KPMG

Financial Reporting Matters

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CONTENTS

02

FRS 109 Financial Instruments – impairment for corporates

The new standard on financial instruments is effective from 1 January 2018 and introduces a new impairment model. There is a misconception that the impact of the new impairment requirements is not significant to corporates. However, this may not be the case. This article highlights a number of challenges that corporates may face when implementing the new impairment rules and considers possible actions for corporates.

12

International Developments

We have issued a series of *Are you good to go?* publications to help clients to drive their implementation projects to implement the upcoming revenue standard. To date, we have issued guidance on 13 sectors, including construction, retail and real estate. The new insurance contracts standard – IFRS 17 – has finally been published. Read our web article and SlideShare presentation to understand the requirements and the possible impacts.

FRS 109 Financial Instruments - Impairment for Corporates

This article is contributed by:

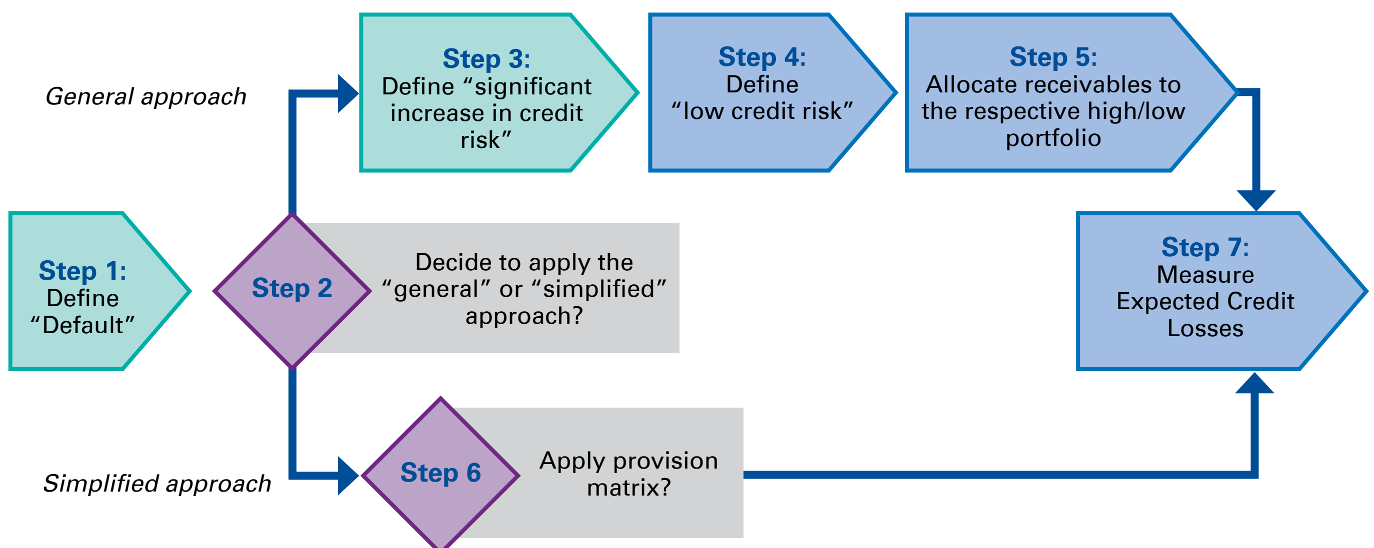
Reinhard Klemmer
Partner,
Head of Professional Practice

Yvonne Chiu
Partner,
Audit

Corporates should not under-estimate the impact and challenges when implementing the new impairment requirements under FRS 109.

FRS 109 is effective from 1 January 2018 and introduces a new impairment model. Typically, the investment and loan portfolios of non-financial institutions ('corporates') comprise less complex financial instruments as compared with financial institutions, such as banks. Therefore, corporates may believe that the impact of the new impairment requirements is not significant to them. However, corporates should not under-estimate the impact of implementing the new impairment model on accounting, including systems and processes. We highlight a number of challenges that corporates may face when implementing the new impairment rules and possible actions for corporates to consider.

Generally, corporates need to do the following:



A Which financial assets are in the scope of the FRS 109 impairment requirements?

The table below summarises which financial instruments - typically held by corporates - are in the scope of the FRS 109 impairment requirements.

Corporates	
In scope	**Out of scope**
• Financial assets that are debt instruments measured at amortised cost or at fair value through other comprehensive income (FVOCI) – including **intercompany loans, trade receivables and debt securities** • **Financial guarantee contracts** in the scope of FRS109 (including intragroup financial guarantee contracts) • **Lease receivables** in the scope of FRS 17	• Equity investments • Other financial instruments measured at fair value through profit or loss (FVTPL), for example derivatives

B What are the key considerations for corporates in applying the impairment model under FRS 109?

STEP 1: Define "default"

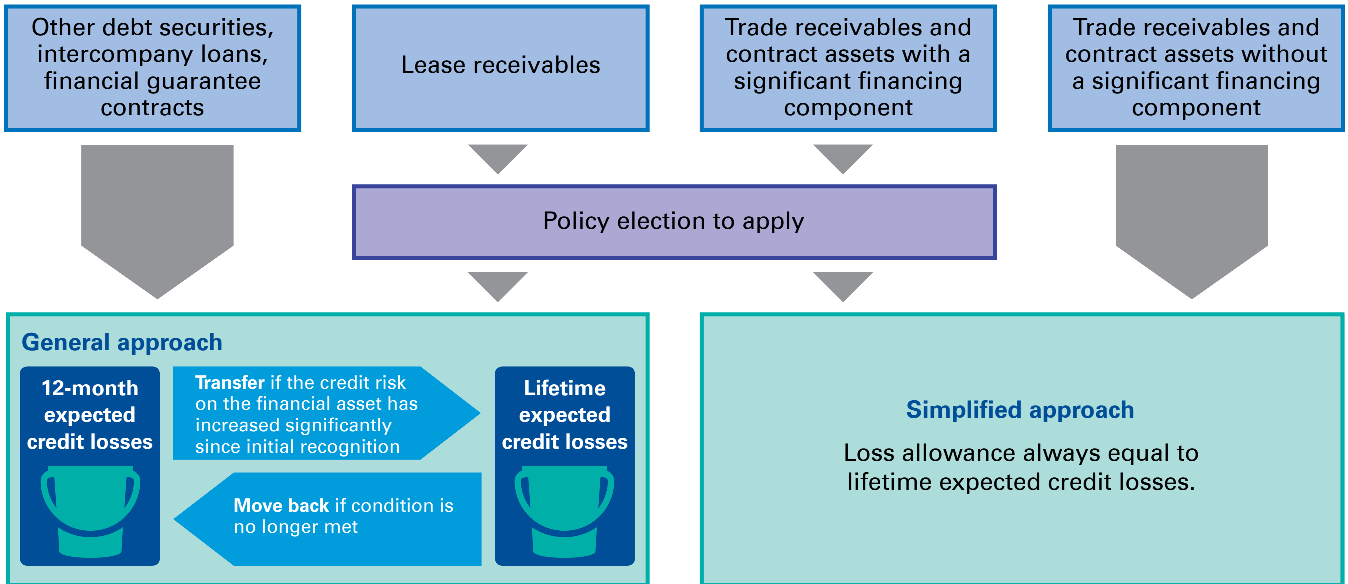
Key considerations	Possible actions
• The definition of default may affect the amount of expected credit losses (ECL) recognised because the earlier an asset is considered to be in default, the more likely it is that the default event would be possible within 12 months, and hence impacting 12-month ECL. Impairment is calculated as the expected loss over the next 12 months for the existing financial assets. • FRS 109 does not include a definition for "default"; instead, corporates need to define "default" **in the context of their specific types of assets.** • Nevertheless, FRS 109 includes **a rebuttable presumption** that default does not occur later than **90 days past the due date of the asset** unless the company has reasonable and supportable information to corroborate a more lagging default criterion.	• Consider developing a definition of default that is **consistent with internal credit risk management practices** and **considers qualitative indicators** of default in addition to days past due. • Examples of qualitative indicators of default include: – credit worthiness of the counter-party – initiation of bankruptcy proceedings – breaches of covenants • Consider using the rebuttable presumption that default occurs when the debt is 90 days past due as a general policy. Large exposures can be assessed individually taking into consideration specific facts and circumstances (for example, contracts with the government are sometimes paid late, but this would not ncessarily indicate an increased credit risk).

STEP 2: General Approach or Simplified Approach?

Under FRS 109, corporates apply one of the following approaches in recognising and measuring ECL:

- the general approach – mainly for debt securities, intercompany loans and financial guarantee contracts.
- the simplified approach – mainly for certain trade receivables and contract assets recognised in accordance with FRS 115, and lease receivables.

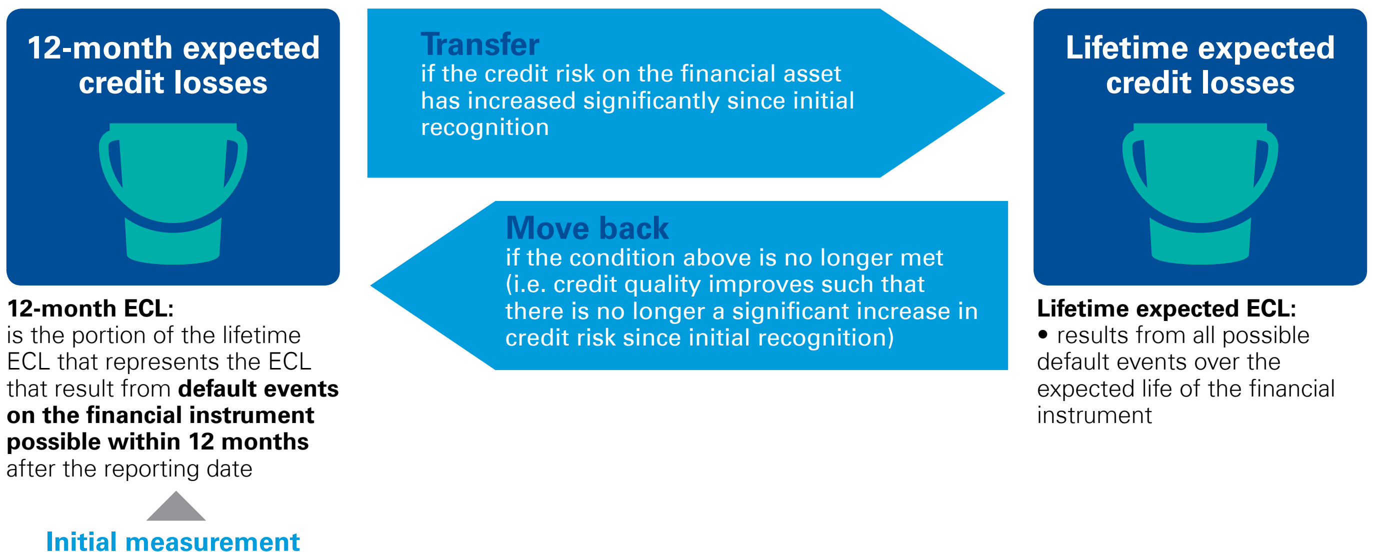
The approaches to be applied are summarised as follows:



The general approach

Under the general approach, corporates recognise ECL in two stages:

- **12-month ECL;** and
- **lifetime ECL**



12-month ECL:
is the portion of the lifetime ECL that represents the ECL that result from **default events on the financial instrument possible within 12 months** after the reporting date

Initial measurement

Lifetime expected ECL:
• results from all possible default events over the expected life of the financial instrument

The simplified approach

Under the simplified approach, corporates recognise loss allowance equal to lifetime ECL. The key simplification under the simplified approach is that corporates do not need to assess whether there is a significant increase or decrease in credit risk since initial recognition.

STEP 3: Defining "significant increase in credit risk"

Key considerations	Possible actions
• The **assessment of a significant increase in credit risk** is key in determining when to switch between a 12-month and a lifetime ECL basis. • This assessment is carried out **at each reporting date** and entails consideration of **changes in the risk of default** occurring over the expected life of the financial instrument, rather than changes in the amount of ECL (i.e. magnitude of loss) if the default were to occur. • FRS 109 does not define the term "significant increase in credit risk" and **allows the company to decide on how to define it** in the context of its specific types of instruments. • **Various approaches** may be applied in assessing whether there has been a significant increase in credit risk for different financial instruments. Any approach should include considerations such as: – change in the risk of default occurring since initial recognition; – expected life of the financial instrument; and – reasonable and supportable information that is available without undue cost or effort that may affect credit risk. • The approach may vary according to the **level of sophistication of** the company, the financial instrument and the **availability of data**. In some cases, qualitative and non-statistical quantitative information may be sufficient for the assessment. In other cases, a statistical model or credit ratings process may be used. Alternatively, a mixture of quantitative and qualitative information may also be relevant, e.g.: – a specific internal rating category; and – qualitative factors that are not captured through the internal credit rating process. • Nonetheless, FRS 109 includes a **rebuttable presumption** that the condition for recognising lifetime ECL is met when payments are **more than 30 days past due**. However, when information that is more **forward-looking** than data about past due payments is available without undue cost or effort, then this information needs to be considered and the company cannot solely rely on past-due data.	• Consider developing an **indicator-based approach to** assess significant increase in credit risk. The indication can be based on quantitative information or a mixture of quantitative and qualitative information. • Examples of some of the **possible indicators** included in the standard are: – an actual or expected significant change in the financial instrument's external credit rating; – an actual or expected significant change in the regulatory, economic or technological environment of the borrower, or existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant change in the borrower's ability to meet its debt obligations; and – an actual or expected significant change in the operating results of the borrower. • Consider using the **rebuttable presumption** that credit risk has increased significantly when contractual payments are more than 30 days past due if more forward-looking information is not available.

STEP 4: Defining "low credit risk"

Key considerations	Possible actions
• Operational simplifications are available when assessing a significant increase in credit risk. For instance: – a company may assume that the criterion for recognising lifetime ECL is not met if the credit risk on the financial instrument is low at the reporting date; or – the assessment may be made on a collective or individual financial instrument basis. • The low credit risk exemption will be a useful simplification for debt securities that are rated externally because corporates can apply investment grade ratings provided by Moody's (equivalent to or better than Baa3) or Standard & Poor's or Fitch (equivalent to or better than BBB-).	• Consider using external rating of 'investment grade' for investments in debt securities that are rated to define low credit risk. • Consider whether there is evidence of an increase in credit risk that is not yet reflected for events by the external rating agency. • Assess whether bank deposits and intercompany loans meet the low credit risk criteria.

STEP 5: Apply a provision matrix?

For trade receivables, corporates can use a provision matrix as a **practical expedient** for measuring ECL.

Using a provision matrix for short term trade receivables

Company T has a portfolio of trade receivables of $30,000 at the reporting date. None of the receivables includes a significant financing component. T operates only in one geographic region and has a large number of small clients.

T uses a provision matrix to determine the lifetime ECL for the portfolio. It is based on T's historical observed default rates, **and is adjusted by a forward-looking estimate** that includes the probability of a worsening economic environment within the next year. At each reporting date, T updates the observed default history **and forward-looking estimates**.

	Expected credit loss	Trade receivables ($)	Impairment allowance ($)
Current	0.5 %	15,000	75
1-30 days past due	2.2 %	7,500	165
31-60 days past due	2.7 %	4,000	108
61-90 days past due	4.5 %	2,500	112
Over 90 days past due	10 %	1,000	100
Total		**30,000**	**560**

Corporates may need to consider the need to adjust their current provision matrix approach:

Key considerations	Possible actions
• Corporates would need to **group trade receivables** into appropriate segments with similar loss patterns.	• Consider whether it is appropriate to **segment trade receivables**. • Consider segmentation of customers based on **common risk characteristics, e.g.:** – geographical region; – product type; – customer rating; – collateral or trade credit insurance; or – type of customer, such as wholesale or retail.
• **Loss rates reflect reasonable and supportable information** that is available without undue cost and effort at reporting date about past events, **current conditions and forecasts of future economic conditions**.	• Gather historical loss information **by age band** for an **acceptable period for each segment**. (e.g. 3 to 5 years). • **Adjust any historical losses** that are not representative of future credit losses, e.g. write offs due to billing system errors, discounts and rebates. • Compute average historical loss rate by age band. • **Adjust historical loss** rate to incorporate all reasonable and supportable information about **current conditions** of the debtors and **general economic conditions**. • Adjust historical loss rate for reasonable and supportable forecasts of future **macro-economic indicators that** the financial instruments are sensitive to (or group of financial instruments), e.g. – unemployment rates; – GDP – property prices; – commodity prices – payment status; or – other factors that are indicative of credit losses. • Consider if specific allowance on an individual basis should be made for any debts where debtors specific information is available. Apply the loss rate to the remaining balances on a collective basis in each segment.

STEP 6: Measure ECL

The measurement of ECL may be difficult and involves judgement, in particular if the financial instrument is not rated or no market observable information is available.

Nonetheless, the measurement of ECL should reflect the following criteria:

	Key considerations	Possible actions
1. an unbiased and probability-weighted amount	Estimate should reflect at least two scenarios: • the probability that a **credit loss occurs**, even if this probability is very low; and • the probability that **no credit loss occurs**	Consider using average historical credit losses for a large group of similar financial assets or historical default rates implied by credit default spreads, bond spreads of the counterparty or comparative peer group exposure as a reasonable estimate of the probability-weighted amounts.
2. the time value of money	Apply an appropriate discount rate. • Financial assets other than credit impaired financial assets and lease receivables: Apply effective interest rate (EIR) determined on initial recognition or an approximation thereof. • Lease receivables: Apply discount rate used in measuring lease receivables in accordance with FRS 17. • Financial guarantee contracts: Apply discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows; but only if, and to the extent that, the risks are taken into account by adjusting the discount rate instead of adjusting the cash flows that are being discounted.	Consider estimating an average rate that would approximate the EIR to discount the expected losses.

	Key considerations	Possible actions
3. reasonable and supportable information that is available without undue cost or effort	• The estimates of ECL are required to reflect reasonable and supportable information that is available without undue cost or effort – including information about past events and current conditions and forecasts of future economic conditions. • Information that is available for financial reporting purposes is typically considered to be available without undue cost or effort.	• Consider if information on historical loss experience, current conditions, and forecasts of future economic conditions is reasonable and supportable information and is available without undue cost or effort. • Consider data sources such as: – internal historical credit loss experience; – internal and external ratings; – the credit loss experience of other companies; and – external reports and statistics. • If none, or insufficient sources of entity-specific data are available, then use experience from similar financial instruments. • For periods far in the future, consider **availability of detailed information**, e.g. **by extrapolating the information that is available for earlier periods**. • **Adjust historical information** based on **current** observable data to reflect conditions and **forecast of future conditions** by considering **macro-economic indicators** that the financial instrument is sensitive to (or group of financial instruments), e.g.: – unemployment rates; – GDP development; – property prices; – commodity prices; – payment status; or – other factors that are indicative of credit losses.

New impairment disclosures

The disclosure requirements on impairment have been **expanded significantly** compared to those currently required by FRS 107. Some new disclosures require the tracking of data, e.g. disclosures on determining whether the credit risk of financial instruments has increased significantly since initial recognition.

Generally, corporates will need to:

- assess current systems to identify data gaps that need to be filled to meet the new disclosure requirements;
- determine how much detail to disclose;
- determine how much emphasis to place on different aspects of the disclosure requirements;
- determine the appropriate level of aggregation and disaggregation; and
- determine whether additional explanation and information are necessary to evaluate the information disclosed and to meet the disclosure objective.

Conclusion

Although the investment and trade receivables portfolios of corporates typically comprise less complex financial instruments, the expected credit loss impairment model introduces a number of challenges. The implementation of the new impairment requirements is likely to increase the financial reporting effort because the impacts reach beyond accounting and may require changes to systems and processes. Corporates are highly encouraged to carry out their assessment now.

International Developments

IFRS 15 Revenue – Our new resources to help you get ready

In a matter of months, the new revenue recognition standard – IFRS 15 – will change the way that many sectors account for sales contracts. To help you make a smooth transition, we're issuing a range of guidance materials.

- This blog post explores whether IFRS 15 holds any earnings surprises for investors, and what they should look out for.

- Our series of Are you good to go? publications will help you drive your IFRS 15 implementation projects to the finish line. To date, we've issued guidance for
  – aerospace & defence
  – airlines
  – automotive suppliers
  – banking
  – construction
  – food, drink and consumer goods
  – insurance
  – investment management
  – media
  – pharmaceuticals
  – real estate developers
  – retail
  – technology

  We'll continue publishing insights for other sectors on a regular basis at kpmg.com/goodtogo.

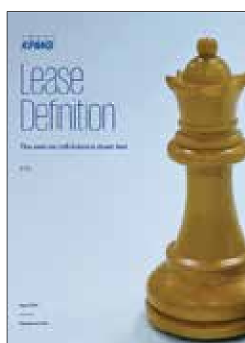
- For practical guidance to help you make the move to the new standard, check out our IFRS 15 transition toolkit.

Banks – Stage transfer criteria for impairment

Under IFRS 9 *Financial Instruments*, the principles-based approach to the measurement of impairment leaves significant room for interpretation and judgement. One of the most prominent areas of judgement relates to the stage transfer criteria, which determine whether the loss allowance is measured as 12-month expected credit losses (ECLs) (Stage 1) or lifetime ECLs (Stage 2).

In this edition of the Bank Statement, we explore the challenges of, and one possible approach to, operationalising the stage transfer criteria under the IFRS 9 impairment model.

It also looks at some banks' disclosures in their December 2016 annual financial statements for IFRS 9, as well as the new standards on revenue (IFRS 15) and leases (IFRS 16), and contains the usual updates on IFRS 9 and related topics.



Lease definition – The new on-/off-balance sheet test

Under the new leasing standard, IFRS 16, lease definition becomes the key on-/off-balance sheet test.

In many cases, assessing whether there is a lease will be straightforward and a transaction that is a lease today will be a lease under the new standard. But this will not always be the case.

Identifying all lease agreements and extracting all key data may require substantial effort. The practical expedient to grandfather the lease definition on transition may prove popular.

Our Lease Definition publication will help you identify leases as you prepare to adopt IFRS 16. It provides a detailed analysis of the key elements of the lease definition, together with KPMG's insights and examples.

For more detail, see our web article.

Income tax exposures

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 requirements introduced by IFRIC 23 *Uncertainty over Income Tax Treatments* bring clarity to the accounting for income tax treatments that have yet to be accepted by tax authorities. As a result, some companies may find that their tax liabilities may increase, more tax assets are recognised and the timing of derecognition changes.

The Interpretation applies for annual periods beginning on or after 1 January 2019 with earlier adoption permitted.

Our web article and SlideShare presentation can help you to understand IFRIC 23's requirements and its possible impacts.

Newly effective standards at a glance

Our summary of newly effective and forthcoming standards for years starting on or after 1 January 2017 is now available.

It provides links to more detail on the new requirements – enabling you to quickly access the insight that you need – and also highlights the EU effective dates.

It's important to note that, even though the new standards on revenue, financial instruments and leases aren't effective yet, disclosure of information relevant to assessing their impact in the period of initial application is required before the date of application under IFRS. This is the case even if you aren't adopting them early. Both investors and regulators expect progressively more quantitative information about the impacts of the major new standards as their effective dates approach.

Access the summaries via our IFRS: New standards web page.

Operating segments – Responding to the review of IFRS 8

The IASB has issued proposed amendments to IFRS 8 *Operating Segments*. The ED seeks to address the concerns of preparers, regulators and users of financial statements raised during the Board's Post-implementation Review (PIR).

Although the PIR concluded that the standard generally works well, it identified several areas for improvement. Read our web article to find out more.

It remains to be seen if the proposals target the right areas of IFRS 8 in order to significantly improve its current application.

Gabriela Kegalj
KPMG's Global IFRS presentation deputy Leader

New – Combined and/or carve-out financial statements

Companies are often required to provide combined and/or carve-out financial statements – e.g. in IPO situations – because they provide relevant and useful information for investors and other users. However, answers to questions on how to prepare such financial statements have not always proven to be consistent around the globe.

Our guide to combined and/or carve-out financial statements aims to highlight practice where IFRS is applied consistently at a global level. It also aims to draw attention to those areas in which we have seen diversity in the application of IFRS.

This guide provides an overview of approaches to preparing these statements, as well as examples of real disclosures.

Insurance – It's time to get started

After some 20 years of discussion and debate, the comprehensive new accounting model in IFRS 17 will give users of financial information a whole new perspective on insurers' financial statements.

Preparing for and applying the new standard will require substantial effort and present particular challenges – not least in implementing new or upgraded systems, processes and controls.

Our First Impressions guide contains insights and examples that will help you assess the potential impact, and make informed decisions when choosing your approach to IFRS 17 implementation.

The time to watch and wait is over – the need for planning starts now.

For a high-level overview, read our web article and SlideShare presentation.

The greater comparability and greater transparency that IFRS 17 provides should be a clear benefit to analysts and users of financial information.

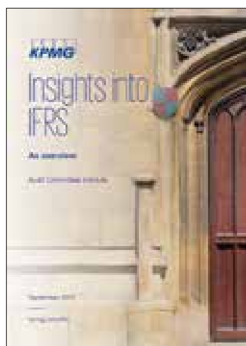
Gary Reader
KPMG's Global Head of Insurance

Banks – Auditing IFRS 9's ECL requirements

The new financial instruments standard IFRS 9 Financial Instruments becomes effective in a matter of months, and critical accounting judgements will soon need to be made. Estimating expected credit losses (ECL) is perhaps the single most significant change in banks' financial reporting.

So, to help banks' audit committees fulfil their oversight role, the Global Public Policy Committee (GPPC) has published a paper that builds on its previous guidance on implementation. The GPPC comprises representatives from the six largest global accounting networks, BDO, Deloitte, EY, Grant Thornton, KPMG and PwC.

Our quick guide to the paper summarises the GPPC paper and highlights the key questions that the paper suggests audit committees discuss with auditors to ensure that the new standard's requirements are successfully applied.



Helping you to embed IFRS change

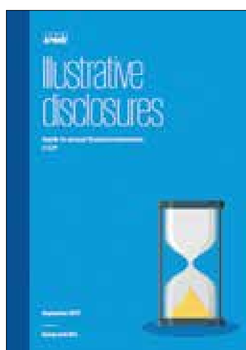
KPMG's flagship publication on IFRS – Insights into IFRS – is now available in a new edition, both in hard copy and as an e-book on ProView™.

Insights pools the collective experience of our IFRS specialists into over 3,000 pages of in-depth analysis.

The 14th Edition contains all our latest thinking on the new standards – on revenue, financial instruments, leases and insurance contracts – to help you embed the change and continue preparing for the next wave.

It can be used alongside our Guides to annual financial statements to form your complete guide to the year end.

For details on how to order the book, read our web article or speak to your usual KPMG contact.

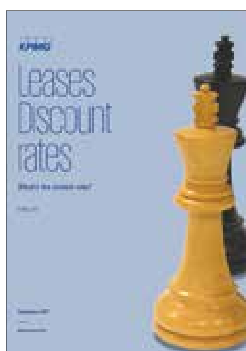


Your essential year-end guides

Our Guides to annual financial statements – incorporating Illustrative disclosures and a companion Disclosure checklist – help you to prepare your financial statements in accordance with IFRS.

These updated guides reflect standards in issue at 15 August 2017 that are required to be applied by a company with an annual reporting period beginning on 1 January 2017. The illustrative disclosures include expanded disclosures on the possible impacts of the major new standards.

Also out today is the new edition of Insights into IFRS, your tool to help you apply IFRS to real transactions and arrangements. Used together, these resources form your essential guide to the year end.



Leases: Discount rates – A key transition challenge for lessees

IFRS 16 *Leases* requires lessees to bring most leases onto the balance sheet. The new assets and liabilities are initially measured at the present value of the lease payments. But discounted at what rate?

This question will be at the heart of many transition projects, particularly for lessees. The discount rate affects the amount of the lessee's lease liabilities – and a host of key financial ratios.

Our publication Leases Discount rates will help you to determine the appropriate discount rate and to assess how this will affect your financial statements.

Materiality – Guidance on applying judgement and changes to definition

The IASB is striving to end the 'checklist' mentality by encouraging companies to use greater materiality judgements when preparing their financial statements.

Its latest guidance aims to help management be more confident when exercising judgement. It includes a systematic process for making materiality judgements and provides specific guidance on common judgemental areas.

In a separate exposure draft, the IASB is also proposing minor changes to the definition of materiality in IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to enhance consistency and improve clarity.

Find out more in our web article.

Banks – Modification of financial instruments

Accounting for modifications of financial instruments has been a topic of discussion for some time. IFRS 9 Financial Instruments has put an additional spotlight on it, so in this quarter's banking newsletter we discuss the accounting under IFRS 9.

Also in this issue, we look at banks' disclosures relating to the implementation of IFRSs 9, 15 and 16 in their 2017 interim financial statements.

And we have our usual updates on IFRS 9 and the IASB's activities, including the amendments to IFRS 9 relating to prepayment features with negative compensation that are expected to be published on 12 October.

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

IFRS 9 – Changes warranting immediate attention

The IASB has changed IFRS 9's requirements in the following areas of financial instruments accounting.

- Prepayment features with negative compensation.
- Modification of financial liabilities that do not result in derecognition.

Both changes could impact profit or loss and significantly affect companies preparing financial statements for 2017.

Read our web article to find out more.

With IFRS 9's effective date only weeks away, all preparers – banks and corporates – should make it a priority to analyse the impact of these changes on their implementation projects.

Chris Spall
KPMG's Global IFRS Financial Instruments Leader

Long-term interests in associates and joint ventures

An amendment to IAS 28 Investments in associates and joint ventures will affect companies that finance these entities with preference shares or with loans for which repayment is not expected in the foreseeable future (referred to as long-term interests or 'LTI'). This is common in the extractive and real estate sectors.

The amendment requires the dual application of IAS 28 and IFRS 9 Financial instruments, which is complex and will require careful consideration. In effect, companies will have to apply a three-step process at each reporting date.

To learn more about the amendments, read our web article.

This will promote consistency but at the expense of some complexity.

Mike Metcalf
KPMG's Global IFRS Business Combinations Leader

Your essential guide to the new revenue disclosures

All companies are impacted by the disclosure requirements of IFRS 15, the new revenue standard, which is effective in a matter of weeks.

It introduces extensive quantitative and qualitative requirements, which apply regardless of the impact of the new standard on your revenue line.

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.

For an illustration of the pre-implementation disclosures that need to be included in 2017 financial statements, see our Guide to annual financial statements – Illustrative disclosures.

Regulators' focus for 2017 – Impact of new standards and IFRS 3 and IAS 7 issues

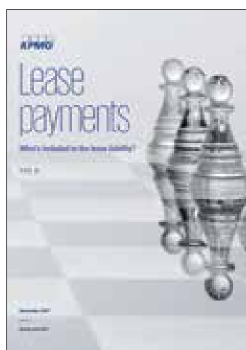
The European regulator, ESMA, has issued a statement highlighting the common areas that European national regulators will be focusing on when reviewing listed companies' 2017 IFRS financial statements.

Its three key priorities cover:

- disclosures on the impact of the new standards;
- specific recognition, measurement and disclosure issues relating to IFRS 3 Business Combinations; and
- disclosure issues relating to IAS 7 Statement of Cash Flows.

Although the topics included in ESMA's statement are those deemed to be most relevant at a European level, regulatory bodies outside of Europe are also likely to take notice, and to pay particular attention to many of the same topics.

Read our web article to find out more.



Leases – Determining the lease liability

IFRS 16 *Leases* requires lessees to bring most leases onto the balance sheet. The lease liability is measured at the present value of the lease payments. But which lease payments should be included in the lease liability, initially and subsequently?

The answer to this question will determine the scale of the impact of the new standard for lessees.

The impact is less dramatic for lessors, but could involve some sensitive disclosures.

Our publication Lease payments provides an overview of how to determine the lease payments.

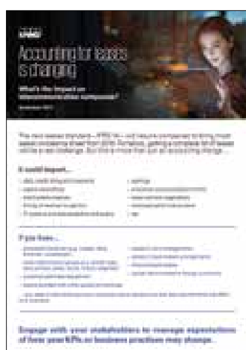
Financial instruments – Towards a new model for DRM

At its November meeting, the Board agreed that the accounting model for dynamic risk management (DRM) should improve transparency, address the capacity issue and provide a simple and reliable performance metric while reflecting the fluid nature of DRM.

The staff presented two accounting approaches where derivatives are used to align the asset profile with the target profile and recommended the approach based on cash flow hedge mechanics.

The Board did not make any decisions, but directed the staff to concentrate their effort on further developing the model based on cash flow hedge mechanics and begin involving preparers and users of financial statements in their discussions at an early stage.

Find out more in this month's newsletter.

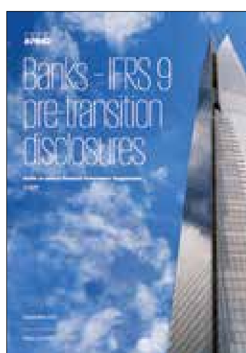


Accounting for leases is changing – It's time to engage

The new leases standard – effective from 1 January 2019 – will require telecommunication companies to bring most leases on-balance sheet. But it is more than just an accounting change.

To help you make the assessments necessary, read our Accounting for leases is changing, which gives our insight and analysis on the impacts of IFRS 16 on sector-specific arrangements such as dedicated lines and other transmission assets.

For more information, go to our IFRS – Leases topic page.

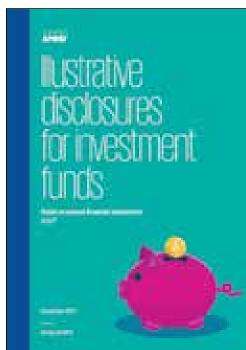


Banks – Your essential year-end guide

Our suite of Guides to annual financial statements – Illustrative disclosures for banks helps you to prepare your financial statements in accordance with IFRS, illustrating one possible format for financial statements based on a fictitious banking group and helping you to identify which disclosures may be required.

This new supplement to the 2016 edition illustrates the IFRS 9 *Financial Instruments*-related pre-transition disclosures in the group's 2017 financial statements.

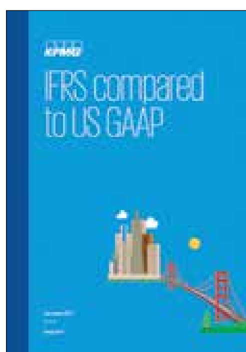
Our guide illustrating early application of IFRS 9 is also available.



Investment funds – Your essential year-end guide

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 standards in issue at 30 November 2017 that are required to be applied by an entity with an annual period beginning on 1 January 2017.



IFRS compared to US GAAP

Both the FASB and the IASB believe that the era of sweeping accounting change has come to an end, for now, and both are committed to helping companies implement the new major standards.

Convergence is not a continuing priority, and there are no formal joint FASB-IASB projects currently planned. Instead, there's a change in focus to enhancing transparency through better communication between companies and the users of their financial statements, such as investors and analysts.

Against this backdrop, we are pleased to publish this 2017 edition of our comparison of IFRS and US GAAP, which highlights the key differences between the two frameworks.

If you're a preparer, it may help you to identify areas to emphasise in your financial statements; if you're a user, it may help you spot areas to focus on in your dialogue with preparers.

Annual improvements to IFRS

As part of its process to make non-urgent but necessary amendments to IFRS, the IASB has issued its *Annual Improvements to IFRS Standards 2015–2017 Cycle*.

The document contains amendments to IFRS 3 *Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs*. Read our web article to find out more and to access KPMG's insight on the proposals.

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

kpmg.com.sg

Contact us

Reinhard Klemmer
Partner
Head of Professional Practice
T : +65 6213 2333
E : rklemmer2@kpmg.com.sg

Chan Yen San
Partner
Department of Professional Practice
T : +65 6213 2106
E : ychan@kpmg.com.sg

KPMG LLP
16 Raffles Quay #22-00
Hong Leong Building
Singapore 048581
T : +65 6213 3388
F : +65 6223 3118

kpmg.com/socialmedia

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