, launched on 9 December 2013 by the International Reporting Council (IIRC) after a 3-month consultation period. The IIRC Consultation Draft of the International IR Framework received 359 feedback submissions, an overwhelming response from every region of the world, and representing all stakeholder groups.

The IIRC aims to have the IR Framework endorsed by the G20 in 2014 in the lead-up to the G20 Leaders Summit in Brisbane, Australia, in November 2014.

"The most important notion related to the IR is the value creation over time, both internally and externally, that satisfies long term investors among other constituents. Management must communicate with the financial capital providers about its capability how to keep creating values in the long run."

Tatsumi Yamada, KPMG Partner and Head of IFRS Asia Pacific, founding member of the IASB and ambassador of the IIRC

2. What is IIRC?

The IIRC is a global coalition of regulators, investors, companies, standard setters, the accounting profession and non-government organisations. Together, this coalition shares the view that communication about value creation should be the next step in the evolution of corporate reporting. The IIRC was formed in 2010 and is chaired by Professor Mervyn King, with Paul Druckman being the Chief Executive Officer.

The IIRC is the global authority on IR. Its mission is clear: to enable integrated reporting to be embedded into mainstream business practice in the public and private sectors.

The IIRC's long-term vision is a world in which integrated thinking is embedded within mainstream business practice, facilitated by IR as the corporate reporting norm.

The IIRC is working closely with regulators, standard setters and stock exchanges around the world in developing an effective IR framework that will improve the quality of corporate reporting to the providers of financial capital.

The IIRC has signed Memorandums of Understanding with a number of key organisations, demonstrating a common interest in improving the quality and consistency of global corporate reporting to deliver value to investors and the wider economy, such as CDP[1] and Climate Disclosure Standards Board, Global Reporting Initiative, International Federation of Accountants, IFRS Foundation for International Accounting Standards Board, The Sustainability Accounting Standards Board, United Nations Conference on Trade and Development, World Intellectual Capital Initiative and the World Business Council for Sustainable Development.

[1] CDP is an international not-for-profit organisation providing a global system for companies and cities to measure, disclose, manage and share environmental information.

In February 2013, the IIRC and the IASB signed a memorandum of understanding to deepen their cooperation on the IIRC's work to develop an integrated corporate reporting framework.

Today, the IIRC is already well positioned in many global markets:

3. IIRC positioning within global markets

Market	IIRC Positioning
South Africa	• The only country at this stage that requires preparation of an annual integrated report under its Stock Exchange listing rules (King III), and on an 'apply or explain' basis • The 400+ listed South African companies now have three years of experience in developing and improving Integrated Reports. They have derived significant business benefits from their journeys. Investor use and assurance of integrated reports is now developing.
United Kingdom	• The UK Financial Reporting Council (FRC) has included reference to IR and the alignment of its aims and objectives with those of the IIRC in the consultation draft of its guidance on narrative reporting in the UK.
United States	• A series of constructive interactions was held in Washington DC in 2013 by the IIRC Leadership, including with the World Bank (which now intends to produce its own integrated report), the US Chamber of Commerce, the SEC, the Public Company Accounting Oversight Board, the National Association of Corporate Directors and Jonathan Greenblatt, Special Adviser to President Obama. • FASB continues to observe IIRC Council meetings, and there are a number of high profile US IR pilots (i.e. Microsoft, PepsiCo, Prudential Financial, The CocaCola Company, Edelman, Jones Lang Lasalle).
Australia	• The Australian Securities & Investments Commission released guidance (RG247) on Operating and Financial Review (OFR) in March 2013 requiring directors to improve the quality of their OFRs, especially regarding business model, strategy, risk and future prospects. • The Australian FRC is their response of the IIRC Consultation Draft commented that they supported IR, and thought it could be reported through the OFR. • It is possible that they next stage of adoption in Australia could be through the ASX Corporate Governance Principles, which are similar to South Africa's 'apply or explain' approach.
China	• The Chinese government and Chinese Institute of Certified Practising Accountants are represented on the IIRC. • China Light & Power is one of the IIRC pilot businesses. • A leading industry body is evaluating the use of integrated reporting by financial institutions.

Market	IIRC Positioning
Japan	• In mid-November 2013, a task force appointed by the Japanese government and chaired by the President and CEO of Mitsubishi Chemical Holdings, recommended that IR be one of the key mechanisms for achieving long-term oriented financial markets. • The recommendation was contained in a report presented to Japan's Council on Economic and Fiscal Policy, chaired by Prime Minister Shinzo Abe. • Mr Abe spoke positively about the report, stating that he intended to use the proposals at international forums, including the G8 and G20.
Investors	• The Australian Council of Superannuation Investors (ACS) and the Australian Institute of Superannuation Investors (AIST) are working on an initiative with the IIRC to create an IR network for global pension funds. • This network will assist pension funds enhancing their reporting, by connecting and sharing experiences with their global peers. • It will also send a clear message to the markets that pension funds are keen to lead by example, by implementing IR themselves as a way of demonstrating value to shareholders and other stakeholders, and supporting their demand for integrated reports from the businesses in which they invest.
ASEAN	• In late 2013, Mervyn King accepted an invitation to become patron of an Integrated Thinking and Integrated Reporting initiative for Southeast Asia, led by the Institute of Certified Public Accountants of Singapore and involving Cambodia, Malaysia, Singapore, Thailand and Vietnam.
Singapore	• DBS and the Singapore Accountancy Commission represent Singapore in IIRC's pilot programme. • There are currently no plans by the SGX to require adoption of the IR Framework.

4. Why change?

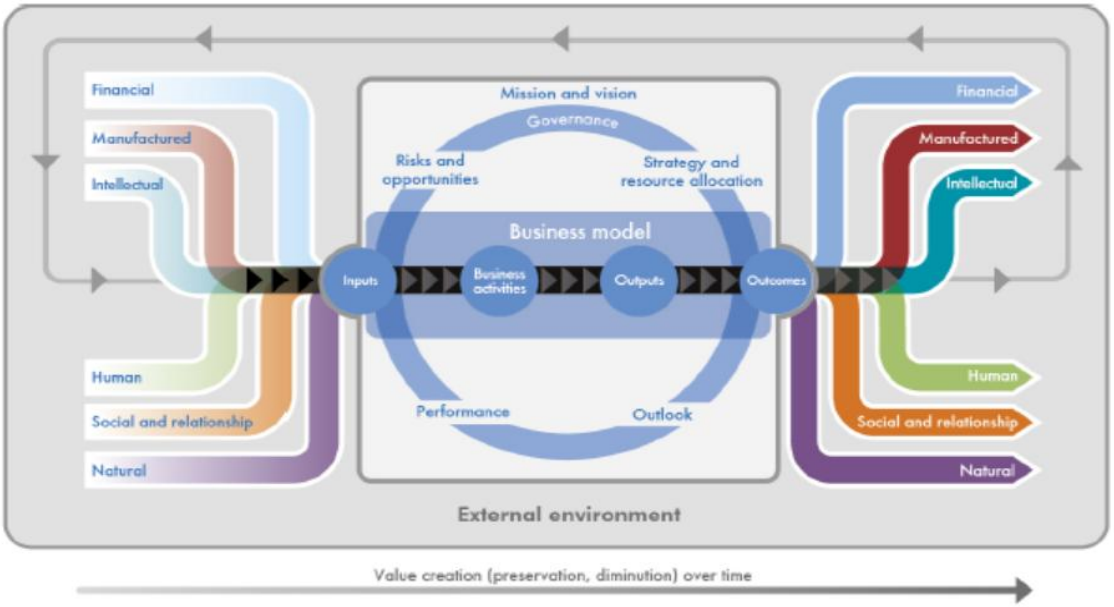
Financial statements are too voluminous, annual reports have become divorced from the time horizon and real time information requirements of stakeholders, sustainability-reports seldom demonstrate the important link to the business strategy and value creation, the narrative reporting lacks a common framework making it difficult to analyse organisations consistently - to name just a few areas of continued criticism.

And, in a snapshot, this is how IR is addressing these concerns and demands:

Feature	Current reporting		Integrated reporting
THINKING	Disconnected /isolated		Integrated
STEWARDSHIP	Financial capital	→	All forms of capital
FOCUS	Past, financial		Past and future, connected, strategic
TIMEFRAME	Short term		Short, medium and long term
TRUST	Narrow disclosures	→	Greater transparency
ADAPTIVE	Rule bound		Responsive to individual circumstances
CONCISE	Long and complex	→	Concise and material
TECHNOLOGY	Paper based		Technology enabled

5. IR Framework in more detail

The IIRC defines IR report as "a concise communication about how an organisation's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term." The figure below presents a complete picture of an organisation's value creation process, showing the interaction of the content elements and the capitals in the context of the organisation's external environment:



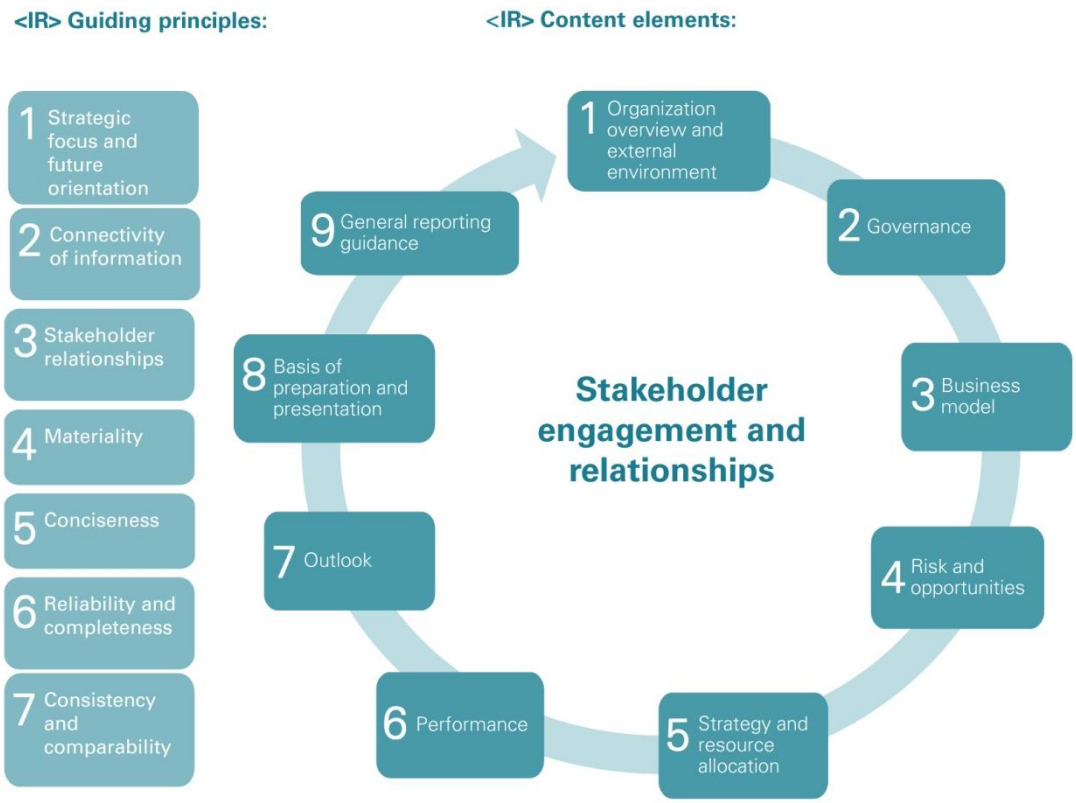
Source: <IR> Framework, 2013

The purpose of the Framework is to establish Guiding Principles (7) and Content Elements (9), presented in the diagram below, that govern the overall content of the integrated report, and to explain the fundamental concepts that underpin it.

The Framework does not require the above content elements to be discrete sections in the report. Rather, they should be seen as a high-level check to ensure that the report covers all the relevant aspects of the business story.

By linking content across the above components, the result should be a report focused on the key drivers of the business value. The issues covered should be the same that management is focused on in the day-to-day operation of the business, and the same issues that should be driving investors' decision making.

The IR Framework is principles-based to allow businesses to tell their story on their own terms, rather than through a checklist of disclosures. The preparers would need to ask themselves what the user needs to know, rather than what they are required to tell the user, which is expected to require a cultural shift to better communicate the value businesses are creating.



IIRC clarified that the investors are the focus of the integrated report and the information would only be included in the report if it is considered material to an investor's assessment of the business.

The results should be a report focused on the key drivers of the business value – typically focused around five to six key issues.

> "It is time to move business reporting beyond merely a discussion of past financial performance. Integrated Reporting can play a key role in the drive for better business reporting."
>
> Larry Bradley, Global Head of Audit, KPMG International

6. Seizing opportunities with integrated reporting

The case for change has been made and is becoming stronger every day. The Framework is currently being trialled in over 25 countries, 16 of which are members of G20. The IIRC's 100-plus strong business network includes companies such, HSBC, CocaCola, Unilever, Deutsche Bank, National Australia Bank and DBS.

Ask yourself: Where are you now? Do you want to be among the innovation leaders exploring the potential benefits of IR? Where do you want to be and how will you get there?

Some perceived benefits for your organisations include, but are not limited to the following:

- enhanced business communication for capital reward
- aligning reporting with the strategy of the business and focusing on strategic priorities
- integrating the efforts of all disciplines into the strategic and operational management of the organisation
- streamlining reporting with one transparent, integrated report supported by detailed on-line reporting for specialist users
- extending stakeholder engagement processes to all aspects of the business instead of limiting these to financial or sustainability considerations.

For further information, please visit http://www.kpmg.com/global/en/topics/corporate-reporting/better-reporting/pages/default.aspx.

You can also download the following publications:

The Future of Corporate Reporting: Towards a Common Vision tests the premise that fundamental reforms are needed by interviewing ten international leaders in the field.

Integrated Reporting: Addressing the Reporting Gap provides a brief introduction to Integrated Reporting.

2. Highlights of Budget 2014 – Tax Measures for Businesses

This article is contributed by:

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Deputy Prime Minister and Minister for Finance delivered the Budget Speech on 21 February 2014. Budget 2014 provides strong support to encourage businesses to boost productivity and invest in innovation. In this section, we provide an overview of the recent changes and new initiatives for businesses unveiled in Budget 2014.

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 21 February 2014. However, if your reporting period ends before 21 February 2014 (Budget Day), the changes introduced during Budget 2014 should not affect your current and deferred tax computations.

Income tax measures that affect businesses

The following tax measures for businesses announced in Budget 2014 are aimed at boosting productivity and promoting innovation:

1. Extending and refining the Productivity and Innovation Credit (PIC) Scheme
2. Introducing the PIC+ scheme for SMEs
3. Extending Research & Development (R&D) and other existing tax incentives

Key highlights of these measures are set out below.

Extending and refining the PIC scheme

The PIC scheme which is originally slated to expire in YA 2015 will be extended to YA 2018. As with YA 2013 to YA 2015, the qualifying expenditure of $400,000 per YA per qualifying activity can be combined across YA 2016 to YA 2018 (i.e. $1.2 million per qualifying activity). Some other refinements have also been made to the scheme, one of which is that the PIC benefits are now extended to training of individuals under centralised hiring arrangements with effect from YA 2014. This means that businesses can now claim PIC benefits on training expenses for individuals not legally employed by the businesses but hired by a shared service centre within the group, or seconded from a related company.

Introducing PIC+ for SMEs

To provide support to SMEs who are making substantial investments to transform their businesses, the expenditure cap will be increased from $400,000 (under the PIC scheme) to $600,000 per YA per qualifying activity. The scheme is available from YA 2015 to YA 2018. Eligible businesses are sole-proprietors, partnerships and companies with annual turnover of not more than $100 million or employment size not more than 200 workers (criterion to be applied at group level).

This means that eligible businesses, in particular those that have hit the combined expenditure of $1.2 million (across 3 YAs), can now claim enhanced tax deductions of up to $1.4 million* per activity across YA 2013 to YA 2015 and up to $1.8 million* per activity across YA 2016 to YA 2018.

**Only if the business is carrying on a trade/ business for the relevant YAs. Otherwise, the combined cap is reduced accordingly.*

Extending R&D and other tax incentives

The following tax incentive schemes have been extended:

Type of incentive scheme	Brief description	Period of extension
Enhanced tax deduction under section 14DA of Singapore Income Tax Act (SITA)	Additional 50% tax deduction on qualifying expenditure incurred on qualifying R&D activities	Extended for ten years till YA 2025*
Further tax deduction under section 14E of SITA	Further tax deduction on expenditure in relation to R&D projects approved by Economic Development Board	Extended for five years till 31 March 2020*
Writing-down allowances (WDA) for Intellectual Property Rights (IPRs)	100% WDA over five years for acquisition costs incurred in IPRs (e.g. patents, trademarks, trade secrets or information that has commercial value)	Extended for five years till YA 2020 It is also clarified that customer-based intangibles and documentation of work processes are not qualifying IPRs
	Media and Digital Entertainment (MDE) companies can accelerate the allowance period to two years, subject to EDB approval	Extended for three years till YA 2018
	Can claim PIC benefits on qualifying costs incurred on acquisition and in-licensing of IPRs for use in a trade or business (exclude EDB approved IPRs and IPRs relating to MDE contents)	Can continue to claim PIC benefits (which has been extended till YA 2018) in respect of qualifying costs
Tax deduction for intellectual property registration costs	100% tax deduction on costs incurred to register patents, trademarks, designs and plant varieties	Extended for five years till YA 2020
	Can claim PIC benefits on qualifying costs	Can continue to claim PIC benefits (which has been extended till YA 2018) in respect of qualifying costs
Land Intensification Allowance (LIA) scheme	Allowances on approved LIA building or structures given to businesses carrying out qualifying activities To qualify, businesses must meet certain conditions including: a) the Gross Plot Ratio (GPR) benchmark applicable for the qualifying trade or business; and b) at least 80% of the total floor area of the relevant building or structure is utilised by a single user for undertaking the qualifying trade or business	Extended for five years till YA 2020 For LIA approvals granted, and capital expenditure incurred on or after 22 February 2014 • Scheme will be extended to the logistics sector as well as businesses carrying out qualifying activities on airport and port land • Existing buildings that have already met or exceeded the GPR benchmark will need to meet a minimum incremental GPR criterion of 10% EDB will release implementation details by end May 2014

* In line with the above extensions, businesses can continue to claim tax deductions/ allowances on R&D expenditure incurred for R&D in areas unrelated to their existing trade or business as long as the R&D is conducted in Singapore. They can also continue to claim PIC benefits (which has been extended till YA 2018) in respect of their qualifying R&D expenditure.

"This longer time-frame is in a bid for innovation activities to bear fruit. Globally, we have seen intense competition for R&D activities and we are optimistic that this will help pave the way for businesses to base their innovation activities in Singapore. Therefore, we feel that the move to extend the R&D tax incentive for 10 more years is certainly a right step forward."

Tay Hong Beng, Head of Tax, KPMG in Singapore

Other Tax Changes for Businesses in Brief

Other measures that have been tweaked to address specific pockets of challenges faced by businesses include:

- Waiver of withholding tax requirement for payments in respect of interest, technical fees, management fees and royalties made or liable to be made on or after 21 February 2014 to permanent establishments that are Singapore branches of non-resident companies. This may reduce the administrative burden for businesses that are making payments to a Singapore branch of a non-resident company as they no longer need to seek a refund of any excess tax withheld or verify whether the Singapore branch had been granted a waiver.
- Treating Basel III Additional Tier 1 instruments (other than shares) issued by Singapore-incorporated banks as debt for tax purposes. This will provide tax certainty and maintain a level-playing field for these banks.
- Extending and/or refining certain existing tax incentives for funds and designated unit trusts. The changes are aimed at keeping the schemes up-to-date with developments in the financial services sector in Singapore and in further strengthening this sector's competitiveness.
- Extending the Foreign-sourced Income Exemption Scheme for listed infrastructure Registered Business Trusts (RBTs) to cover dividend income originating from foreign-sourced interest income so long as it relates to the qualifying offshore infrastructure project/ asset and qualifying interest income derived from a qualifying offshore infrastructure project/ asset. These enhancements provide listed infrastructure RBTs more tax certainty, more flexibility in structuring their overseas investments and lessen their administrative burden in applying for tax exemptions.

More details on the tax changes and new initiatives unveiled in Budget 2014 are available either on the IRAS website or MOF website.

For a synopsis of the main objectives and initiatives of the Budget statement for businesses as well as individuals in Singapore, you could also refer to our KPMG's *Singapore Budget 2014*.

Accounting impact on 31 December 2013 year-end financial statements

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 your financial year ends on 31 December 2013, the measurement of current and deferred taxes should not take into consideration the effect of the new tax measures introduced in the 2014 Budget Statement even though these measures may be applied retrospectively to 2013.

However, if the tax savings arising from the new tax measures are material to the financial statements, a description of the new measures and an estimate of their financial effect should be disclosed as a subsequent event.

Accounting impact on interim financial statements ending 31 March 2014

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.

Refer to our publication *Insights 10th Edition Chapter (5.9.160 to 190)* for more extensive discussion on the accounting for income tax in the interim financial statements.

Accounting guidance on tax schemes

Read our earlier issues of *Financial Reporting Matters* to find out more about the accounting for PIC and LIA schemes.

- Issue 45 on recommended accounting treatment for PIC and Bonus scheme
- Issue 36 on recommended accounting treatment for Land Intensification Allowance

3. Practical Insights on new offsetting disclosures

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Chan Yen San
Senior Manager, Professional Practice

The offsetting disclosure requirements in FRS 107 *Financial Instruments: Disclosures* are effective for the first time for 31 December 2013 year-end. Read Issue 41 of our Financial Reporting Matters to find out more about the offsetting disclosure requirements.

In this issue, we provide a list of frequently asked questions relating to the disclosure requirements to help you implement the new offsetting disclosure requirements.

Question 1 – General

Which financial instruments are within the scope of the offsetting disclosure requirements?

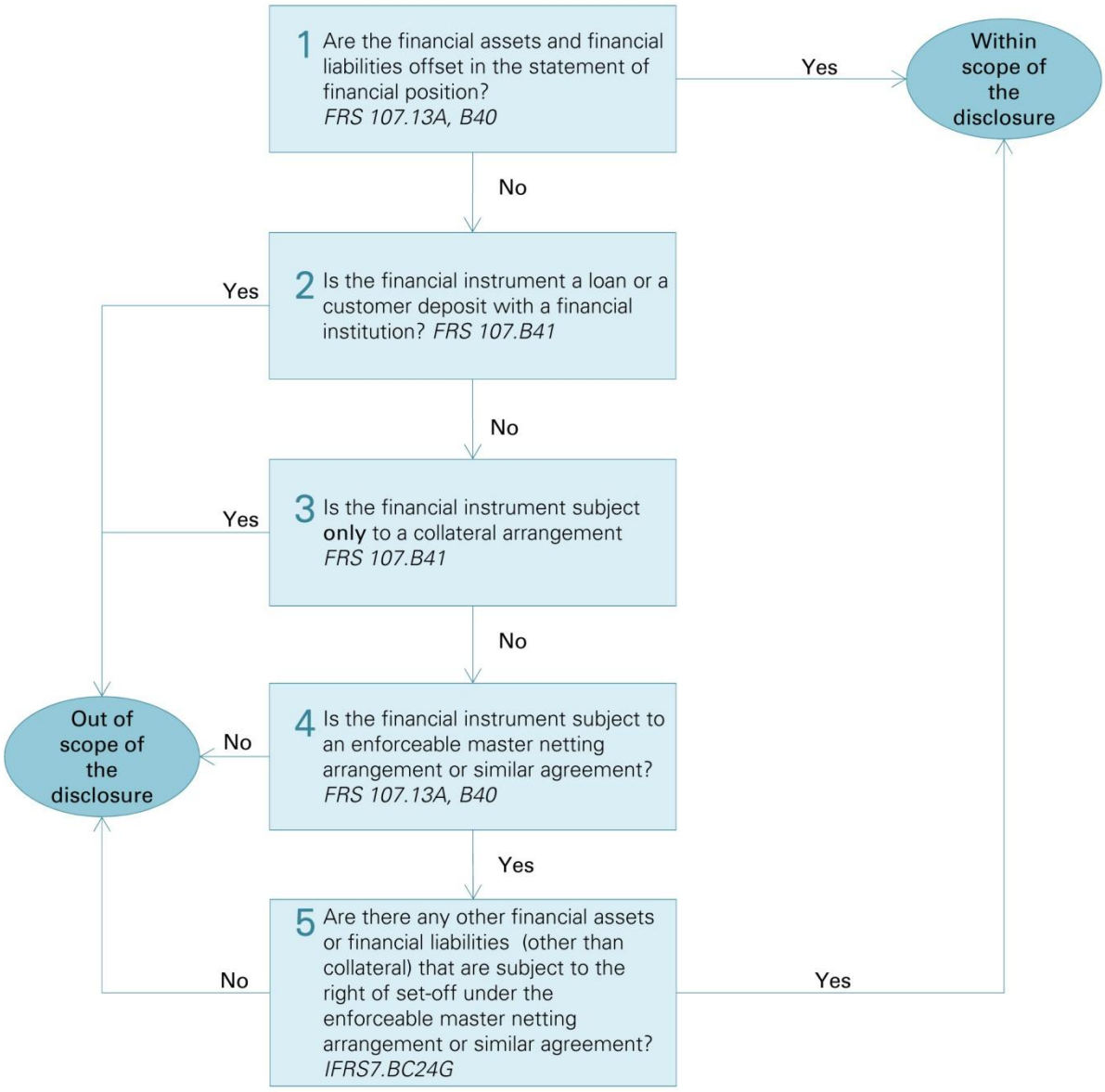
Answer 1
The scope of the offsetting disclosure requirements is very broad, covering financial assets and financial liabilities that are:

- offset in the statement of financial position; or
- subject to enforceable master netting arrangements or similar agreements.

Based on our experience with implementing the new disclosure requirements, a comprehensive review of all contracts is required to determine whether any of the contracts contain provisions that are similar to master netting arrangements or similar agreements (see FAQ 3 for characteristics of a master netting arrangement).

The disclosure requirements exclude loans and customer deposits at the same institution and instruments subject only to a collateral agreement. However, if these instruments are offset in the statement of financial position, they are within the scope of the disclosure requirements.

The flowchart outlines an approach in determining which contracts are within the scope of the offsetting disclosure requirements.



Question 2 – General

Does an entity have to early adopt the amendments to FRS 32 that clarify the offsetting criteria when it adopts the disclosure requirements in its financial statements for the year ended 31 December 2013?

Answer 2

No. The amendments to FRS 32 that clarify the offsetting criteria are effective one year later (i.e. annual periods beginning on or after 1 January 2014). Entities can choose to early adopt the amendments to FRS 32. However, early adoption is not required. If the entity does not early adopt the amendments to FRS 32, it should continue to apply its existing offsetting policy to determine when financial assets and financial liabilities can be presented net in the statement of financial position.

Question 3 – General

What are master netting arrangements or similar agreements?

Answer 3

In accordance to FRS 32.50, master netting arrangements or similar agreements are those provisions in commercial contracts that exhibit the following characteristics:

1. they provide for net settlement of financial instruments covered by the agreement in the event of default on, or termination of, any one contract

2. they provide protection against losses when a counterparty is unable to meet its obligations and

3. they create an enforceable right of set-off that may be realised or settled only following an event of default, insolvency or bankruptcy.

Entities will need to assess the enforceability of their master netting arrangements or similar agreements. This will require some level of legal analysis to determine whether an arrangement is enforceable in a given jurisdiction.

Question 4 – Corporate

Entity A is a landlord and it requires a tenant to place a rental deposit on signing of a lease agreement. Under the terms of the lease agreement, the landlord can net the rental outstanding with the rental deposit in the event the tenant defaults on its rental. As at the balance sheet date, Entity A has accrued rent receivable from Tenant B of $2,000 and rental deposit payable to Tenant B of $4,000. Entity A does not have any other transactions with Tenant B. Are the accrued rent receivable from and rental deposit payable to Tenant B within the scope of the new offsetting disclosure?

Answer 4

No. The rental deposit is held by Entity A as collateral to mitigate the credit risk of Tenant B. Financial instruments subject only to a collateral arrangement are not within the scope of the offsetting disclosure requirements.

Question 5 – Corporate

Entity B has trade receivable of $10,000 and trade payable of $9,000 with Supplier-cum-Customer C. In the contract with C, one of the commercial provisions allows either party to net all balances in the event of default by either party. The trade receivable and trade payable are presented gross in the statement of financial position as the balances cannot be offset in all circumstances including in the normal course of business. Are the trade receivable and trade payable with C within the scope of the offsetting disclosure requirements?

Answer 5

Yes. The provision that allow either party to net in the event of default by either party is similar to an enforceable master netting arrangement.

Illustrative disclosure

As at 31 Dec 20XX	**(a)**	**(b)**	**(c) = (a) – (b)**	**(d)**		**(e) = (c) – (d)**
				Related amounts not set off in the statement of financial position		
	Gross amounts of recognised financial assets/ liabilities	**Gross amounts of recognised financial liabilities/ assets set off in the statement of financial position**	**Net amounts of financial assets/ liabilities presented in the statement of financial position**	**Financial instruments**	**Cash collateral received**	**Net amount**
Financial assets						
Trade receivable	10,000	-	10,000	(9,000)	-	1,000
Financial liabilities						
Trade payable	9,000	-	9,000	(9,000)	-	-

In this case, the trade receivable is larger than the trade payable. The financial asset disclosure table will include the entire amount of trade receivable of $10,000 in column (a) and the entire amount of trade payable of $9,000 in column (d). However, while the financial liability disclosure table will include the entire amount of trade payable in column (a), the amount of trade receivable to be included in column (d) is equal to the amount of trade payable (i.e. $9,000) that can be offset against the trade receivable (in this example a maximum amount of 10,000).

Question 6 – Corporate

Company A has an amount due from Company B of $20,000 and an amount due to Company B of $18,000. Company A presented the balances net as the criteria for offsetting under FRS 32.42 are met. When applying the offsetting disclosure requirements, should the gross amount due from Company B of $20,000 and the gross amount due to Company B of $18,000 that are netted in the statement of financial position be grossed up and presented in both the financial asset disclosure table and the financial liability table?

Answer 6

Yes. FRS 107.B44 requires amounts of both the recognised financial assets and the recognised financial liabilities that are subject to set-off under the same arrangement to be disclosed in both the financial asset and financial liability disclosures.

Illustrative disclosure

As at 31 Dec 20XX	**(a)**	**(b)**	**(c) = (a) – (b)**	**(d)**		**(e) = (c) – (d)**
				Related amounts not set off in the statement of financial position		
	Gross amounts of recognised financial assets/ liabilities	**Gross amounts of recognised financial liabilities/ assets set off in the statement of financial position**	**Net amounts of financial assets/ liabilities presented in the statement of financial position**	**Financial instruments**	**Cash collateral received**	**Net amount**
Financial assets						
Receivable	20,000	(18,000)	2,000	-	-	2,000
Financial liabilities						
Payable	18,000	(18,000)	-	-	-	-

In this case, the gross amount of receivable is larger than the gross amount of payable. The financial asset disclosure table will show the entire gross amount of receivable of $20,000 in column (a) and the entire gross amount of payable of $18,000 in column (b). However, while the financial liability disclosure table will include the entire gross amount of payable in column (a), the amount of receivable to be included in column (b) is equal to the gross amount of payable (i.e. $18,000).

Question 7 – Corporate

Company X is the treasury arm of Group X. Group X centrally manages all cash in the group through Company X. All cash receipts and cash payments of the group are deposited into and paid directly from the bank account of Company X.
Company Y is a subsidiary within Group X. Company Y does not have a bank account. In its financial statements, Company Y has a net amount due from Company X. From Company Y's perspective, does Company Y need to show the gross amount of cash receipts deposited with and the gross amount of cash payments paid directly by Company X on behalf of Company Y in the offsetting disclosure note?

Answer 7

If any cash receipts deposited with Company X constitute legal settlement of the payments made by Company X on behalf of Company Y, and Company X and Company Y are legally entitled to demand settlement of only the net balance in all circumstances, then, the single amount due from Company X is the only amount outstanding as at the balance sheet date.

The gross amount of cash receipts and the gross amount of cash payments should not be disclosed in the offsetting disclosure note as there is no offsetting of balances in the statement of financial position. The account maintained at Company X by Company Y is similar to a current account with a bank with deposits and withdrawals not being reported or disclosed gross.

Question 8 – Corporate

Company D uses interest rate swaps to hedge its borrowings. The interest rate swaps are entered under International Swaps and Derivatives Association (ISDA) master netting agreements. Under ISDA master netting agreements in certain circumstances – e.g. when a credit event such as default occurs – all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is due or payable in settlement of all transactions. Other than the interest rate swaps, Company D does not have any other transactions under the ISDA agreements.

Scenario 1: There are 3 interest rate swaps with 3 different banks.

Scenario 2: There are 3 interest rate swaps with 1 bank. All interest rate swaps have positive fair values (asset) as at the balance sheet date.

Scenario 3: There are 3 interest rate swaps with 1 bank. 2 interest rate swaps have positive fair values (asset) of $500 and 1 interest rate swap has a negative fair value (liability) of $200.
Are the interest rate swaps within the scope of the offsetting disclosure requirements?

Answer 8

Scenario 1: No. There is no master netting arrangement that allow netting of the balances with all 3 banks. While there is a master netting agreement with each bank, as at the balance sheet date Company D does not have any other financial liabilities arising from transactions under the ISDA agreements that could be set off against the respective derivative asset. Company D will need to reassess in subsequent years whether the interest rate swaps are within the scope of the offsetting disclosure requirements. For example, if Company D entered into new derivative contracts with the same banks, the interest rate swaps may fall into scope of the disclosure requirements.

Scenario 2: No. While there is a master netting arrangement with the bank, as at the balance sheet date, Company D does not have any other financial liabilities arising from transactions that are under the ISDA agreements that could be set off against the derivative assets. Company D will need to reassess in the subsequent years whether the interest rate swaps are within the scope of the offsetting disclosure requirements. For example, if Company D entered into new derivative contracts with the same bank, the interest rate swaps may fall into scope of the disclosure requirements.

Scenario 3: Yes. The ISDA agreement is a master netting arrangement as it allows netting in the event of default.

Illustrative disclosure

As at 31 Dec 20XX	(a)	(b)	(c) = (a) – (b)	(d)		(e) = (c) – (d)
				Related amounts not set off in the statement of financial position		
	Gross amounts of recognised financial assets/ liabilities	Gross amounts of recognised financial liabilities/ assets set off in the statement of financial position	Net amounts of financial assets/ liabilities presented in the statement of financial position	Financial instruments	Cash collateral received	Net amount
Financial assets						
Derivatives - Interest rate swaps	500	-	500	(200)	-	300
Financial liabilities						
Derivatives - Interest rate swaps	200	-	200	(200)	-	-

In this case, the derivative asset is larger than the derivative liability. The financial asset disclosure table will include the entire amount of derivative asset of $500 in column (a) and the entire amount of derivative liability of $200 in column (d). However, while the financial liability disclosure table will include the entire derivative liability of $200 in column (a), the amount of derivative asset to be included in column (d) is equal to the amount of derivative liability (i.e. $200).

Question 9 – Corporate

Company C entered into a gross-settled forward exchange contract to buy US$1,000,000 and sell S$1,300,000 with a bank. The fair value of the contract is S$10,000 (asset). The contract is entered into under an International Swaps and Derivatives Association (ISDA) master netting agreement. Under ISDA master netting agreements in certain circumstances – e.g. when a credit event such as default occurs – all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is due or payable in settlement of all transactions. Is the forward contract within the scope of the offsetting disclosure requirements because the gross cash flows to be exchanged under the contract are offset to derive the fair value of the forward contract?

Answer 9

No. The fair value of S$10,000 reflects the fair value of the forward contract and there is no offsetting of balances in the statement of financial position. Instead, Company C should assess whether there are any other financial liabilities that are covered by the ISDA master netting agreement that could be set off against the derivative asset arising from the forward contract. If there are other financial liabilities that are covered by the ISDA master netting agreement, the forward exchange contract will be within the scope of the offsetting disclosure requirements.

Question 10 – Corporate and Banks

Customer has a term loan secured against one of Customer's property and a current account with Bank A. The terms and conditions for the facilities extended by Bank A to Customer allow Bank A the right to net all balances in the event of default, bankruptcy or insolvency of Customer. Are the term loan and the current account within the scope of the offsetting disclosure requirements?

Answer 10

Customer's perspective: No. Customer has no right to offset under the arrangement and hence it does not have a master netting arrangement.

Bank's perspective: No. Whilst Bank A has a master netting arrangement (i.e. it has the right of offset under the arrangement), the term loan and the current account are loans and customer deposits with the same financial institution and are not within the scope of the offsetting disclosure requirements.

Insights: When entities analyse their agreements, it is important that they assess whether the reporting entity has the right to offset its positions should the counterparty default or enter into bankruptcy or insolvency. For example, some entities enter into master netting arrangements that grant a right of offset to the counterparty but do not give the reporting entity a right of offset. In such cases, the reporting entity does not, from its perspective, have a master netting arrangement as it has no right of offset under the arrangement. Instruments subject to that arrangement would not be within the scope of the offsetting disclosure requirements for the reporting entity.

Question 11 – Banks

A customer (Customer) invested in a structured deposit with Bank P. The structured deposit is accounted for by Bank P as a hybrid financial instrument comprising a fixed deposit that is accounted for as customer deposit and an embedded derivative.

Bank P presents the fixed deposit as a customer deposit payable to Customer and the embedded derivative as derivative in its statement of financial position. For credit risk management purposes, Bank P treats the fixed deposit as collateral for the embedded derivative. It is unlikely for the expected loss arising from the embedded derivative to exceed the fixed deposit component. Are the fixed deposit and the embedded derivative within the scope of the offsetting disclosure requirements?

Answer 11

Loans and customer deposits are not defined in the standard. The embedded derivative is not a customer deposit and further analysis is required to assess whether it is within the scope of the standard. We believe that it is appropriate to treat the fixed deposit component as a customer deposit as this is consistent with how Bank P manages the structured deposit for risk management purposes.

For the embedded derivative, it is within the scope of the offsetting disclosure if the structured deposit is subject to an enforceable master netting arrangement or similar agreement and there are other financial liabilities that can be set off against the structured deposit.

Illustrative disclosure

Scenario 1: The total carrying amount of the structured deposit is $12,000. The fixed deposit component is $10,000 (liability) while the embedded derivative is $2,000 (liability). Customer also entered into a forward contract under ISDA master netting agreement. The fair value of the forward is a positive $20,000 (asset). The ISDA master netting agreement covers the structured deposit.

As at 31 Dec 20XX	**(a)**	**(b)**	**(c) = (a) – (b)**	**(d)**		**(e) = (c) – (d)**
				Related amounts not set off in the statement of financial position		
	Gross amounts of recognised financial assets/ liabilities	**Gross amounts of recognised financial liabilities/ assets set off in the statement of financial position**	**Net amounts of financial assets/ liabilities presented in the statement of financial position**	**Financial instruments**	**Cash collateral received**	**Net amount**
Financial assets						
Derivative	20,000	-	20,000	(2,000)	(10,000)	8,000
Financial liabilities						
Embedded derivative	2,000	-	2,000	(2,000)	-	-

In this case, the derivative asset is larger than the structured deposit of $12,000.

The financial liability disclosure table will include the embedded derivative of $2,000 in column (a). However, the amount to be included in column (d) is limited to the amount of embedded derivative of $2,000. The fixed deposit component of $10,000 is not included as one line item in the financial liability disclosure table as it is managed by the bank as a pledged customer deposit and therefore out of scope of the offsetting disclosure requirements.

In the financial asset disclosure table, the entire amount of the derivative asset is included in column (a) and the carrying amount of the structured deposit is included in column (d). While the fixed deposit component of the structured deposit is excluded from the scope of the disclosure, it is not excluded for the purpose of offsetting against other in-scope instruments (i.e. the derivatives) as the amount disclosed in column (d) include all recognised financial assets and financial liabilities and collateral received or pledged to which the right of set-off applies.

Scenario 2: The total carrying amount of the structured deposit is $8,000. The fixed deposit component is $10,000 (liability) while the embedded derivative is $2,000 (asset). Customer also entered into a forward contract under ISDA master netting agreement. The fair value of the forward is $20,000 (asset). The ISDA master netting agreement covers the structured deposit.

As at 31 Dec 20XX	(a)	(b)	(c) = (a) – (b)	(d)		(e) = (c) – (d)
				Related amounts not set off in the statement of financial position		
	Gross amounts of recognised financial assets/ liabilities	Gross amounts of recognised financial liabilities/ assets set off in the statement of financial position	Net amounts of financial assets/ liabilities presented in the statement of financial position	Financial instruments	Cash collateral received	Net amount
Financial assets						
Derivatives	22,000	-	22,000	-	(10,000)	12,000

In this case, the embedded derivative and the derivative asset are presented together as one line item in the financial asset disclosure table. The fixed deposit component of the structured deposit of $10,000 is not included as one line item in the table as it is managed by the bank as a pledged customer deposit and therefore out of scope of the offsetting disclosure requirements. However, the fixed deposit component of the structured deposit is included for the purpose of offsetting against other in-scope instruments (i.e. the derivatives) as the amount disclosed in column (d) include all recognised financial assets and financial liabilities and collateral received or pledged to which the right of set-off applies.

Scenario 3: The total carrying amount of the structured deposit is $8,000. The fixed deposit component is $10,000 (liability) while the embedded derivative is $2,000 (asset). Customer also entered into a forward contract under ISDA master netting agreement. The fair value of the forward is $20,000 (liability). The ISDA master netting agreement covers the structured deposit.

As at 31 Dec 20XX	(a)	(b)	(c) = (a) – (b)	(d)		(e) = (c) – (d)
				Related amounts not set off in the statement of financial position		
	Gross amounts of recognised financial assets/ liabilities	Gross amounts of recognised financial liabilities/ assets set off in the statement of financial position	Net amounts of financial assets/ liabilities presented in the statement of financial position	Financial instruments	Cash collateral received	Net amount
Financial assets						
Embedded derivative	2,000	-	2,000	(2,000)	-	-
Financial liabilities						
Derivative	20,000	-	20,000	(2,000)	-	18,000

The financial asset disclosure table will include the embedded derivative of $2,000 in column (a). However, the amount to be included in column (d) is limited to the amount of embedded derivative (i.e. $2,000). The fixed deposit component of $10,000 is not included as one line item in the financial liability disclosure table as it is managed by the bank as a pledged customer deposit and therefore out of scope of the offsetting disclosure requirements.

In the financial liability disclosure table, the entire amount of the derivative liability is included in column (a) and the carrying amount of the embedded derivative is included in column (d). The fixed deposit component of the structured deposit is not included in column (d) as it is a liability by itself.

Question 12 – Banks

Singapore Branch B is a branch of a foreign bank. Branch B frequently enters into derivatives, sale and repurchase (repo), and reverse sale and repurchase (reverse repo) transactions and securities borrowing and lending transactions with other banks. All master netting agreements with other banks are entered into at the head office level. All cash collateral is managed centrally by the head office and is received by the head office. There is no segregation of cash collateral specifically for the branch. Should the branch in Singapore disclose a portion of the cash collateral received at the head office level in the offsetting disclosure note?

Answer 12

No. The branch being the reporting entity has not received any cash collateral and therefore, should not include the cash collateral received by the head office as cash collateral received in the offsetting disclosure note.

Question 13 – Banks and Broker-Dealer

Bank A accounts for the sale and repurchase (repo), and reverse sale and repurchase (reverse repo) transactions and securities borrowing and lending as collateralised borrowings.

(1) If these transactions are not covered by global master repurchase agreements or global master securities lending agreements or any other master netting arrangements that allow netting by either party in the event of default, are they within the scope of the offsetting disclosure requirements?

(2) If these transactions are covered by global master repurchase agreements or global master securities lending agreements or similar master netting arrangements that allow netting by either party in the event of default, are they within the scope of the offsetting disclosure requirements?

(3) If the transactions are within the scope of the offsetting disclosure requirements, any financial collateral (including cash collateral) received or pledged are included as related amounts subject to netting under the master netting arrangement per FRS 107.12C(d)(ii). For financial collateral (including cash collateral) received or pledged but not recognised in the statement of financial position, should they be included in the offsetting disclosure note as financial collateral received or pledged?

Answer 13

(1) No. Since there is no master netting arrangement, any receivables or payables arising from the contracts will only be subject to collateral agreement. Instruments subject only to a collateral agreement are out of scope of the offsetting disclosure requirements. Instead, Bank A should disclose the information about the collateral pledged and collateral held in accordance with the relevant provisions in FRS 107.

Insights: Entities that hold instruments that may be subject to the offsetting disclosure requirements (i.e., derivatives, repurchase and reverse repurchase agreements, or securities lending or borrowing transactions) should review any agreements underlying those instruments (e.g. ISDA, exchange or central clearing agreements) to assess whether such agreements are a master netting arrangement or similar agreement.

(2) Yes. These transactions while accounted for as collateralised borrowings are not loans and customer deposits. Further, the standard illustrates as examples that sale and repurchase, and reverse sale and repurchase transactions and securities borrowing and lending that are covered by global master repurchase agreements or global master securities lending agreements or any other master netting arrangement are within the scope of the standard.

(3) Yes. FRS 107.B48 requires the fair value of those financial instruments that have been pledged or received as collateral to be disclosed. It does not require the collateral to be recognised in the statement of financial position. Furthermore, FRS 107.B48 is clear that the amount disclosed in accordance with FRS 107.13C(d)(ii) should relate to the actual collateral received or pledged and not to any resulting payables or receivables recognised to return or receive back the collateral.

Question 14 – Broker-dealer

Broker A has receivables and payables from unsettled regular-way trades with Customer B, Broker C and Clearing House. In accordance with the central clearing agreement with Clearing House, Broker A is required to pledge cash collateral (initial and variable margin) with Clearing House. In the event of default, bankruptcy or insolvency of either party, the central clearing agreement requires all outstanding transactions under the agreement to be terminated, the termination value is assessed and only a single net amount is due or payable in settlement of all transactions. The terms of the agreements with Customer A and Broker C also contain similar set-off provisions as the central clearing agreement with Clearing House.

Are the receivables and payables from unsettled regular-way trades within the scope of the offsetting disclosure requirements?

Answer 14

Yes. The receivables and payables from unsettled regular-way trades are not loans and customer deposits with the same financial institution. The set-off provisions are equivalent to master netting arrangements or similar agreements. In the case of the balances with Clearing House, they are subject not only to a collateral agreement (initial and variable margin) but also to the set-off provisions that are equivalent to an enforceable master netting arrangement. Receivables and payables subject to set-off provisions that are equivalent to an enforceable master netting arrangement are within the scope of the offsetting disclosure requirements.

4. International developments

2018 effective date for new Financial Instruments standard IFRS 9

With deliberations on the classification and measurement and impairment phases complete, the IASB has tentatively decided on an effective date for IFRS 9 *Financial Instruments (2014)* of 1 January 2018. A final standard is expected in mid-2014.

During its February meetings, the Board also continued its discussions on the unit of account for fair value measurement, focusing on transition. It decided that the amendments for quoted investments would be initially applied by adjusting opening retained earnings in the period of adoption. An exposure draft is expected in the second quarter of 2014.

For more details, refer to IFRS Newsletter: The future of IFRS financial instruments accounting

> "All the due process requirements for IFRS 9 have been met, and a final standard with an effective date of 1 January 2018 is expected in mid-2014."
>
> Chris Spall
> KPMG's global IFRS financial instruments leader

Narrow-scope amendments

As part of its annual improvements process, the IASB has published non-urgent but necessary final amendments and proposed amendments to IFRS.

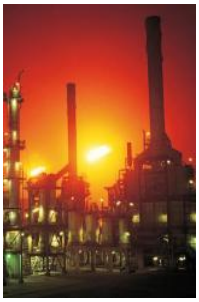
The final amendments cover a total of nine standards, with consequential amendments to other standards. Most of the amendments will apply prospectively for annual periods beginning on or after 1 July 2014. In Singapore, the ASC issued similar amendments in two batches. One batch was released in January 2014 and the final batch in February 2014.

The proposed amendments affect the following four standards:

(i) IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
(ii) IFRS 7 *Financial Instruments: Disclosures*
(iii) IAS 19 *Employee Benefits*
(iv) IAS 34 *Interim Financial Reporting*

Most of the proposals would apply retrospectively for annual periods beginning on or after 1 January 2016. Comments on the proposals were due to the IASB by 13 March 2014, and the comment period to the Singapore ASC closed on 7 February 2014.

For more details, refer to IFRS Newsletter: The Balancing Items – Narrow-scope amendments to IFRS



Interim relief for first-time adopters with rate-regulated activities

The first specific guidance on accounting for the effects of rate regulation under IFRS has been issued, with the publication of an interim standard – IFRS 14 *Regulatory Deferral Accounts*.

First-time adopters of IFRS will be able to continue using previous GAAP to account for regulatory deferral account balances while the IASB completes its comprehensive project in this area.

For rate-regulated entities that have deferred transition to IFRS, particularly in Canada, the interim standard will come as welcome news. Elsewhere, however, all eyes will be on the comprehensive project.

In Singapore, the ASC has not issued the equivalent standard.

For more details, refer to In the Headlines – January 2014: Accounting for rate-regulated activities

> "The interim standard is good news for Canada – elsewhere, all eyes will be on the comprehensive project."
>
> Phil Dowad
> KPMG's global IFRS revenue recognition and provisions leader

Your opportunity to feedback on practical issues with IFRS 3

To help assess whether its new standards and major amendments are working as intended, the IASB conducts post-implementation reviews as part of its due process. In line with this practice, the IASB is seeking formal feedback on the practical issues that constituents have faced in applying IFRS 3 *Business Combinations*. In particular, the focus is on the usefulness of the accounting and disclosure requirements and the challenges in applying the standard.

We encourage constituents to take this opportunity to provide feedback based on their practical experience of the standard.

Comments on the proposals are due to the IASB by 30 May 2014, and the comment period to the Singapore ASC closes on 15 April 2014.

For more details, refer to In the Headlines – January 2014: Review of business combinations accounting

> "We know that there have been issues with the implementation of IFRS 3, so constituent should take this opportunity to provide feedback based on their practical experience of the standard."
>
> Mike Metcalf
> KPMG's global IFRS business combinations and consolidations leader

A change in direction for FASB's insurance project

The FASB has decided to change the future direction of its insurance contracts project, and will consider targeted improvements to current US GAAP. It will also limit the project's scope to insurance entities, although contracts written by non-insurers may be added back as the project progresses.

These decisions are likely to significantly limit convergence between the IASB's and the FASB's insurance contracts projects.

Meanwhile, the IASB's tentative decision on a 2018 effective date for its financial instruments standard may make it easier for insurers to adopt the new insurance contracts IFRS at the same time.

For more details, refer to IFRS Newsletter: Moving towards international insurance accounting

> "The IASB's tentative decision about IFRS 9 and reference to interaction with the insurance contracts project indicate that it is serious about its timeline for the insurance contracts project."
>
> Joachim Kölschbach
> KPMG's global IFRS insurance leader

Bridging the GAAP – Communication through alternative performance measures

GAAP rarely tells the whole story of a company's performance. To bridge the gap, companies and investors communicate through key performance indicators, alongside the GAAP numbers. A few KPIs are the subject of agreed, usually sector-specific, definitions; but many are not.

To date, regulators around the world have taken different approaches to non-GAAP information or alternative performance measures. In the most recent development in this field, the European Securities and Markets Authority has issued a consultation paper on APMs. Its aim is to enhance transparency and comparability when APMs are presented in public, regulatory filings.

ESMA's proposals would apply in the 28 EU member states. However, the demand for APMs does not stop at regulatory borders, and the proposals will be followed with interest beyond the EU.

ESMA has requested comments from all stakeholders. The comment period is open until 14 May 2014.

For more details, refer to In the Headlines – February 2014: Bridging the GAAP

"Investors increasingly look to non-GAAP information for insight into the companies that they own. It's time to work together globally to make that information more consistent, transparent and reliable. Current and proposed guidelines are a start; but more is needed."

Mark Vaessen
KPMG's global IFRS network leader

In the spotlight –IFRS 10 one year on and progress on IFRS 9

Many banks outside the EU have now applied the new standard on consolidated financial statements (IFRS 10) to both their interim and annual financial statements – and this newsletter examines the learning points from the first year of implementation.

Meanwhile, the IASB has issued its new general hedge accounting model – part of IFRS 9 *Financial Instruments (2013)* – which will align hedge accounting more closely with risk management. It has also made substantial progress in its projects on expected credit losses and classification and measurement.

For more details, refer to IFRS Newsletter: The Bank Statement Q4 2013

"IFRS 10 contains a single consolidation model that applies to all investees (operating entities and structured entities). Application of this principle to the specific facts and circumstances often requires the exercise of significant judgement."

Angie Ah Kun and Tara Smith
Department of Professional Practice, KPMG in South Africa

Model alternative for lease accounting

Fundamental aspects of the IASB and FASB lease accounting proposals were up for discussion in the Boards' January 2014 meeting, covering both lessee and lessor accounting, and potential simplifications for small-ticket leases.

No decisions were made, but the range of alternatives on the table was striking, reflecting diverse constituent feedback on the Boards' 2013 proposals. The Boards will return to these fundamental issues in March 2014, with a view to deciding the way forward on this controversial project.

For more details, refer to IFRS Newsletter: Leases Issue 13

> "This project has many moving parts, but one fixed point – a continuing desire to see lessees recognise significant lease obligations on their balance sheets."
>
> Kimber Bascom
> KPMG's global IFRS leasing standards leader