

Financial Reporting Matters

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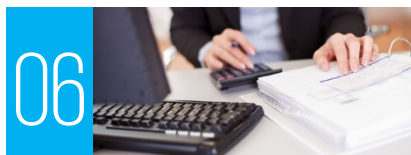
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In this Issue...



ACRA's Financial Reporting Surveillance Programme

It is the year-end financial reporting season again. What is on the radar of the Accounting and Corporate Regulatory Authority's (ACRA) Financial Reporting Surveillance Programme in 2015? Issued by ACRA, the practice guidance alerts directors on potential areas of financial statement misstatements and enables them to pay closer attention to the financial statements before authorising the financial statements for issue. Read on to find out more.



Proposed income tax changes relating to FRS 115 Revenue from Contracts with Customers

Many have focused on how FRS 115, the new revenue standard, will impact the headline revenues of companies. However, few have yet to discuss the income tax implications that may arise with the adoption of this new revenue standard. The Inland Revenue Authority of Singapore (IRAS) has issued a public consultation paper in October 2015 soliciting views on whether or not tax rules should be amended to align with the FRS 115 accounting treatments. Read this section to find out how the IRAS' proposals may impact your company.



How does full convergence to IFRS in 2018 affect the adoption of IFRS 9 Financial Instruments?

Singapore-incorporated companies listed on the Singapore Exchange (SGX) are required to apply a new financial reporting framework expected to be identical to the International Financial Reporting Standards from 2018. In this article, we discuss how the transition requirements are applied when switching over to the new financial reporting framework and the interaction with the adoption of IFRS 9, the new standard on financial instruments, in 2018.

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SGX Proposed Sustainability Reporting Requirements: "Comply or Explain"

On the sustainability front, SGX had published a consultation paper to obtain public feedback on their proposed sustainability reporting (SR) requirements on 5 January 2016. This exercise is scheduled to close on 5 February and will be followed closely by the publication of the final SR requirements. Under the proposed requirements, listed companies will have to comply with the SR requirements or explain why they are not in compliance. In this article, we provide an overview of the proposed SGX sustainability reporting requirements and highlight some of the key considerations when preparing your company for the sustainability reporting processes.

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International developments

On January 13 2016, the International Accounting Standards Board (IASB) published a new Standard, *IFRS 16 Leases*. We will discuss some of the implications that may arise with the adoption of this new standard in the next issue.

In addition, we bring you a roundup of other accounting developments on the international front.

Special Supplement



Last but not least, we have a special supplement which provides a summary of changes in the areas of financial reporting standards, income taxes and legal and regulatory matters in 2015.

It is worth checking this list of changes against your own circumstances to see if any of them require changes to your financial statements or any disclosures for the year end 2015.

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1. ACRA's Financial Reporting Surveillance Programme

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In December 2015, ACRA released a Practice Guidance to highlight 10 areas of review focus for FY2015 financial statements under the Financial Reporting Surveillance Programme (FRSP). The Practice Guidance alerts directors on potential areas of financial statement misstatements and enables them to pay closer attention to the financial statements before authorising the financial statements for issue.

ACRA issued warning letters to directors of four listed companies

Under the FRSP, ACRA reviews the financial statements of selected companies for compliance with Singapore Financial Reporting Standards (FRSs). Where potential non-compliance with FRSs are identified, ACRA sends enquiry letters to directors. ACRA addresses the enforcement to directors when a financial reporting breach is established after evaluating the explanations, supporting documents and other records provided by directors.

Arising from the FRSP's first review cycle on FY2013 financial statements, ACRA issued warning letters to directors of four listed companies for severe non-compliance with the accounting standards.

Warning letters represent a form of regulatory sanction and are the 3rd most severe action ACRA can take. Under the SGX listing rules, a director who receives a warning letter from a regulatory authority will have to disclose this fact at each and every future appointment or re-appointment as a director of any company listed on the SGX. In addition, directors may be required to restate, re-audit and re-lodge the corrected financial statements with ACRA.

The good news is that most instances of non-compliances are less severe and could have been avoided if the directors had reviewed the financial statements more carefully and with rigour.

If the accounting matter is complex, directors may also consider seeking independent advice from external technical specialists. The Singapore Companies Act allows directors to rely on others, who have the necessary expertise and experience, for help.

However, directors are expected to exercise care, competence and diligence in their review of the financial statements. This includes obtaining further independent advice and questioning the accounting treatment applied when the treatment does not reflect their understanding of the substance of the transaction.

Ten areas of review focus under the FRSP for FY2015 financial statements

ACRA released [Financial Reporting Practice Guidance No.2 of 2015](#) which sets out the areas of review focus for FY2015 financial statements on 9 December 2015, The Practice Guidance serves as a useful reference and reminder for directors on potential areas to watch out for.

Directors should consider the areas of review focus identified by ACRA for FY2015 financial statements (as set out in the table below) before authorising the FY2015 financial statements.

Directors are also well advised to ensure that minutes of meetings are maintained with sufficient details to demonstrate the robust discussions that had occurred during their review of the FY2015 financial statements.

Areas of review focus	What directors should consider
1. Control over investees	<ul style="list-style-type: none"> Application of the control principle, in particular whether reserve matters that require unanimous consent prevent a substantial shareholder with more than 50 percent voting power from having control Disclosures of the directors' significant judgements
2. Call or put option over shares of investee	<ul style="list-style-type: none"> Understanding the business reasons and implications for entering into call and put options Understanding how these options would impact the assessment of whether the company has control, joint control or significant influence Enquiring whether these options should be accounted for as derivatives
3. Business acquisitions	<ul style="list-style-type: none"> Understanding the reasons for acquiring the business and the factors they have considered in determining the purchase price paid for the business Challenging whether part of the goodwill is attributable to intangible assets (such as know-how, licences and customer lists) that should be separately recognised Engaging external professional valuers when there is no in-house expertise to identify and value specific intangible assets for a proper allocation of the purchase price to the assets and liabilities of the acquiree
4. Long-life assets value and impairment testing	<ul style="list-style-type: none"> Critically assessing management's impairment testing (especially for low growth sectors such as energy, commodity and shipping) by challenging the reasonableness of significant inputs (such as cash flow projections, terminal value and discount rate) Evaluating the quality of the related disclosures
5. Breaches of borrowing covenants	<ul style="list-style-type: none"> Ascertaining whether all borrowing covenants have been met and loan repayments are paid timely Assessing the current/ non-current presentation of the borrowings
6. Sale-and-leaseback transactions	<ul style="list-style-type: none"> Challenging whether the transaction is a true sale or a financing arrangement where profit should be deferred and recognised as financing income over the lease term

Areas of review focus	What directors should consider
1. Statement of cash flows	<ul style="list-style-type: none"> • Checking that cash flows are appropriately classified into operating, investing and financing based on the underlying nature. For example, progress payments received for the disposal of a subsidiary, refunded deposit from an aborted business acquisition and prepayments made to acquire a subsidiary should be classified as investing activities • Checking that translation differences arising from overseas subsidiaries with functional currencies that are different from the Group's presentation currency are tracked and allocated to the underlying assets and liabilities
2. Impact from currency environment	<ul style="list-style-type: none"> • Ensuring that impairment assessments of the recoverable amounts of: <ul style="list-style-type: none"> – Foreign-currency share investments are performed in the functional currency of the investor; and – Foreign operations (subsidiaries, joint ventures, associates and branches with operating in a different country/ currency) are performed in the functional currencies of the foreign operations
3. Earnings per share (EPS)	<ul style="list-style-type: none"> • Checking that comparative basic and diluted EPS numbers are adjusted to reflect any capital structure changes during the year (such as share consolidation, share split, bonus shares or rights issues)
4. Fair value measurement	<ul style="list-style-type: none"> • Questioning the basis for categorising the fair value of investment properties and biological assets as Level 2, as the valuation for these assets typically involves many significant unobservable inputs • Ensuring adequate disclosures for fair value measurements under Level 3, at a meaningful level of aggregation

Case studies on non-compliance published by ACRA

In addition to the 10 areas of review focus outlined above, it is advisable to review the case studies published by ACRA in their inaugural report "*Raising the bar on financial reporting*" that summarises selected issues from the surveillance undertaken on FY2013 financial statements. These case studies illustrate some of the shortcomings observed.

A summary of how directors can support raising the bar on financial reporting is set out below:

Non-compliance	What directors are expected to do when reviewing financial statements
Non-cash currency translation differences were wrongly presented as cash flow items in the consolidated statements of cash flows. These errors distorted the true operating cash flows.	<ul style="list-style-type: none"> • Raise questions when the trend and/or position of the reported cash flows appear inconsistent with their knowledge of the companies' business operations and performance • Understand how significant foreign currency exposures are managed and reported in the financial statements

Non-compliance	What directors are expected to do when reviewing financial statements
<p>The retail components of the development properties under construction intended for long-term investment were wrongly classified and accounted for as properties held for sale, instead of investment properties during the period of construction.</p>	<ul style="list-style-type: none"> • Understand the company's business model and intention for the various components in each mixed-use property development and raise questions when the accounting does not follow the business model and intention • Raise questions when the transfer between property held for sale and investment property is not supported by evidence of the change in use
<p>The revenue recognition for construction contracts failed to use a measure that reflected the work performed to determine the stage of completion. This resulted in a premature recognition of revenue and profits during the construction period.</p> <p>The unbilled amounts from construction contracts were wrong presented as trade receivables.</p>	<ul style="list-style-type: none"> • Raise questions where the revenue, profit and construction work-in-progress of a project are not reflective of the extent of work performed • Challenge when the trade receivables are unusually high as compared to the annual revenue
<p>A subsidiary was consolidated before control was obtained as the acquisition date was not correctly determined.</p>	<ul style="list-style-type: none"> • Consider all specific facts and circumstances, including the pre-completion undertakings to establish that the group has control (i.e. the power to direct the activities of a subsidiary) before consolidating the subsidiary • Be alert to management's motivations to present the financial statements to achieve certain objectives, which may not be compliant with the accounting standards and/or the SGX Listing Manual
<p>Significant amounts of specific intangibles were not recognised separately from goodwill arising from a material business acquisition.</p>	<ul style="list-style-type: none"> • Challenge when a business acquisition results in a goodwill, as a percentage of the purchase consideration, to ensure that the premium paid is reflected by recognising specific intangible assets • Engage a professional valuer, when there is no in-house expertise, to identify and value those specific intangible assets separately
<p>Impairment loss on its listed equity investments were not recognised in the income statement, even though the quoted share price declined more than 30 percent below its acquisition cost; and the decline had persisted more than three years.</p>	<ul style="list-style-type: none"> • Critically assess management's basis for the judgement whether the decline is significant or prolonged • Where management's judgement appears to be out of the norm, directors should consider consulting independent parties or obtaining additional accounting advice to ensure that management's judgement is reasonable, able to withstand a third party's scrutiny, and aligned with market practice
<p>The gain on disposal of a subsidiary was not properly presented in the income statement in accordance with the substance</p>	<ul style="list-style-type: none"> • Apply their knowledge of significant transactions and ensure that the trends and performance presented in the income statement portray an objective view, particularly in respect of non-recurring transactions

What questions could directors ask when reviewing the FY2015 financial statements?

The table below sets out the top 10 questions for directors to consider and resources available to help directors prepare for upcoming discussions with management and the independent auditors on the FY2015 financial statements:

1	What were the significant transactions and external uncertainties/risks throughout the year?	<input type="checkbox"/>
2	What is the governance/control framework for ensuring transactions and impact of uncertainties/risks were properly reflected in the financial statements?	<input type="checkbox"/>
3	What is the governance/control framework for making judgements and estimates? How do you ensure objectivity in judgements and estimates? Are experts involved?	<input type="checkbox"/>
4	How robust is management's judgement process: • Was everyone in agreement? - If yes, was there sufficient critical discussion? - If not, what was the dispute and how was it resolved?	<input type="checkbox"/>
5	What is the auditor's view on management judgement process (conservative, balanced or aggressive)?	<input type="checkbox"/>
6	What is the auditor's view on management's estimation process (cautious, balanced or optimistic)?	
7	What are the root causes of the list of adjusted/unadjusted audit differences?	<input type="checkbox"/>
8	How did the changes in accounting standards effective during the financial year impact our financial statements?	<input type="checkbox"/>
9	What plan do we have to prepare for the new and upcoming standards for the next 3 years? How do we communicate these to stakeholders? And what is the impact on our business model?	<input type="checkbox"/>
10	What is our level of preparedness in responding to an enquiry letter from ACRA?	<input type="checkbox"/>

Directors may find the following guides useful:

Publication	Purpose/ Title
Raising the bar on financial reporting	ACRA's inaugural report on the surveillance work and findings of its first review cycle on FY 2013 financial statements under its FRSP
Financial Reporting Practice Guidance No.2 of 2015	Areas of review focus for FY2015 financial statements under the FRSP administered by ACRA
Financial Reporting Practice Guidance No.1 of 2015	Areas of review focus for FY2014 financial statements under the FRSP administered by ACRA
Practice Direction No.2 of 2014	Directors' duties in relation to financial reporting and review and sanction process of the FRSP administered by ACRA
ACRA & I: Being an effective director	Guidebook sharing experiences, knowledge and practices of audit committee members on corporate governance practices
Issue 49 of KPMG Financial Reporting Matters December 2014	Top five issues to consider this year-end
Issue 47 of KPMG Financial Reporting Matters June 2014	Financial Reporting Surveillance Programme Targets Company Directors

For more timely and topical information to assist you, please refer to our [KPMG Audit Committee Institute](#) website.

2. Proposed income tax changes relating to FRS 115 *Revenue from Contracts with Customers*

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In our past FRM issues¹, we have featured the accounting considerations/issues in relation to the new standard on revenue recognition, FRS 115 *Revenue from Contracts with Customers*. We bring to you the income tax implications which may arise with the introduction of this accounting standard in this article.

For Singapore income tax purposes, income is subject to tax if it is sourced in Singapore (i.e. it is derived from or accrued in Singapore), or if foreign-sourced income is received or deemed to be received in Singapore, unless specifically exempted under the Singapore Income Tax Act.

¹ Source: Financial Reporting Matters issue [47](#), [50](#) and [51](#)

For Singapore-sourced income, tax principles provide that income would be subject to tax based on the “entitlement to income” principle. From IRAS perspective, to the extent that revenue is recognised under FRS 115 when the entity has performed its obligations even though it might not be entitled to the income yet, the alignment of the tax treatment with this accounting principle might represent a shift away from the “entitlement to income” principle.

An expense is tax deductible when it is wholly and exclusively incurred in the production of income. An expense is considered incurred only when the liability to pay the expense has crystallised in law and in quantum. However, IRAS is of the view that with the adoption of FRS 115, there could be situations where estimated expenses are recognised to match estimated revenue which is recognised upfront.

To aid in making a decision on whether or not tax rules should be amended to align with the FRS 115 accounting treatments, IRAS issued a public consultation paper in October 2015. The table below summarises the proposed tax treatments set out in the consultation paper, our assessment on the potential implications and our comments furnished to IRAS.

Proposed tax treatments		Potential implications / KPMG comments to IRAS
1	Align tax treatment with FRS 115 accounting treatment unless otherwise stated.	<p>Potential implication: Some companies may face great cash flow impact due to huge upfront recognition of revenue e.g. Telecommunication companies recognising handset revenue upfront may end up with a mismatch between reported revenue (which is taxable upfront) and the amount collected from customers.</p> <p>KPMG comments to IRAS: Measures to mitigate the cash flow impact (such as instalment plan) should be introduced for such companies.</p>
2	Where specific tax treatment has been established through case law or provided under the law ² , the specific tax treatment will be applicable.	<p>Potential implication: As specific tax treatments established through case laws are voluminous and hard to access from the public domain, it would be impracticable for taxpayer to know which case laws supersede the FRS 115 accounting treatment. Hence, they may unknowingly align their companies’ tax treatment with FRS 115 accounting treatment even though a specific tax treatment based on an established case law should be applicable instead.</p> <p>KPMG comments to IRAS: Circumstances should be prescribed where specific tax treatment established through case law is applicable.</p>

² For example, Section 10F of the Income Tax Act on the ascertainment of income from certain public-private partnership arrangements.

Proposed tax treatments	Potential implications / KPMG comments to IRAS
<p>3 Where the accounting treatment deviates significantly from tax principles, tax adjustments have to be made. For example, for contracts with significant financing components, full amount of revenue has to be taxed in the year it is earned. However, interest income/ expenses arising from existence of significant financing component will not be taxable/ tax deductible as they are notional.</p>	<p>Potential implication: Additional compliance and administrative burden on taxpayers to track revenue received from customers as well as interest income/ expenses arising from existence of significant financing component for tax adjustment purposes.</p> <p>KPMG comments to IRAS: Not applicable since suggested tax treatment is in line with existing tax principles in view that interest income/ expenses arising from significant financing components are notional.</p>
<p>4 Property developers shall continue to adopt the existing tax treatment i.e. profits are taxed when the Temporary Occupation Permit is granted.</p>	<p>Potential implication: No potential implications since property developers are already making tax adjustments for profits to be taxed only when Temporary Occupation Permit (TOP) is granted.</p> <p>KPMG comments to IRAS: Not applicable since there is no potential implication.</p>
<p>5 Construction companies – IRAS will continue to accept the percentage of completion method which is in line with the existing FRS 11.</p>	<p>Potential implication: IRAS is silent on the tax treatment in cases where construction companies are required to recognise revenue from contracts based on the “completed contract method” under FRS 115.</p> <p>KPMG comments to IRAS: Since IRAS generally accepts the accounting treatment under FRS 11 for construction companies prior to the application of FRS 115, IRAS should similarly accept the revenue as determined in accordance with FRS 115 (either over time or at a point in time) for tax purposes.</p>
<p>6 Estimated expenses recognised based on accounting matching principle would only be tax deductible if they have been incurred by the entity.</p>	<p>Potential implication: There may be a mismatch of income and expenses for tax purposes that will create cash flow issues for companies who pay more tax upfront on estimated revenue but are unable to claim a deduction on the estimated expenses.</p> <p>KPMG comments to IRAS: To address the cash flow issues and to minimize compliance burden, a tax deduction should be allowed on the estimated expenses recognised, to the extent that they can be directly attributed to the estimated revenue / revenue recognised.</p>

Proposed tax treatments	Potential implications / KPMG comments to IRAS
<p>7 Regardless of the transition method adopted for accounting purposes, income/loss arising from transitional adjustments will be subject to tax at the same tax rate that applies to the company's trade income derived in the Year of Assessment relating to the year in which FRS 115 is first adopted.</p>	<p>Potential implication:</p> <ul style="list-style-type: none"> • Some companies may face great cash flow impact due to huge transitional adjustments in the year of change. This is resulted from upfront recognition of revenue arising from unexpired contracts that were signed up before the year of change e.g. Telecommunication companies making transitional adjustments to recognise handset revenue for all unexpired contracts that were signed up before the year of change will end up with a mismatch between reported transitional adjustments in the year of change (which is taxable upfront) and the amount collected from customers. • For companies enjoying a concessionary tax rate under a tax incentive in prior years, their tax liability may be unduly increased if the tax incentive has expired in the year in which FRS 115 is first adopted. <p>KPMG comments to IRAS: For income/ loss arising from transitional adjustments, allow companies to apply the concessionary tax rate/ tax exemption which was previously applied prior to the adoption of FRS 115.</p>

Other issues not addressed in IRAS' consultation paper

- **Incremental costs of obtaining a contract with a customer / costs to fulfil a contract**
Incremental costs of obtaining a contract with customers and costs to fulfil a contract are recognised as assets in accordance with FRS 115. Such assets would be amortised on a systematic basis or impaired when applicable. There is no specific guidance on the tax treatments for such costs in IRAS' consultation paper.

Under existing tax deduction principles, the costs recognised as assets are generally tax deductible when incurred and the subsequent amortisation or impairment would not be allowed for tax deduction.

If IRAS allows estimated expenses to be deductible against estimated revenue (as proposed in item 6 of the table above), it remains to be seen whether IRAS will also align the tax treatment of these incremental costs and costs to fulfil a contract with the accounting principle under FRS 115 i.e. a deduction is only allowed when the costs are amortised/ impaired through the income statement.

We hope that IRAS would carefully consider each and every comment solicited through the public consultation exercise, and that the tax treatments to be introduced would not unduly burden affected companies both from a financial and tax compliance perspective. We will provide you with further updates when IRAS releases additional information on the outcome of the public consultation exercise.

Meanwhile, we advise you to gain full insights and understanding of the potential tax impacts of FRS 115 on your company; and thereafter to think ahead about how to manage/address the foreseeable tax issues. If you have significant foreign subsidiaries in jurisdictions which are also adopting a FRS 115 equivalent (i.e. IFRS15 *Revenue from Contracts with Customers* or its equivalent), you should also consider the relevant local tax implications. Further, if the timing of revenue and cost recognition for accounting is not aligned with tax, companies may need to consider the impact on deferred tax accounting.

For a start, in redesigning/modifying your company's accounting system to adopt the new accounting treatments under FRS 115, there should be considerations on how the accounting system may be modified to allow proper and accurate information extraction to effect the necessary tax adjustments and for the purpose of computing current and deferred tax provisions. To find out more about the IRAS' proposed tax treatments, please refer to the [IRAS' consultation paper](#) on Income Tax Implications Arising from the Adoption of FRS 115.

3. How does the full convergence to IFRS in 2018 affect the adoption of IFRS 9 *Financial Instruments*?

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FRS 109 *Financial Instruments* takes effect from 1 January 2018. The effective date of FRS 109 will coincide with the date of convergence with a new financial reporting framework identical to IFRS (referred to as “SG-IFRS” in this article) by Singapore-incorporated companies listed on SGX³.

Listed companies (referred to as “Listcos” in this article) have to apply SG-IFRS 1 First-time adoption (expected to be identical to IFRS 1) to transition to the new financial reporting framework from 1 January 2018.

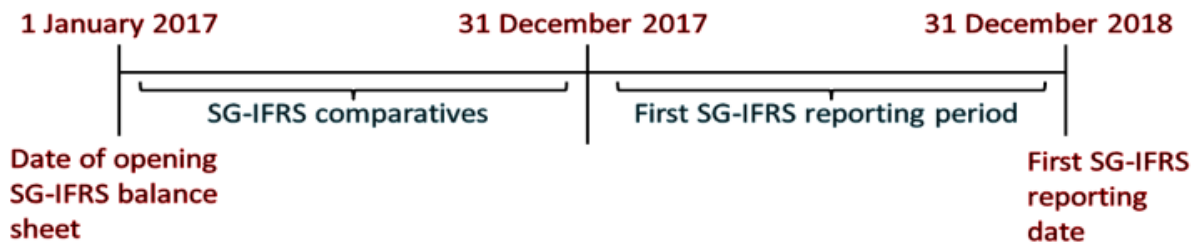
How does the full convergence to IFRS in 2018 affect the adoption of IFRS 9 *Financial Instruments*? In this article, we highlight certain areas Listcos may want to consider when planning for transition.

³ Source: Singapore-incorporated companies listed on the Singapore Exchange (SGX) are required to apply a new financial reporting framework identical to the International Financial Reporting Standards from 2018. For more information refer to KPMG’s Financial Reporting Matters [June 2014 edition](#) on *Full convergence with IFRS: mixed bag of opportunities and challenges* and the [June 2015 edition](#) on *Singapore Listed Companies- Are you ready for full convergence to IFRS*.

Considering that a similar announcement on the applicability of SG-IFRS has not been made with regard to entities other than those Singapore-incorporated companies listed on SGX (referred to as “non-Listcos” in this article), we draw a comparison between the transition requirements for Listcos and non-Listcos.

The date of transition

For December year-end Listcos, financial year 2018 will be the first year for SG-IFRS reporting, with financial year 2017 as the comparative period assuming only one year of comparative information is presented. This means that comparative information for financial year 2017 and an opening balance sheet as at 1 January 2017 in compliance with SG-IFRS will be required.

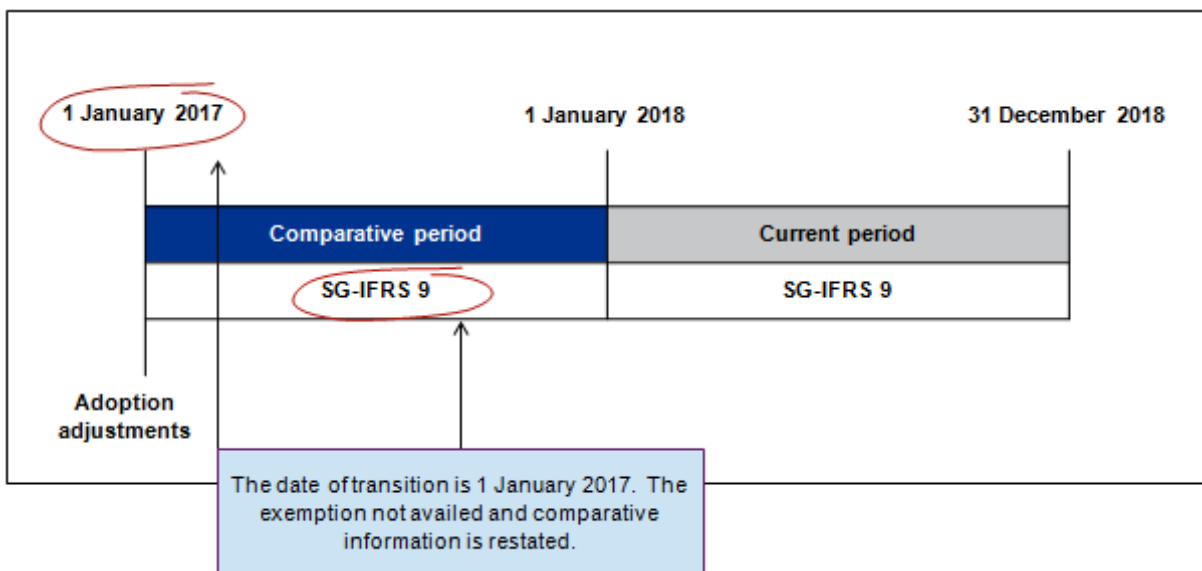


For financial instruments however, if an entity adopts SG-IFRS for the first time for an annual period beginning before 1 January 2019 - as will be the case here in Singapore for Listcos – then it can choose not to restate comparative information in its first SG-IFRS financial statements under SG-IFRS 9.

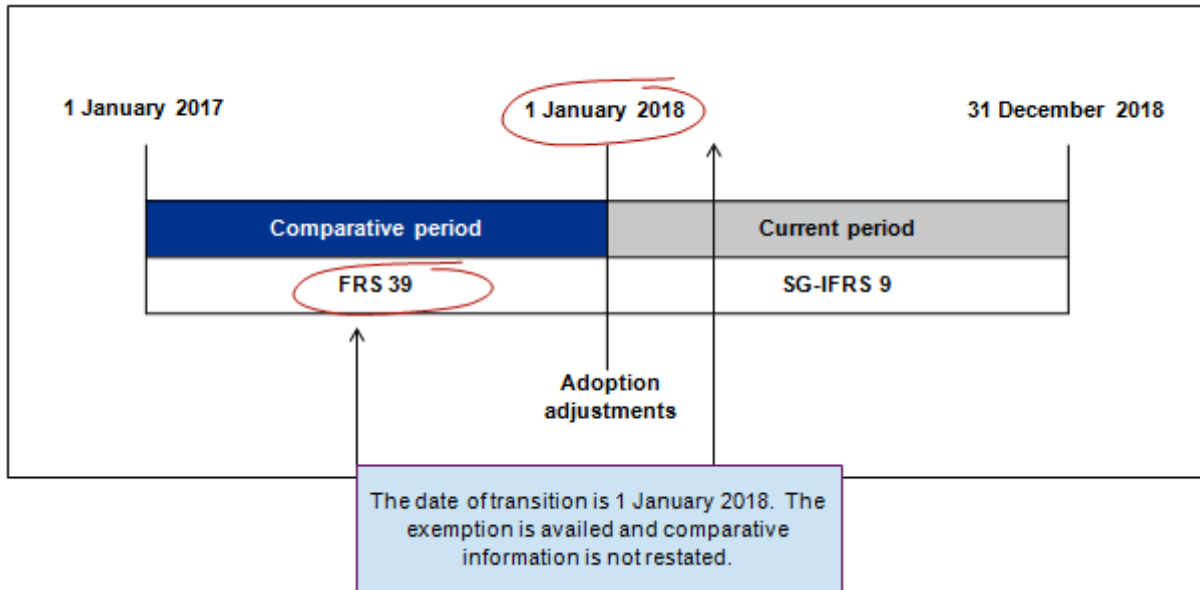
Therefore, for Listcos, the comparative period ended 31 December 2017 can remain under the existing Singapore Financial Reporting Standards (SFRS). This exemption also includes SG-IFRS 7 disclosures related to items that are in the scope of SG-IFRS 9.

This exemption election, along with what will be considered the date of transition (see section on [What happens on the date of transition?](#)) is illustrated below:

IF COMPARATIVE INFORMATION IS CHOSEN TO BE **RESTATED**



IF COMPARATIVE INFORMATION IS CHOSEN TO BE NOT RESTATED



Therefore, if this exemption is availed, it will result in a situation where the comparative period - i.e. the year ended 31 December 2017 - will remain presented under SFRS for financial instruments, while it will be presented under SG-IFRS for other standards.

In summary, if the Listcos chose to avail of this exemption, then the following requirements apply:

- In applying SG-IFRS 9, the 'date of transition' is the beginning of the first IFRS reporting period (as illustrated above).
- The Listco applies SFRS in comparative periods to items that are in the scope of IFRS 9.
- The Listco discloses the fact that the exemption is applied, as well as the basis of presentation of the comparative information.
- The difference arising on adoption of SG-IFRS 9, is treated as arising from a change in accounting policy and the entity provides related disclosures required by SG-IAS 8. However, the Listco is only required to disclose the effects on financial statement line item amounts for amounts that are presented in the statement of financial position at the comparative period's reporting date.

What happens on the date of transition?

A Listco that applies SG-IFRS 9 in its first SG-IFRS financial statements applies similar transition requirements to those that are applicable when a non-Listco transitions from FRS 39 to FRS 109 (which are detailed in KPMG's [Financial Reporting Matters September 2015 edition](#)). However, references to "date of initial application" (DIA) - which is applicable for transitions from FRS 39 to FRS 109 - are generally replaced with references to the "date of transition to IFRS" - which is applicable for first time adoption.

DIA AND “DATE OF TRANSITION”

Under FRS 109, the DIA is the beginning of the period in which an entity first applies the standard.

Under SG-IFRS 1, the date of transition is the beginning of the earliest period for which an entity presents full comparative information under SG-IFRS in its first SG-IFRS financial statements.

Therefore, in Singapore, assuming that one full year of full comparative information is presented, the transition requirements are to be applied by a first time adopter - i.e. a Listco – one year earlier than a non-Listco.

For example, assume that one full year of comparative information is presented by a Listco and a non-Listco when they apply SG-IFRS 9 and FRS 109 respectively in the period ended 31 December 2018. For the Listco, the date of transition will be 1 January 2017. For the non-Listco, the DIA will be 1 January 2018.

However, as discussed above, under SG-IFRS 1, a Listco can choose not to restate comparative information. If this option is availed to by the Listco, the DIA for the purpose of adopting SG-IFRS 9 will also be 1 January 2018.

The difference in transition assessment dates for a Listco and a non-Listco - i.e. the date of transition versus DIA - impacts several key transition aspects under the standard including the following:

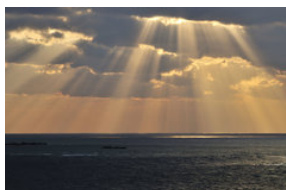
Classification and measurement (C&M)	Debt instruments – financial assets <ul style="list-style-type: none"> The business model assessment is based on facts and circumstances at the respective date A key difference is with regard to the assessment of whether cash flows are solely payments of principal and interest (SPPI). In contrast to the provisions in SG-IFRS 1 which require the assessment to be made at the date of transition, the transition provisions of FRS 109 require the assessment to be made at inception of the instrument – and not the DIA – which can be a potentially challenging process.
	Equity instruments – financial assets <ul style="list-style-type: none"> The assessment of whether the instrument is held for trading is made as if the instrument had been acquired on the respective date. At this date, an entity may designate the instrument at fair value through other comprehensive income (OCI) so as to present changes in the fair value of an investment in an equity instrument that is not held for trading in OCI.
	Fair value option designations <ul style="list-style-type: none"> Designating, or revoking designations of, financial assets or financial liabilities as at fair value through profit or loss (FVTPL) is based on facts and circumstances as at the respective date
Impairment	To determine the credit risk at the date the financial instrument was initially recognised, and compare that to the credit risk at the respective date. If this requires undue cost or effort, then the loss allowance is measured at an amount equal to lifetime expected credit losses until the instrument is derecognised
Derecognised items	The standards are not applicable to financial instruments that are derecognised before the respective dates.
Hedge accounting	The qualifying criteria are required to be met on the respective dates. Transactions entered into before the respective dates and which were not part of hedging relationships cannot be retrospectively designated as hedges.

What you need to do now?

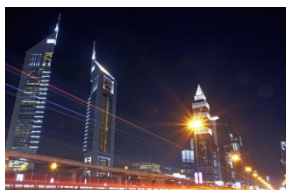
As can be seen, in Singapore the transition requirements will need to be considered in the context of first time adoption of SG-IFRS for Listcos. There are other transition differences in addition to those described above. Listcos are advised to assess the impact of adopting SG-IFRS 1 and the new accounting standards such as FRS 109 and FRS 115.

An early decision on the restatement of comparative information with regard to SG-IFRS 9 will be one critical element in developing an efficient and seamless transition plan.

To find out more about the new financial instrument standard and its transition requirements, you can download the following publications:



[First Impressions: IFRS 9 Financial instruments](#)



[IFRS Newsletters: Financial Instruments](#)

4. SGX Proposed Sustainability Reporting Requirements: “Comply or Explain”

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With the expected release of the SGX Sustainability Reporting Guidelines (the Guide) in 2016, all listed companies will need to roll out their sustainability initiatives in 2017 and report on these in their annual report on a “comply-or-explain” basis from 2018.

The sustainability report is the outcome of a more holistic corporate strategy that incorporates environmental and social performance on top of financial performance. This requires a dedicated process that senior management needs to lead and implement. The sustainability report is ultimately a Board responsibility. The Board should be consulted from the start with regard to any ESG (Environmental, Social and Governance) factors, as these will eventually be included in the sustainability report.

A robust sustainability reporting process can support and augment purposeful measurement, management, and communication both within and outside the company. Including ESG aspects can also effectively expand the scope of risk management, strategic decision making, and innovation.

In 2015, KPMG conducted a [study](#) that illustrated the benefits of going beyond pure financial reporting. The study assessed the performance of 28 Asia Pacific companies that were ranked as the top sustainable companies in the region⁴. These companies consistently and significantly outperformed their peers (a control group of 28 companies in the same geography, sector, and industry, with comparable assets sizes) over a five year period from 2009 to 2014 where they achieved higher total shareholder returns than their peers for the same level of financial risk. It was also found that the 28 top sustainable companies in the region received a higher score when assessed using the NUS <IR> Disclosure Guidance (2014). The score was used as a proxy for how well companies went beyond pure financial reporting. Overall, a higher score was found to correlate with a lower weighted average cost of capital (WACC) and higher Price to book (P/B) ratios.

The biggest challenge for management in this process will be demonstrating to the stakeholders how the ESG factors identified and reported upon align with and potentially impact the corporate strategy, business model, and the company's performance.

Below, we provide an overview of the upcoming SGX sustainability reporting requirements and highlight some of the key considerations when preparing your company for the sustainability reporting process.

What is Sustainability Reporting

Sustainability reporting is measuring and reporting performance beyond financial performance in 3 fields:



⁴ According to the 2014 Corporate Knights Global 100 Top Sustainable Companies and the 2014 Channel News Asia Top 100 Sustainable Companies in Asia ranking

What are the Proposed SGX Requirements

SGX is conducting a public consultation to ratify their sustainability reporting guidelines prior to publication. In 2017, all listed companies will commence their rollout of sustainability initiatives. From 2018, this process will culminate in the publication of sustainability reports.



There is a significant emphasis on the role of the Board with regard to sustainability matters which include:

- Approving the ESG factors material to the business which will be set out in the company's sustainability report
- Ensuring monitoring and management of material ESG factors
- Approving the company's annual sustainability report
- Making a statement that the company complies with the primary components of the Guide, or has otherwise described what it does instead and the reasons for doing so
- Addressing any questions raised regarding the company's sustainability reporting

What does your company need to do?

The Guide proposes the comply-or-explain approach towards SR. This means companies should follow the requirements in the Guide or explain why they are not in compliance and the alternative practices it has in place.

The diagram below illustrates the principles and primary components of a sustainability report and how they are linked.

GLOBALLY-RECOGNISED REPORTING FRAMEWORK

Select a globally-recognised framework to guide communication of ESG aspects in the annual / sustainability report

MATERIALITY

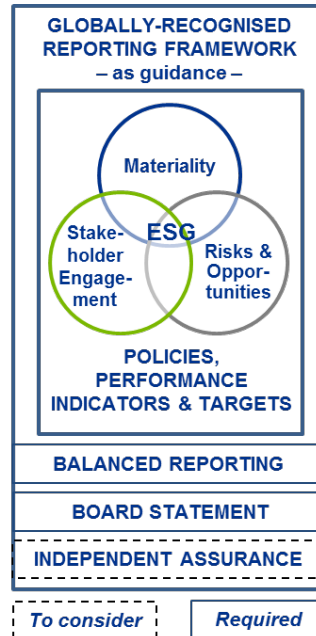
Identify ESG material issues, document the determination process, and explain impacts on risks and opportunities and the business and stakeholders

STAKEHOLDER ENGAGEMENT

Engage stakeholders to confirm material ESG risks and opportunities and ensure their concerns are addressed

BOARD STATEMENT

Board to state if the company complies with the SGX requirements or why it is not complying and what it does instead



RISKS & OPPORTUNITIES

- Report on ESG risks and development of risk mitigation strategies
- Ensure ESG performance is linked to management KPIs
- Assess corruption risks in the value chain, and the diversity of the Board, management, and staff

POLICIES, PERFORMANCE INDICATORS & TARGETS

Develop your policies, performance indicators and targets drawing reference to that framework

BALANCED REPORTING

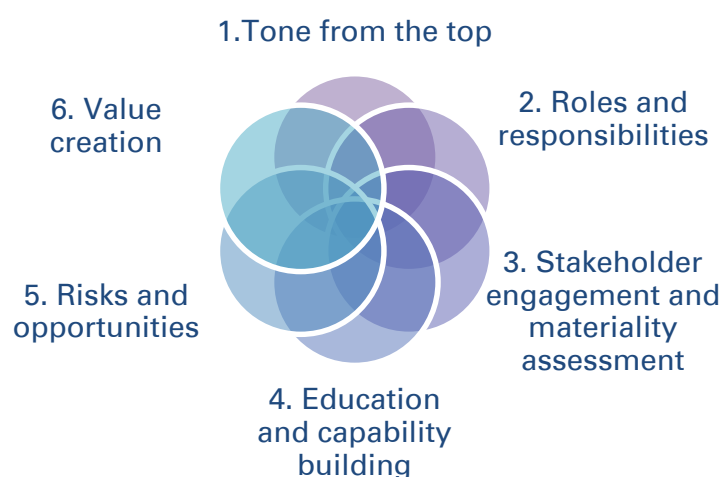
To provide an accurate and balanced view, without emphasizing on favourable aspects and understating negative issues

INDEPENDENT ASSURANCE

Assurance is recommended but not mandated

Given that the Sustainability Report is built on management's full support and buy-in, the key to a successful roll-out is getting the tone from the top right. Subsequently, roles and responsibilities can be assigned to the respective divisions and executives accordingly. If implemented correctly, the processes involved in sustainability reporting can create or offer the most value to the company.

Key Considerations for Management



<p>1. Tone from the top</p>	<p>The sustainability report is just one part of the larger sustainability strategy and reporting process. This process necessitates the leadership of the Board and the senior management to be effective.</p> <p>Under the Code of Corporate Governance in 2012, the Board’s role was expanded to include considerations of sustainability issues such as environmental and social factors as part of the business’ strategic formulation. Management should identify the ESG factors and consult the Board to obtain their approval on the ESG factors to be reported from the onset.</p>
<p>2. Roles and responsibilities</p>	<p>The sustainability reporting process calls for the commitment and integration of different business functions and oversight committees. Management should clearly define the respective roles and responsibilities of each business function in the sustainability reporting process.</p>
<p>3. Stakeholder engagement and materiality assessment</p>	<p>When identifying ESG factors relevant to the company, management needs to engage key stakeholders in the materiality assessment process and develop or align the sustainability strategy with stakeholder expectations.</p>
<p>4. Education and capability building</p>	<p>Management should consider awareness and education efforts necessary for the buy-in and implementation of the sustainability reporting process. Capability building through training programmes and workshops would be key activities for staff, management and even the Board.</p>
<p>5. Risks and opportunities</p>	<p>Based on the preceding steps, management should carefully consider the risks and opportunities posed by the ESG factors and the real impact of these on the business.</p> <p>Risks identified could be reputational, legal, social, commercial, regulatory or physical, and could potentially have significant impacts on the continued operations and performance of the company.</p> <p>At the same time, when the sustainability process is robust, management should be poised and ready to leverage on the opportunities presented and execute improvements to the business strategy and model.</p>

6. Value creation

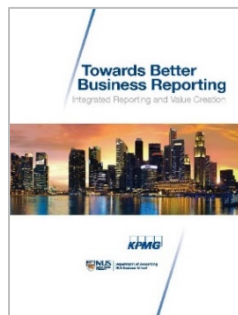
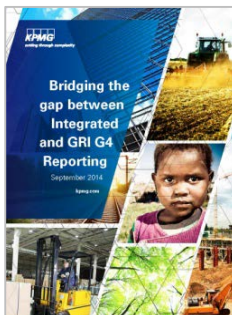
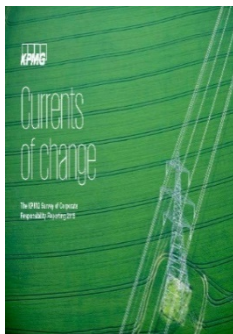
A deep dive into the strategy and processes using an ESG lens as opposed to the traditional financial lens could result in value creation when a new mind-set is adopted and well-established processes are reviewed and reshaped. An example would be companies whose supply chains were affected by the prolonged haze situation in Singapore. The extent of the impact could have been mitigated where the companies had a more robust ESG identification and risk management process.

Are you ready for Sustainability Reporting

As we have shared above, the sustainability reporting process is more than a data compilation or report drafting exercise. When led by the Board and successfully implemented by management, the process can potentially be insightful and rewarding, with the company potentially deriving tangible benefits in the form of improved financial performance.

The SGX Guidelines will provide direction over how listed companies formulate their sustainability strategies and processes, and eventually communicate these in their sustainability reports. However, the mind-set adopted by each company and the approach with which they choose to embark on the sustainability journey will result in significantly different outcomes.

To help you understand more about sustainability, you can download the following publications that cover various aspects such as sustainability reporting guidelines (GRI G4) from <http://www.kpmg.com/sg/en/kpmgsustainability/pages/default.aspx>



5. International Developments



Leases – 2019 effective date for new standard

A 2019 effective date was agreed for the new leases standard at the IASB's final public meeting on the project.

IFRS 16 *Leases* will be effective for accounting periods beginning on or after 1 January 2019. Early adoption will be permitted, provided the company has adopted IFRS 15 *Revenue from Contracts with Customers*.

Read our [IFRS Newsletter: Leases](#) for a summary of recent developments.

“The IASB is pushing to finalised its new leases standard and has selected an effective date of 2019.”

KIMBER BASCOM
KPMG's global IFRS leasing standards leader



Financial instruments – Classifying derivatives on own equity

The classification of derivatives on own equity was the focus of the IASB's October meeting, as the Board continued its discussions on financial instruments with characteristics of equity.

The Board discussed the challenges of accounting for derivatives on own equity, and how IAS 32 Financial Instruments: Presentation deals with those challenges.

The next step for the project will be to further address the conceptual challenges of the 'fixed-for-fixed' condition in IAS 32.

At the October meeting, the Board also continued its discussions on measures to address the differing effective dates of IFRS 9 Financial Instruments and the forthcoming insurance contracts standard. In addition, the Board received an update on the activities of the Transition Resource Group for Impairment of Financial Instruments.

Read our [IFRS Newsletter: Financial instruments](#) for a summary of recent developments.

“Derivatives on 'own equity' present complex accounting challenges that will continue to haunt the Board's efforts to renew its approach to equity/liability classification.”

CHRIS SPALL
KPMG's global IFRS financial instruments leader



Insurance contracts - Redeliberations still on track

At its October meeting, the IASB agreed on a comment period of 60 days for the exposure draft to amend IFRS 4 Insurance Contracts, decided not to pursue the mirroring approach proposed in the exposure draft and made several other decisions on transition.

It also considered presentation and disclosure requirements, and revisited earlier decisions in terms of how effective they would be in responding to feedback received from stakeholders.

The IASB has now completed most of its redeliberations. It plans to evaluate the differences between the general model and the variable fee approach for participating contracts before agreeing on an effective date.

Read our [IFRS Newsletter: Insurance](#) for a summary of recent developments.

“While working to address the consequences of differing effective dates, the IASB continues to make progress on participating contracts and the completion of its redeliberations appears to be near.”

JOACHIM KOELSCHBACH
KPMG's global IFRS insurance leader



Insurance - Technical deliberations almost complete

The IASB took another step toward publishing its new insurance contracts standard, having completed most of its technical deliberations.

At its November meeting, the Board evaluated the differences between the general measurement model and the variable fee approach, and also considered the accounting treatment for discretionary cash flows.

Having now completed most of its technical redeliberations, the Board will further discuss the treatment of discretionary payments in participating contracts, as well as the due process steps, at an upcoming meeting. The effective date will be discussed when the publication date is more certain.

Read our [IFRS Newsletter: Insurance](#) for a summary of recent developments.

“The IASB has a small number of technical deliberations remaining, in addition to due process considerations, sweep issues that may arise and drafting.”

JOACHIM KOELSCHBACH
KPMG’s global IFRS insurance leader



ITG clarifies IFRS 9 Impairment implementation issues

The new expected credit loss model for the impairment of financial instruments has triggered a variety of implementation issues.

At its third substantive meeting – in December 2015 – the IFRS Transition Resource Group for Impairment of Financial Instruments (ITG) provided useful clarification on a number of challenging practical issues.

One area that generated a lot of debate was the incorporation of forward-looking information in measuring expected credit losses (ECLs).

On this issue, ITG members seemed to agree that the objective of IFRS 9 Financial Instruments is to achieve an unbiased and probability-weighted estimate of ECLs. Therefore, when incorporating forward-looking scenarios, an entity should consider the range and probabilities of different outcomes. For each issue submitted, the IASB will consider what action – if any – is required. Currently, no further physical ITG meetings are scheduled, but the Chair indicated that the ITG will continue to exist.

Read our [IFRS Newsletter: IFRS 9 Impairment](#) for the latest discussions on the impairment requirements in IFRS 9.

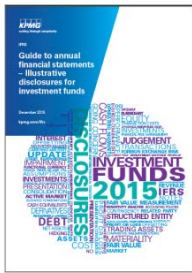


Your essential guide to the new revenue disclosures

All companies are impacted by the new disclosure requirements of IFRS 15 *Revenue from Contracts with Customers*. Effective for annual periods beginning on or after 1 January 2018, it introduces extensive new quantitative and qualitative requirements.

Our [illustrative disclosures supplement](#) will help you to navigate the new requirements and enable you to focus on the information that is relevant to users of financial statements.

If you have not assessed the wider impact of the new revenue standard yet, we would encourage you to visit our [IFRS Revenue topic page](#).



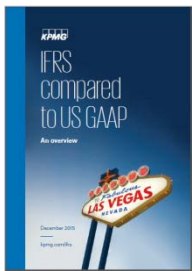
Your essential year-end guide to investment funds

Our *Guide to annual financial statements – Illustrative disclosures for investment funds* helps you to prepare your financial statements in accordance with IFRS, illustrating one possible format for financial statements based on a fictitious investment fund and helping you to identify which disclosures may be required.

[This guide](#) reflects IFRSs in issue at 15 December 2015 that are required to be applied by an entity with an annual period beginning on 1 January 2015.

You may also be interested in:

- [Other illustrative disclosures and checklists](#)
- [Better business reporting](#)

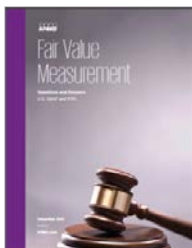


Comparison of IFRS and US GAAP

Convergence, as a strategy for the IASB and the FASB to achieve a single set of high-quality global accounting standards, will soon come to an end. It is unclear at this stage what the next steps might be for the adoption of IFRS by US domestic registrants or when further action might be taken by the US SEC.

Both IFRS and US GAAP will therefore continue for the foreseeable future as the primary reporting frameworks in use around the world and understanding the differences between the two will continue to be of keen interest to preparers and users of financial statements. With this in mind, we are pleased to publish the 2015 edition of *IFRS compared to US GAAP*.

You can access a [PDF version](#) of an abridged overview version on our IFRS Institute; this provides a high-level briefing for audit committees and boards.



Fair value measurement between US GAAP and IFRS

Every day, we are reminded that fair value measurement is not a static discipline and that markets are constantly evolving.

This means that new valuation methodologies emerge and are refined as they are tested in the marketplace and adopted by market participants. And as the fair value standards dictate, it is the market participant view that shapes fair value itself.

This updated edition of [Questions and Answers](#) focuses on fair value measurement under both US GAAP and IFRS, providing guidance on the application of the standards and highlighting the handful of differences between the two reporting frameworks.



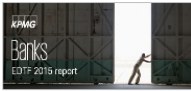
Basel Committee guidance on credit risk and accounting practices

In response to the recent global shift toward using expected credit loss (ECL) accounting models, the Basel Committee on Banking Supervision has issued new guidance on their use for global banks.

The guidance replaces previous guidance issued in June 2006, and sets out 11 principles on credit risk and accounting for ECLs. It also includes guidance specific to jurisdictions applying IFRS, and relating to the new ECL model in IFRS 9 *Financial Instruments*.

Banks' IFRS 9 teams should familiarise themselves with the new guidance and consider any possible impact on their implementation plans.

Read our [web article](#) to find out more.



Guidance on new credit risk disclosures

As part of the drive to improve investor confidence in banks' financial reports, the Enhanced Disclosure Taskforce (EDTF) has revised the principles it first outlined in 2012.

With the advent of accounting standards featuring expected credit loss models in both IFRS and US GAAP, this update specifically considers the additional disclosure needs that arise when applying expected credit loss techniques.

The report addresses disclosures that are recommended in the run-up to implementation and more permanent disclosures that should be made both before and/or after 1 January 2018.

Read our [web article](#) to find out more.



Applying the materiality concept

Making financial statement disclosures more relevant and less boilerplate is one of the IASB's key focus areas. New proposals on applying materiality are the latest step in the Board's disclosure initiative.

Too often, immaterial information either obscures or takes the place of information that would be useful to users of financial statements. The Board's latest draft practice statement aims to clarify the materiality concept and provide practical guidance to help management apply it to financial statements.

Comments are due to the IASB by 26 February 2016. We encourage you to submit your views.

Read our [web article](#) to find out more.



Foreign currency transaction - Accounting for advance consideration

For foreign currency transactions involving an advance payment or receipt, current IFRS is unclear as to which date should be used for translation. The IFRS Interpretations Committee has issued a draft interpretation to address this.

Companies – particularly those in the construction sector – could see impacts on their net profit or loss if they apply the proposals. Changes to accounting systems could also be required to book the transactions in the way the interpretation requires.

Comments are due to the Interpretations Committee by 19 January 2016.

Read our [web article](#) to find out more.



Draft IFRIC aims to reduce uncertainty over tax treatments

Tax is a sensitive topic, attracting a lot of attention and triggering much debate about tax transparency both within and beyond the boardroom.

Interpreting grey areas in tax law can be complex. New [proposals](#) issued by the IFRS Interpretations Committee seek to bring clarity to the accounting for income tax treatments that have yet to be accepted by tax authorities. Comments are due to the Interpretations Committee by 19 January 2016.

Read our [web article](#) and the accompanying [SlideShare presentation](#) to find out more.



Insurance IFRS amendments - Proposed amendments to IFRS 4 issued and our insights and analysis

In response to concerns raised by the insurance industry, the IASB has issued its proposed amendments to IFRS 4 Insurance Contracts.

The proposals would introduce two approaches to help preparers and users of financial statements reduce the impact of the differing effective dates of IFRS 9 Financial Instruments and the forthcoming insurance contracts standard.

Find out more about the proposed amendments in our [SlideShare presentation](#), which illustrates the [proposals](#).

In addition, read our [New on the Horizon: Insurance amendments for an overview of the proposed amendments to IFRS 4 Insurance Contracts](#), which aim to help you assess the potential impact of the proposed changes, and how to respond to the IASB.

Comments on the proposals are due to the IASB by 8 February 2016. We urge companies to read the proposals and participate in the debate.

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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