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FINANCIAL REPORTING MATTERS

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In October 2014, the Companies (Amendment) Bill was passed by Parliament. On 15 April 2015, the Accounting and Corporate Regulatory Authority (ACRA) announced that the legislative changes to the Companies Act will be effected in two phases. In this issue, we highlight the key amendments which will have implications on financial reporting.

With the arrival of the new revenue standard – FRS 115 *Revenue from Contracts with Customers*, companies in the food, drink and consumer goods (FDCG) sector will need to review their arrangements with distributors and retailers – e.g. trade incentives, warranties, returns and licences as the requirements of the new standard may change the amount or timing of the revenue recognised. In this issue, we highlight the key areas of potential changes affecting FDCG companies.

At your next Annual General Meeting, are you prepared if your auditors communicate the following message to your shareholders? Read this issue to find out more.

> *Dear Shareholders,*
>
> *"We found that the Group has developed a framework for selecting the accounting basis to be used which is consistent with accounting standards and has applied this consistently. For almost all the agreements entered into during this year, it was clear which accounting basis should apply. Where there was room for interpretation, we found the Group's judgement to be balanced."*[1]
>
> *Yours faithfully*
> *Auditors*

As a Singapore listed company, are you prepared to adopt the new financial reporting framework identical to the International Financial Reporting Standards from 2018? The transition date is 1 January 2017 and with 18 months left, do you have a clear plan to finalise the transition adjustments before the effective date? Read this issue to find out more.

Last but not least, we bring you a roundup of the latest accounting developments on the international front.

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1 Source: Adapted from Rolls Royce Holdings plc's Annual Report for the year ended 31/12/2013

1. Amendments to the Companies' Act

This article is contributed by:

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In October 2014, the Companies (Amendment) Bill was passed. The ACRA announced in April 2015 that these amendments will be implemented in two phases; the first phase which has taken effect from 1 July 2015 and the second phase will commence in the first quarter of 2016. This article summarises the key amendments affecting the financial reporting requirements only.

First phase amendments effective from 1 July 2015

1 *Repeal of Section 200 – Alignment of subsidiaries' financial year ends*

Section 200 previously required Singapore holding companies to align the financial year ends of their subsidiaries. This is no longer required under the Singapore Companies Act (the "Act") and Singapore holding companies have to follow the requirements in the relevant accounting standards in respect of alignment of financial year ends. Consequently, for Singapore holding companies that prepare their financial statements in accordance with Singapore Financial Reporting Standards, they will have to follow the requirements found in paragraphs B92 and B93 of FRS 110 *Consolidated Financial Statements*. FRS 110 essentially allows the subsidiaries' financial year end to be no more than three months before/after the Singapore holding companies' financial year end with necessary adjustments to account for the effects of significant transactions or events that occur between the date of the subsidiaries' financial statements and the date of the consolidated financial statements.

2 *Introduction of Sections 205AB to 205AF – Premature resignation of auditors of public interest entities and their subsidiaries*

To safeguard public interests, auditors of public interest entities[2] and their subsidiaries are now required to obtain written approval from the ACRA on their resignation during the term of office or

2 Public interest entities (PIEs) are defined in Section 205AA.4 of the Act and they include the following:
(a) companies listed or in the process of listing on the Singapore Exchange or a securities exchange outside of Singapore; (b) selected financial institutions e.g. (i) Companies that are part of the banking and payment system; (ii) Insurers and insurance brokers; (iii) capital market infrastructure providers; and (iv) capital markets intermediaries; and (c) large charities or institutions of a public character which are companies. The full list is available in the Companies (Amendment No. 2) Regulations 2015.

before the upcoming annual general meeting. Concurrently, the auditors have to notify the company and the directors are required to send these letters to all shareholders within 14 days upon the receipt of the letter. The appointment of a new auditor has to occur within three months from the date of the auditor's resignation through a general meeting, with notification to ACRA within 14 days on the appointment of a new auditor.

3 *Revision of terminologies found in Sections 199, 201 and 207*

The table reflects the revised terminologies below:

	Before the Amendment Act	After the Amendment Act
1.	Profit and loss accounts and balance sheets	Financial statements
2.	State of affairs and results	Financial position and performance
3.	Subsidiaries	Subsidiary corporations

Accordingly, for financial statements that are authorised for issue on or after 1 July 2015, the relevant sections of the annual report (including statement by directors and independent auditors' report) should follow the new terminologies.

First phase amendments effective for companies with a financial year ending on or after 1 July 2015:

4 *Introduction of the Twelfth Schedule – "Contents of Directors' Statements"*

Previously, both the directors' report and the statement by directors are included separately in the annual report; with the former reporting on the directors' interests and the latter reporting on the directors' opinion with respect to the financial statements presented to the shareholders.

With the amendments, an enhanced Directors' Statement replaces the existing directors' report and the statement by directors. Directors are encouraged to seek advice from their corporate secretaries in respect of this new requirement.

First phase amendments effective for companies with a financial year beginning on or after 1 July 2015:

5 *Revisions to Section 205C – Small companies audit exemption*

Previously, exempt private companies[3] with annual revenue of not more than S$5 million are exempted from statutory audit. This audit exemption has been revised and after the revision, small Singapore-incorporated companies are exempted from statutory audit if both of the following criteria are met:

A. During the financial year, the company is a private entity;

B. For the preceding two consecutive financial years, the company meets two of the following criteria:

- Total annual revenue, based on prevailing accounting standards, is not more than S$10 million;
- Total assets, based on prevailing accounting standards, is not more than S$10 million; or
- The number of full-time employees at the end of the financial year is not more than 50.

3 Exempt private companies were defined as private companies with not more than 20 members and having no corporate shareholders or private companies gazette by the Minister as such.

Subsidiaries that belong to a group (including foreign groups) are only exempted from statutory requirements if the assessment made on a consolidated basis of the group meets the above mentioned criteria. Existing requirements for companies to keep proper accounting records and empowering shareholders with at least 5% voting rights to require a company to prepare audited accounts remain. Small companies that qualify for audit exemption are still required to file their financial statements unless they qualify as solvent exempt private companies. This aims to reduce regulatory costs and align these requirements to similar requirements of other countries.

Transitional provisions are provided for existing companies if it is a private company and meets the above quantitative criteria (B) in either the first or second financial year subsequent to the commencement of the small company audit exemption (i.e. FY2016 or FY2017). Refer to the table below.

	FY2016	FY2017	FY2018
Scenario 1			
Does the company meet (2) of (3) quantitative criteria?	Yes	No	No
Audit exemption	Yes	Yes	Yes
Scenario 2			
Does the company meet (2) of (3) quantitative criteria?	No	Yes	No
Audit exemption	No	Yes	Yes

For FY2019, assessment of the quantitative criteria is made based on whether the company meets the criteria in two out of three preceding financial years (which are FY2016, 2017 and 2018). From FY 2020, the quantitative assessment has to be performed based on preceding two consecutive financial years.

Second phase - expected to be implemented in the first quarter of 2016

1 *Extension of directors' disclosures to CEO*

In alignment with the Securities and Futures Act requirements, disclosures of interests by directors, which include conflict of interests in transactions and shareholdings in the company and related corporations, are now extended to the Chief Executive Officer (CEO) who is a non-director.

2 *New exemption from preparation of financial statements for dormant unlisted companies*

With the changes to the Act expected to be effective next year, dormant unlisted companies will no longer be required to prepare unaudited financial statements, if these conditions are both fulfilled:

a. Total assets at any time of the financial year is not more than S$0.5 million; and
b. The company has been dormant since the date of incorporation or since the end of the immediate preceding financial year.

3 *Revised filing requirements for foreign companies*

A foreign company will be required to file their financial statements, just like the locally-incorporated companies. This is different from the existing requirement to only file the balance sheet of the foreign company and a copy of the audited accounts of its operation in Singapore.

What are your immediate next steps?

We have only covered the amendments relating to financial reporting requirements. The full list of the amendments can be found in www.acra.gov.sg. In assessing the implications of the amendments to your company, we strongly encourage you to go through the full list of the amendments and make necessary consultations with your companies' corporate secretaries or auditors.

2. FRS 115 - Impact on Food, Drink and Consumer Goods Companies

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In November 2014, the Accounting Standards Council (ASC) issued a new standard on revenue recognition, FRS 115 Revenue from Contracts with Customers. This standard is equivalent to IFRS 15 which was issued by the IASB in May 2014. FRS 115, once effective, will replace the existing FRS revenue guidance and introduce a new revenue recognition model.

The new standard will result in significant impact across the food, drink and consumer goods (FDCG) sector, requiring companies to assess how their financial reporting and information systems and processes will be affected, and engage with their stakeholders to build up expectations of how their key performance indicators or business practices may change.

In this article, we highlight key areas of potential change affecting the FDCG sector.

Old arrangements, new challenges

FDCG companies will need to review their arrangements with distributors and retailers – e.g. trade incentives, warranties, returns and licences – to assess whether the amount or timing of the revenue recognised under the new standard will be affected. In particular, accounting may change for FDCG companies for some of following arrangements.

- Payments to distributors and retailers

  FRS 115 introduces new guidance for assessing whether payments made by FDCG Companies to distributors and retailers – e.g. for product placements in the retail stores ('slotting fees'), promotion events or co-branded advertising should be recorded as a reduction in revenue or as an expense. Under the new standard, the amount is recorded as a reduction in revenue unless the FDCG Company receives a distinct good or service in exchange for the payment and the FDCG Company can estimate the fair value of the good or service received.

- Discounts, rebates and other similar incentives

  Discounts, volume rebates, cash incentives, performance bonuses and similar incentives are treated as variable consideration under FRS 115. FRS 115 introduces new accounting requirements relating to Variable Consideration (VC). VC is included in the transaction price at the company's best estimate and is included in revenue to the extent it is highly probable that there will be no significant reversal of the cumulative amount of revenue when any contingencies is resolved.

- Free/discounted goods or services under customer loyalty programmes

  The accounting for free or discounted goods under a customer loyalty programme in the new standard is broadly similar to current FRS guidance. However, FRS115 introduces a slightly different approach to allocating the transaction price.

- Contract Manufacturing arrangements

  The predominant practice currently for contract manufacturers is to recognise revenue at the point when the manufactured product is delivered. Under the new standard, revenue arising from some contract manufacturing arrangements may be recognised as the manufacturing takes place. This is the case if the goods are specifically produced for an individual customer based on the customer's specification and the FDCG Company has an enforceable right to payment for the production completed to date.

- Warranties

  FRS 115 distinguishes between two types of warranty - 'assurance-type warranty' and 'service-type warranty'. An 'assurance-type warranty' only covers compliance of the product with agreed-upon specifications. An 'assurance-type warranty' is accounted for as a cost accrual under FRS 115, which is similar to current requirements. A warranty that promises a service over and above guaranteeing compliance with agreed upon specifications is a 'service-type warranty'. A 'service-type warranty' is accounted for as a separate performance obligation (i.e. a separate revenue stream) under FRS 115. If it is sold as a package with the associated product, part of the transaction price will be allocated to the warranty and recognised over the warranty period.

- Returns

  The new standard introduces an approach of adjusting revenue for the expected level of returns and recognising a refund liability. While the approach is broadly similar to the current guidance, the detailed methodology for estimating revenue and the presentation on the balance sheet and income statement may be different for some companies on application of FRS 115.

- Licences, franchises and royalty

  New guidance is introduced on how to account for licensing fees, franchise fees and royalties. Depending on the types of rights granted, revenue may be recognised over-time, at a point in time or in the case of sales-based or usage-based royalties relating to intellectual property,is recognised when the sale or usage takes place.

Our publication on New revenue standard – Assessing the impact for food, drink and consumer goods companies provides a series of prompts for thinking through what the new requirements could mean for each of the above arrangement and the actions for you to consider to implement these changes.

When is the standard effective?

The new standard officially takes effect on 1 January 2017 but the effective date is currently subject to an expected deferral of one year. FRS preparers may choose to implement the new standard at an earlier date. You may refer to the International Accounting Standards Board's exposure draft – May 2015 for more information.

How to transition to the new standard?

Affected companies need to make important decisions on when and how to transition to the new standard soon. An early decision will allow you to develop an efficient implementation plan and inform your stakeholders.

The standard offers a range of transition options. The new standard may be adopted retrospectively, by restating the comparatives and adjusting retained earnings at the beginning of the earliest comparative period. Alternatively, the new standard may be adopted as of the application date (i.e. 1 January 2017 for calendar year-end companies), by adjusting retained earnings at the beginning of the first reporting year (the cumulative effect approach). A series of optional practical expedients are also available under the retrospective approach which may ease full retrospective transition.

If you are a first-time adopter transitioning to the new financial reporting framework identical to the International Financial Reporting Standards (refer to article 3 on Singapore Listed Companies-Are you ready for full convergence to IFRS), the cumulative effect approach is not applicable. Instead, a first-time adopter, when applying the retrospective approach is not required to restate contracts that are completed under legacy GAAP at the date of transition to IFRS (i.e. 1 January 2017).

The chosen transition options can have a significant effect on revenue and cost trends. For preparers who may plan to or have to elect the retrospective transition method, one option is to implement the necessary processes and policy changes such that it can account for the contracts and provide the necessary disclosures under FRS 115, as well as the existing standard, on a real time basis from the beginning of the earliest comparative period presented (i.e. 1 January 2017 if one year of comparatives is presented and the effective date is deferred to 1 January 2018).

This means that these companies have just over a year to implement the system changes. Companies wishing to early adopt FRS115 by just a year using the full retrospective transition method will have to have their redesigned systems up and running by 1 January 2016, which is only six months away!

To help you understand more about the transition options, you can refer to our publication on *Transition to the New Revenue Standard*.

To find out more about the new revenue standard, you can download the following publications:

In the Headlines – May 2014: Revenue a new global standard

First Impressions: Revenue from contracts with customers

Transition to the new revenue standard
What's the best transition option for your business

IFRS Newsletter-Revenue

Issues in-Depth: Revenue from contracts with customers

To find out more about the new revenue standard and implications to certain specific industries, you can download the following publications:

Accounting for revenue is changing – Assessing the impact on insurance companies

Impacts on the construction industry of the new revenue standard

New revenue standard - Assessing the impact for power and utilities companies

Accounting for revenue is changing – impact on oil and gas companies

Accounting for revenue is changing – Impact on telecommunication companies

Accounting for revenue is changing: Impact on transport companies

New revenue standard – Assessing the impact for food, drink and consumer goods companies

Accounting for revenue is changing – Assessing the impact on housebuilders

3. Enhancing the auditors' communication to shareholders

This article is contributed by:

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Background

Imagine the following situation: You took your mother to the hospital for a regular health check: after hours of thorough examination, the doctor explains to you that "by and large, your mother is doing fine."

Even though such a statement is undeniably comforting information, would you happily walk away, or would you ask the doctor for an in-depth explanation of the examination and its results? If you are the type of person who would want to know more, especially in relation to the financial health of your investments, read on. On 15 January 2015, the International Auditing and Assurance Standards Board (IAASB) issued a revised set of auditing standards on auditors' reports which are effective for companies with financial years ending on or after 15 December 2016. This responds to the call for auditors to provide more information to users through the auditor's report.

The Institute of Singapore Chartered Accountants (ISCA) also issued exposure drafts on the same topic in May 2015, with a similar proposed effective date. The reason for the change is that, in particular in the aftermath of the Financial Crisis in 2008, investors had called for the auditors' report to be expanded beyond just a pass-or-fail opinion on the financial statements to provide greater transparency about the audit. More specifically, investors would like to understand what the auditors focused on during the audit and requested that the auditors provide more useful information surrounding the following:

- What the auditors considered as the key audit risks and how they addressed those risks;
- Whether management's selection of accounting policies is appropriate;
- Whether management's judgement is overly optimistic or otherwise; and
- Whether the company is able to continue as a going concern.

Who will be affected and what are the proposed changes?

First of all, every entity including a public-interest entity that is subject to a statutory audit will be affected by the changes. This is because some of the new requirements apply to listed and non-listed entities alike.

One of the key changes include explicit statements in the auditors' report about management's assessment as to whether the going concern assumption is appropriate in the preparation of the financial statements as well as the auditors' conclusion on whether there are material uncertainties in this respect. If such material uncertainties have been identified, additional explanations have to be provided, including the evaluation of the related disclosures in the financial statements.

The table below summarises the proposed key changes to the auditors' report. Apart from providing greater transparency on how the auditors approach the audit by highlighting the focus areas, the changes aim to provide clarity on the responsibilities of both management and directors of the companies and the auditors.

	Applicable to:	
	Non-listed entities	Listed entities[1]
Re-ordering of the report, in particular for the opinion section to be presented upfront	✓	✓
Revised description of management responsibilities, with specific reference on going concern assessment	✓	✓
Revised description of auditors' responsibilities, including but not limited to going concern evaluation	✓	✓
Statement about the auditors' independence and fulfilment of relevant ethical responsibilities	✓	✓
Disclose the name of the audit partner	✗	✓
Key audit matters and how they were addressed	✗	✓

Amongst the proposed changes above, the requirements for stating key audit matters are considered the most significant. Key audit matters are those matters which require most attention by the auditors in the course of the audit. Auditors have to describe these key audit matters and how they were addressed in the audit, including the audit procedures performed and/or the findings as a result of such procedures.

Describing the key audit matters, how they were addressed and the findings is not new. However, this information has so far only been shared with audit committees. With the proposed inclusion in the auditor's report, shareholders and other stakeholders will also have access to similar information.

1 Refer to Singapore Standards on Auditing, Glossary of Terms: "An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange."

Learning from the UK

The UK had a head start on this with the revised auditing standard issued by the UK and Ireland's Financial Reporting Council (FRC) in 2013. The revision to the auditors' report was largely compatible[2] with the International Standards on Auditing and the Singapore equivalent. The FRC also introduced changes to the UK Corporate Governance Code requiring listed companies to include an Audit Committee Report on the significant risks that the committee considered in relation to the financial statements and how the issues were addressed.

The FRC made the following key observations on which were detailed in a survey[3] based on 153 companies listed on the UK's Main Market with publicly available annual reports between July and September 2014:

- The number of risks included in the auditor's report range between 1 and 10;
- Some auditors' reports included "standard risks" such as the risk of fraud in revenue recognition and the risk of management override of controls not meeting the objectives of providing insights on areas with greatest effect on audit strategy, resources and efforts;
- Conversely, a high granularity of reported risks / key audit matters enables the readers to relate directly to the specific circumstances of the entity; by far the highest granularity amongst the Big-4 audit firms was found in KPMG's auditors' reports.
- The auditors' reports containing findings were praised by the Investment Management Association as most insightful. Overall, investors have warmly welcomed the expanded auditors' report.

The new audit report tells shareholders the key risks and how auditors addressed these risks. However, it does not require auditors to tell shareholders what they found when they did their checks and procedures. It does not say, for example, how acceptable the policies, estimates or disclosures were. KPMG in the UK went a step further to offer bold answers, beyond the minimum requirements and included their findings in certain audit reports, with the agreement of their clients.

> *"Our findings: We found that the Group has developed a framework for selecting the accounting basis to be used which is consistent with accounting standards and has applied this consistently. For almost all the agreements entered into during this year, it was clear which accounting basis should apply. Where there was room for interpretation, we found the Group's judgement to have been balanced."*
>
> Source: Rolls Royce Holdings plc's Annual Report for the year ended 31/12/2013

> *"Our findings identified weaknesses in the design and operation of controls. In response to this, we assessed the effectiveness of the Group's plans for addressing these weaknesses and we increased the scope and depth of our detailed testing and analysis from that originally planned. We found no significant errors in calculation. Overall, our assessment is that the assumptions and resulting estimates (including appropriate contingencies) resulted in mildly cautious profit recognition."*
>
> Source: Rolls Royce Holdings plc's Annual Report for the year ended 31/12/2013

2 One of the key differences between the standards in the UK and Ireland compared to the international and local framework is the requirement to disclose the concept of materiality in the auditor's reports in UK/Ireland.

3 Financial Reporting Council: Extended auditor's report - a review of experience in the first year, March 2015; https://frc.org.uk/Extended-auditors-reports.pdf

The view of investors

Comments by the judging panel of the 2014 Investment Management Association's (IMA) Auditor Reporting Awards in the category of ***Insightfulness***[4]:

FTSE 100 - Rolls Royce Holdings plc (KPMG) (Winner)

The judging panel was impressed with the level of detail and information in the auditor's report. The report provides significant insights into the audit process and the issues which the auditor had to consider.

Investors could use the issues to have further engagement with the Audit Committee.

Under the assessment of risks of material misstatement, the auditor outlines the risk, the auditor's response and more importantly what they found. The inclusion of findings was a step further than other auditors and provided a real value added, giving colour as to whether management's judgments were balanced, mildly optimistic or mildly pessimistic in the view of the auditor. The auditor turned over the rock and reported what they had found.

FTSE 250 - Rathbone Brothers plc (KPMG) (Winner)

The judging panel felt this was a well written company-specific report with good detail on the risks and the specific evidence the auditor sought.

It provided clear referencing and simple language on the risks to the audit.

FTSE small cap and AIM - Stobart Group plc (KPMG) (Winner)

Well written and detailed report with very entity specific risks.

The issues were raised well and in particular the judging panel liked the discussion on the adequacy of disclosures and the competency of the valuer.

In some ways the judging panel felt this report was better than some of the reports in the FTSE 250.

4 IMA Announces winners of its inaugural auditor reporting awards, The Investment Association, http://www.theinvestmentassociation.org/media-centre/press-releases/2014/press-release-2014-11-20.html,

What are the implications for preparers of financial statements and the audit committees?

With the objective of improving the quality of financial reporting, the change does not only affect auditors. Preparers of financial statements and their audit committees have a significant role to play too:

- Management is required to perform a formal assessment of the appropriateness of the going-concern assumption, even when no clear indicators of material uncertainty exist.

- In exercising their judgement over making estimates, management needs to have a clear basis for their assessment. The auditors will challenge management's basis and assess whether – in their view – the judgement was appropriately exercised, for example whether the forecast was optimistic, balanced or conservative.

- The discussion of key audit matters is expected to draw attention to the disclosures in the financial statements, in particular those disclosures addressing management judgment and estimates. Therefore they should contain sufficient details on the estimation approach, key assumptions, uncertainties and sensitivity analysis.

- With the spotlight on key audit matters, audit committees are expected to engage with the auditors and satisfy themselves that significant risks and issues are dealt with appropriately, including key judgments made by management and the adequacy of their disclosures in the financial statements. This may require audit committees to request for more and/or specific information from management and discussing or challenging the basis of management's judgement.

In conclusion, investors and other market participants will benefit from more transparency and better insights, as the enhanced auditors' report will help them better assess the financial health of their investments. This will make the additional efforts put in by the auditors, the preparers of financial statements and audit committees all worthwhile.

It is time now to prepare for the change and educate stakeholders. Ask your auditor for more information.

4. Singapore Listed Companies - Are you ready for full convergence with IFRS?

This article is contributed by:

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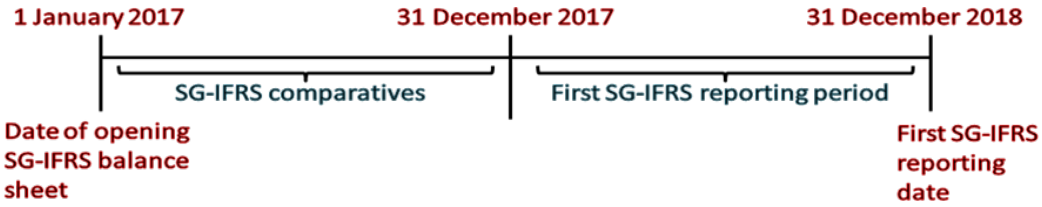
On 29 May 2014, the ASC announced that Singapore-incorporated companies listed on the Singapore Exchange (SGX) will apply a new financial reporting framework identical to the International Financial Reporting Standards (referred to as SG-IFRS in this article) from 2018. For December year-end listed companies, this means that comparative information for financial year 2017 and an opening balance sheet as at 1 January 2017 that are in compliance with SG-IFRS will be required.

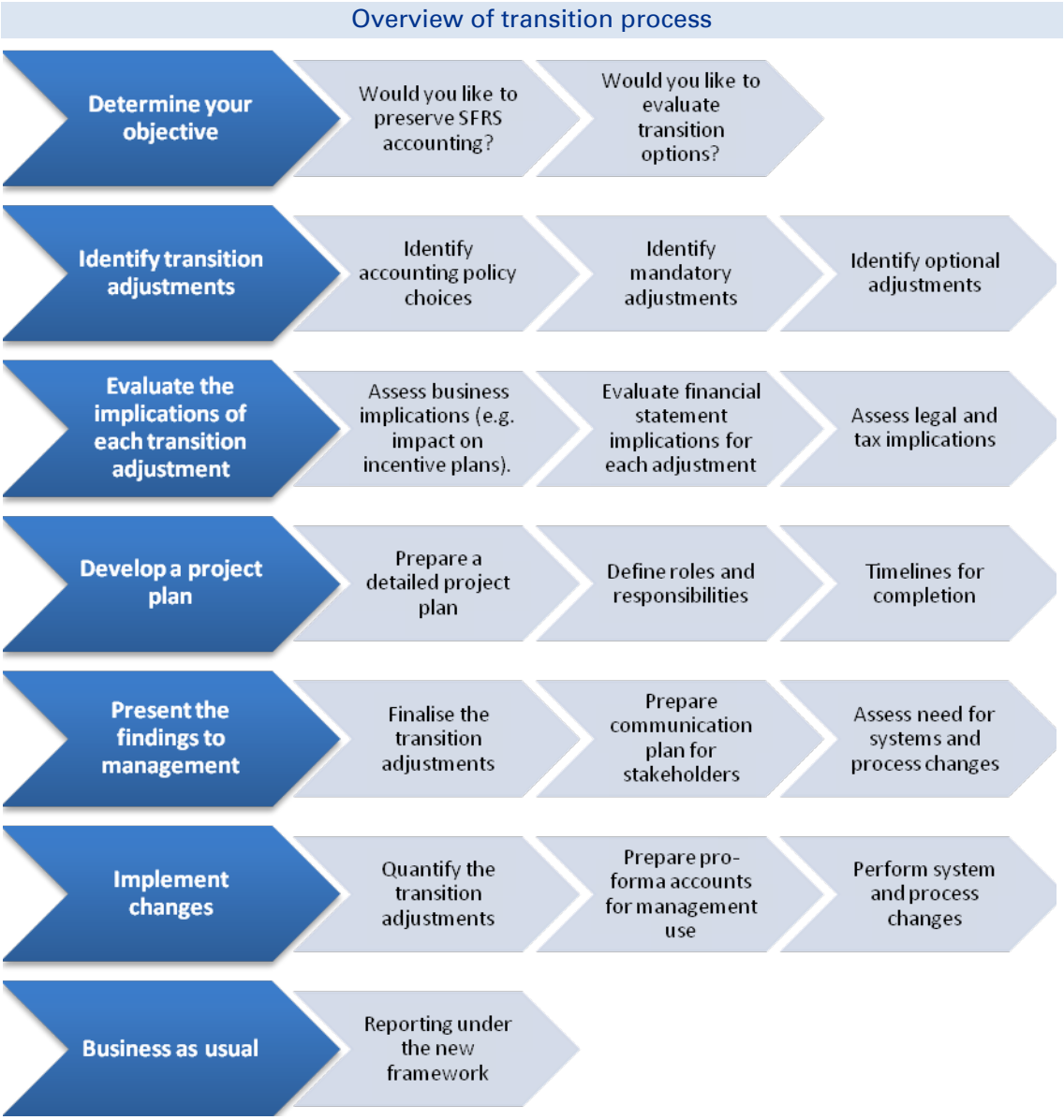


With the transition date of 1 January 2017 approaching in 18 months, Singapore companies need to start their transition process soon, with a clear aim to finalise the transition adjustments before the transition date. Companies also need to define their transition objective soon - whether they would like to preserve the Singapore Financial Reporting Standards (SFRS) accounting or optimise their financial statements.

Transition process: What does it typically involve?

The transition to IFRS-converged standards offers a mixed bag of opportunities and challenges (Refer to KPMG's Financial Reporting Matters June 2014 edition for certain transition adjustments relevant to Singapore companies). Listed companies can optimise the business and financial statement implications by holistically evaluating the relevant transition adjustments.

A typical transition process will involve the following key activities:



Setting your transition objective is the key

Singapore Financial Reporting Standards (SFRS) are substantially aligned to International Financial Reporting Standards (IFRS). As there are not many differences between the two frameworks, it is expected that there may not be many mandatory adjustments on transition to IFRS-converged accounting standards. The transition adjustments may arise mainly from optional transition adjustments and voluntarily adopting an accounting policy under SG-IFRS that is different from SFRS.

Management should clearly define its objective on whether to preserve SFRS accounting or to evaluate available transition options to optimise their accounting.

Achieving a zero-impact transition

Most entities in Singapore that comply with SFRS may be able to minimise the transition impact. A word of caution here is that such zero-impact transition may not be automatic. The entities that intend to preserve their SFRS accounting under the SG-IFRS framework need to carefully choose the transition exemptions so as to preserve the SFRS accounting.

Optimise the transition

Companies may intend to optimise the transition and evaluate the optional transition adjustments for a variety of reasons, such as:

- to optimise the business and financial statement impact on equity and earnings
- peers in the industry may commonly adopt certain adjustments and a need may arise to follow the industry practice to facilitate comparison
- tax planning purposes
- ensure compliance with debt covenants
- listing purposes

Have you planned your next steps?

If companies favour to optimise the transition, the transition process will be broader than just an accounting issue. The transition process may impact businesses from an accounting, tax and regulatory perspective and may require significant changes.

Setting your transition objective upfront i.e. preserving SFRS accounting or optimising the transition process is the beginning of a smooth transition process. SFRS is aligned to IFRS and achieving a zero-impact transition may be possible though the same cannot be assumed without an assessment.

Needless to say, minimising the transition impact may involve less investment of time, cost and resources as compared to optimising the transition process. However, companies are likely to at least evaluate the available options and then decide whether, and to what extent, they would like to make changes to their SFRS accounting. To identify the available transition adjustments and optimising the transition process, companies need to commence the transition process soon. The transition to the IFRS-converged standards is a complicated one and external experts may be useful to help you navigate the complexity of financial reporting.

5. International developments

Classification of liabilities – Do the proposals hit the mark?

Many companies have had difficulties in applying the requirements for the classification of liabilities as current or non-current in the balance sheet. In response, the IASB has proposed amendments to IAS 1 *Presentation of Financial Statements*.

The inconsistency between existing requirements has caused much debate and confusion in practice, so the IASB's efforts to bring clarity to this area are welcome.

However, without a broader rethink, the proposals might lead to continued confusion, and could risk diversity in practice. Comments were due to the IASB by 10 June 2015.

Read our In the Headlines to find out more about the proposals.

> "We are concerned that the proposals may not bring clarity, and so might risk continued diversity in practise. A broader rethink may be needed"
>
> David Littleford
> KPMG's global presentation leader

Tackling the IFRS 9 impairment model

There's much discussion over how to implement the new impairment model, so this quarter's banking newsletter looks at some of the latest developments.

The Basel Committee on Banking Supervision has issued guidance on the way internationally active banks should implement the new requirements. Will these proposals contribute to a consistent interpretation of IFRS 9?

We also introduce a new section to bring you the latest IFRS 9 news each quarter. Other topics this time include the clarified rules on leverage ratios and disclosures of funding valuation adjustments.

For more details, read our IFRS Newsletter: The Bank Statement .

> "The goal of consistent interpretation of the impairment requirements of IFRS 9 across different entities would benefit from stakeholders working together."
>
> Mahesh Narayanasami
> Accounting Advisory Services, Financial Services, KPMG in the US
>
> Ana Rosa Cortez
> Financial Services, KPMG in Spain

IFRS 9 impairment – ITG discussions under way

The new expected credit loss model for the impairment of financial instruments represents a fundamental change to current practice.

To help stakeholders with implementation issues, the IASB has established the IFRS Transition Resource Group for Impairment of Financial Instruments (the ITG). The ITG held its first substantive meeting in April 2015, discussing eight topics submitted by stakeholders. The issues generating most conceptual debate related to:

- applying existing IFRS guidance on adjusting post-balance sheet events to forecasts of future economic conditions; and
- determine the period over which an entity is expected to be exposed to credit risk on revolving credit facilities.

On other issues, members of the group generally appeared to agree on the interpretation of the standard. In some cases, they highlighted the operational challenges of implementing the requirements.For each issue submitted, the IASB will consider what action – if any – is required. The ITG's next meeting is planned for 16 September 2015.

Read our IFRS Newsletter: IFRS 9 Impairment for the latest discussions on the impairment requirements in IFRS 9 *Financial Instruments*.

Financial instruments – Two projects set in motion

Further progress has been made on the IASB's project on financial instruments with characteristics of equity.

After the project restarted in earnest last month, the Board has begun identifying the features of claims that are relevant to distinguishing between liabilities and equity.

As a first step, the Board discussed features that are relevant in measuring claims at its June meeting.

The next challenge is to explore how these features affect users' information needs.

Read our IFRS Newsletter: Financial instruments for a summary of recent developments.

> "The project has made progress by identifying the relevant features in measuring claims. The next challenge is to explore how these features affect users information needs. "
>
> Chris Spall
> KPMG's global IFRS financial instrument leader

Financial instruments – Two projects set in motion

Significant progress was made at the IASB's May meeting, with the Board discussing the future direction of its projects on macro hedge accounting and financial instruments with characteristics of equity.

The first step for the macro hedging project will be to identify the information needs of constituents, before considering recognition and measurement requirements. The Board tentatively decided to prioritise dynamic interest rate risk management, and expects to set up an 'expert advisory panel' at a later stage.

Meanwhile, the project on financial instruments with characteristics of equity is planned first to identify the characteristics of claims that create challenges in distinguishing between liabilities and equity. It should then explore the possible solutions, which may involve amending IAS 32 *Financial Instruments: Presentation*, or the definitions of a liability or equity.

Read our IFRS Newsletter: Financial instruments for a summary of recent developments.

> "The IASB has made welcome progress in outlining plans to move forward its two ongoing financial instruments projects. However, the complexity of the topics means that there is a lot of work to do."
>
> Chris Spall
> KPMG's global IFRS financial instrument leader

Insurance – Variable fee decision moves project closer to new standard

The IASB made substantial progress this month in its quest to find a workable solution for participating contracts.

The Board decided:

- to unlock the contractual service margin for changes in the estimate of the variable fee for service that an entity expects to earn on a direct participating contract;
- that the criteria for an insurance contract to qualify as a direct participating contract; and

- that an entity would recognise the contractual service margin in profit or loss on the basis of the passage of time for participating contracts.

Further, in an education session, the Board considered the unintended consequences of the variable fee approach for entities that hedge interest rate risk using derivative contracts, and discussed feedback on applying IFRS 9 Financial Instruments before the new insurance contracts standard.

The latest edition of our IFRS Newsletter: Insurance explains the decisions and outlines the Board's discussions.

> "With the Board's decision to use a variable fee approach for many participating contracts, the finalisation of the standard becomes attainable in the relatively near future."
>
> Joachin Kölschbach
> KPMG's global IFRS insurance leader

Insurance – Grappling with participating contracts

Participating contracts – and, more specifically, how to modify the general insurance accounting model to apply to them – are still exercising the IASB's minds. Discussion at this month's IASB meeting argued the merits of several options and gave the staff plenty to consider in producing future recommendations.

The meeting was an education session in which the staff presented its analysis of certain key issues to further the debate. The Board was not asked to make any decisions.

The issues fell under the following categories.

- How would the variable fee approach apply?
- How would indirect participating contracts be accounted for?
- How should interest expense be presented?

Our IFRS Newsletter: Insurance explains the issues and outlines the Board's discussions.

> "The IASB is making significant progress towards a final standard that responds to industry concerns while striving for consistency with the concepts underlying other IFRSs."
>
> Joachin Kölschbach
> KPMG's global IFRS insurance leader

KPMG's Insights into IFRS – Volume 3: IFRS 9 (2014)

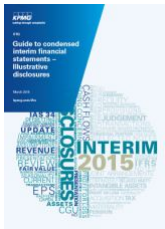
IFRS 9 (2014) Financial Instruments brings fundamental changes to financial instruments accounting. The impact of the new standard is likely to be most significant for financial institutions. For banks in particular, the effects of adoption – and the effort required to adopt – will be especially great. However, businesses in all sectors will need to identify the impact of IFRS 9.

In this publication, we build on previous publications to bring you our first complete interpretative guidance based on IFRS 9 (2014). Please contact us if you would like a copy or if you wish to discuss this further.

IFRS: New standards

This is the latest edition of our *In the Headlines – IFRS: New standards*. It summarises the newly effective and forthcoming standards for financial years, including interim periods, ending on or after 30 June 2015.

Read our In the Headlines – IFRS: New standards for a summary of the newly effective and forthcoming standards.



Your essential guides to interim reporting

Our *Guide to condensed interim financial statements – Illustrative disclosures* helps you to prepare interim financial statements in accordance with IFRS, illustrating one possible format based on a fictitious multinational corporation.

This updated guide reflects standards in issue at 15 March 2015 that are required for a company with an annual period ending on 31 December 2015.

Disclosure checklist – Interim reporting

Our *Guide to condensed interim financial statements – Disclosure checklist* helps you to identify which disclosures may be required in your IFRS interim financial statements. It complements the illustrative disclosures issued in March.

This updated guide reflects standards in issue at 15 March 2015 that are required for a company with an annual period ending on 31 December 2015.

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
ISCA	Institute of Singapore Chartered Accountants
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

Note: All values in this publication are in Singapore Dollars, unless otherwise stated.

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