

Developments in financial reporting requirements in 2006

It is that time of the year again when companies take stock of financial reporting requirements. These include both new and anticipated requirements that have a direct impact on the year-end closing. This issue provides a quick reference for announced changes in financial reporting standards and changes in legislation and regulations that may impact on financial reporting.

The rate of issue of new accounting standards and revisions to existing accounting standards slowed down in 2006. However, there were various changes in legislation, income tax matters and regulations for listed companies in Singapore.

The Companies (Amendment) Act (CAA) 2005 introduced changes to rules relating to share capital and share transactions took effect on 30 January 2006. There was also the introduction of two new business structures: Limited Liability Partnerships (LLPs) and Limited Partnerships (LPs).

On the corporate tax front, two circulars were issued by the Singapore tax authority, relating to tax-exemption for specified foreign income and tax deductibility of employee share options.

Companies listed in Singapore need to pay attention to the amendments to the Singapore Exchange Limited (SGX) Listing Rules, the requirement for mandatory quarterly reporting and the revised Code of Corporate Governance.

In terms of accounting standards, the more immediate and significant changes for a 31 December 2006 year-end company include Financial Reporting Standard (FRS) 102 on share-based payment (for unlisted entities), Interpretation of FRS (INT FRS) 104 on determining whether an arrangement contains a lease and various amendments to FRS 39 on accounting for financial instruments.

Looking not too far ahead to the year ending 31 December 2007, companies also need to start preparing for the implementation of FRS 40 on accounting for investment property and FRS 107 on disclosures of financial instruments.

We also expect an international interpretation, International Financial Reporting Interpretations Committee (IFRIC) 11, to be adopted shortly in Singapore. IFRIC 11 clarifies the accounting treatment for some common issues relating to intra-group share-based payment transactions.

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A. Changes in legislation

Companies (Amendment) Act 2005

Effective: 30 January 2006

Refer to *Financial Reporting Matters – June & August 2005* for details.

The CAA 2005 amended the rules relating to share capital and share transactions. These were discussed at length in the June and August 2005 issues of the Financial Reporting Matters, and are summarised here for your reference.

We have also included a discussion of a few common practical accounting issues that arises from implementation of the CAA.

Abolishing the concept of “par value” in share capital

Shares of a company now have no par value. This applies to shares issued before, on or after, the effective date of the CAA.

On the effective date, any amount standing to the credit of a company’s share premium account and capital redemption reserve is transferred to share capital. The balance in the share premium account that existed before the effective date of 30 January 2006 could be used for specific purposes in accordance with Section 62B of the Companies Act, but only for commitments entered into before the effective date.

For new shares issued after the abolition of par values, the total consideration received is recorded as share capital.

How would expenses incurred in connection with issuing shares (eg. an IPO) be recorded?

Without par value and therefore no share premium account, the provision relating to writing off share issue expenses against the share premium account was repealed. FRS 32 generally requires these costs to be expensed in the income statement, except for incremental costs directly attributable to the equity transaction that otherwise would have been avoided. FRS 32 allows such qualifying costs to be accounted for as a debit to equity.

The FRS or the Companies Act does not specify which component of equity the qualifying transaction costs should be charged against. Our view is that companies could account for share issue expenses in one of the following three ways: as a deduction from share capital or other capital reserves, as a deduction from retained earnings or as a debit in a separate component of equity. Our preferred view is to present the transaction costs as a deduction from share capital, so as to record share capital at its net proceeds after deduction of share issue expenses that are directly attributable to the issue of the shares.

Allowing share-buyback to be provided out of capital

Previously, a company could buy back its shares only if it had distributable profits. After the amendment, a company can now buy back its shares out of its capital or accumulated profits, so long as the company is solvent.

Allowing repurchased shares to be held as treasury shares

Companies are now able to hold repurchased ordinary shares as treasury shares, with the company as the registered owner of those shares. The number of shares that could be held as treasury shares is limited to 10% of the total number of the company’s shares.

Treasury shares can be used to meet obligations under an employee share option scheme, as companies are able to buy back their own shares and hold them in anticipation of the exercise of employee share options. This reduces the operational cost of managing option schemes. Treasury shares can also be sold for cash, or used to fund acquisitions.

Can treasury shares be presented as investments in the same way as investments in the shares of other companies?

No. Treasury shares should be presented in the balance sheet as a deduction from equity, and not as an asset.

Can a company recognise a gain or loss from re-issuing treasury shares?

No. Purchases and sales of the company's own shares are transactions with its shareholders and do not give rise to gains or losses for the company. Under the Companies Act, any gain on disposal of treasury shares is recognised in a capital reserve and is not payable as dividends.

Where a company records a loss from disposal of treasury shares, the loss is also recorded in equity. However, it is not clear whether the entity is able to:

- offset the loss against the gain arising from previous sale of treasury shares and present the remaining loss as a net debit in the capital reserve; or
- present the entire amount of loss as a gross debit in a separate reserve.

In such situations, it is advisable to seek legal advice in determining the amount of profit available for distribution as dividends.

How do treasury shares affect earnings per share (EPS) computations?

Where treasury shares are held, companies would need to make appropriate adjustments for purpose of computing EPS. The number of treasury shares held should be deducted from the number of shares in issue when determining the weighted average number of shares outstanding for purposes of computing the basic and diluted EPS.

Introducing an alternative capital reduction process which does not require court sanction

Companies have the option of either going to court, or use a simplified process that does not now require court approval, to effect capital reduction. The alternative process, however, would require a solvency statement to be made by the directors.

Providing additional circumstances under which financial assistance may be provided

Companies are able to provide financial assistance to third parties to acquire its shares in two situations:

- where the amount does not exceed 10% of the company's equity; or
- where the shareholders unanimously agree to the assistance.

In both of the above situations, the requirement of a solvency statement applies.

Introducing a more effective and efficient statutory form of merger and amalgamation process

Two or more companies are now able to merge and continue as one company without going through court procedures, provided the combining companies are solvent. There would also be a short-form amalgamation process for mergers involving wholly-owned subsidiaries.

How do we account for legal mergers through amalgamation?

In the separate financial statements of the company, legal mergers through amalgamation would generally be accounted for under the purchase method under FRS 103 on business combinations, except for transactions among entities under common control.

If the entities are under common control, there is an accounting policy choice of using the purchase method or the as-if pooling method.

New business structures – Limited Liability Partnerships and Limited Partnerships

In 2002, the Company Legislation and Regulatory Framework Committee recommended enacting legislation to introduce LLPs and LPs in Singapore, so as to provide local and foreign investors in Singapore greater flexibility in business structures.

In this section, we provide a brief overview of these two new business structures.

Limited Liability Partnerships

The LLP Act is effective from 11 April 2005.

Effective date of Limited Liability Partnership Act: 11 April 2005

An LLP is a business structure that offers all its members limited liability while allowing them to retain the flexibility of operating the LLP as a traditional partnership. A partner of an LLP is not personally liable for the malpractice of other partners in the firm. The partner is however personally liable for his own negligence and personal misconduct.

Unlike companies, the profit-sharing structure, decision-making structure and terms and conditions governing the relationship between the partners of the LLP are contained in a private agreement between the partners who own the LLP.

An LLP is not required to have its accounts audited and filed with the Accounting and Corporate Regulatory Authority in Singapore. However, the LLP is required to keep proper accounting records that would enable true and fair financial statements to be prepared and audited, if necessary.

LLPs are commonly used by professional firms and start-ups.

Limited Partnerships

The Government has now accepted the recommendations by a private-sector study team on LPs. A new legislation, the Limited Partnerships Act, will be enacted to effect the recommendations.

An LP, on the other hand, is a business structure comprising at least one general partner with unlimited liability and limited partners with limited liability. An LP is essentially a general partnership, but with passive investors in the form of limited partners. While the limited partners enjoy limited liability, they are prohibited from participating in the management of the LP.

This is an attractive structure for persons who wish to conduct business as investors but do not wish to take an active role in the management of the business and prefer to entrust the management of the business to any one or more persons who have sufficient confidence to assume unlimited liability.

An LP does not have a legal personality separate from the partners. This means that the general partner will have to bear all responsibility under the law and is liable for the debts and obligations of the LP. However, the limited partner's liability will be limited by the amount paid or agreed to be paid.

An LP is tax transparent and the partners will be taxed on their share of the income or gains of the LP according to their personal income tax rates.

Accounting and disclosure requirements for an LP will be the same as those for an LLP described above.

LPs are increasingly used for private equity and fund investment businesses.

B. Changes in income tax matters

Refer to *KPMG Tax Special* and KPMG publication – *Budget 2006* for details.

The Budget 2006 announced on 17 February 2006 introduced innovative initiatives to develop fresh industries and build on the country's own intellectual property. It also aimed to strengthen Singapore's existing core competencies in the traditional sectors of financial services, shipping and logistics.

Corporate tax rate stays

Once again, Singapore's headline corporate tax rate remains status quo at 20%. The reason cited for the status quo is that Singapore's effective corporate tax rate is highly competitive, after considering the various tax incentives.

Tax exemption for foreign-sourced dividends, foreign branch profits and foreign-sourced service income

Effective: 31 May 2006

Foreign-sourced dividends, foreign branch profits and foreign-sourced service income (specified foreign income) of a Singapore resident company which are remitted to Singapore are exempted from Singapore income tax where the underlying income in question:

- has been subject to foreign income tax at the immediate paying jurisdiction; and
- was derived from a jurisdiction which has a headline tax rate of at least 15%.

The change, detailed in Inland Revenue Authority of Singapore Circular dated 31 May 2006, aimed to grant tax exemption to specified foreign income which would otherwise be disqualified from the exemption, if they are remitted under specific scenarios or circumstances.

The circular sets out:

- two administrative methods that taxpayers can adopt to prove that their specified foreign income satisfy the "subject to tax" clause in the first bullet above; and
- how the "headline tax rate of at least 15%" clause in the second bullet above would apply to specified foreign income received from a foreign tax jurisdiction that has special tax legislation imposing tax on such income at a rate lower than the highest tax rate stipulated in its main legislation.

Deductibility of employee stock options

Effective: 30 January 2006

Refer to *KPMG Tax Alert* – August 2006 for details.

With the introduction of treasury shares under the CAA 2005, the tax law will also be changed to allow companies to claim tax deduction on the cost incurred for treasury shares used to fulfill their obligations under employee equity-based remuneration schemes.

Under the proposed change, a company can only claim deduction for the cost of the treasury shares when they are transferred to its employees. For tax purposes, the amount of tax deduction for treasury shares transferred under an employee equity-based remuneration scheme is based on the actual cost incurred by the company.

Where a parent company buys treasury shares to be transferred to the employees of its subsidiary company under an employee equity-based remuneration scheme, the cost if recharged to the subsidiary company will be deductible to the subsidiary company.

Companies need to take note of deferred tax implications arising from the use of treasury shares to meet their obligations under employee equity-based remuneration schemes. The timing and amount of deduction for tax purposes and the recognition of employee expenses for accounting purposes are different.

C. Singapore Exchange Limited Listing Manual

Amendments to the SGX Listing Rules

Effective: 1 September 2006

Refer to *Financial Reporting Matters – August 2005* for details.

The SGX listing rules were recently amended to incorporate measures intended to raise corporate governance standards and promote good regulatory practices.

A key amendment is that directors of listed entities are now required to provide a “negative assurance” confirmation of their interim results (quarterly or half-yearly, as applicable). In announcing interim financial statements, directors must provide a confirmation that to the best of their knowledge, nothing has come to the attention of the board of directors which may render the interim financial results false or misleading.

Review of quarterly reporting requirement

Effective: 31 December 2006

The Ministry of Finance has, in August 2006, accepted all the recommendations of the Council on Corporate Disclosure and Governance (CCDG), including retaining mandatory quarterly reporting for listed companies with market capitalisation exceeding \$75 million, and continuing to exempt smaller listed companies from mandatory quarterly reporting.

The change to note, however, is that previously exempt companies will need to review their market capitalisation at the end of each calendar year, starting from 31 December 2006, unlike the current arrangement where listed companies are exempted based on their market capitalisation calculated on 31 March 2003 (or based on their IPO price if they were listed after that date).

Under this new arrangement, where the market capitalisation of a previously exempt company crosses the \$75 million threshold as at calendar year-end, a grace period of one year is given in preparation for quarterly reporting purposes. For example, a company with market capitalisation exceeding \$75 million at 31 December 2006 will be required to submit its first quarterly financial statement for the quarter ending 31 March 2008.

Should a company’s market capitalisation fall below \$75 million subsequently, it will not be exempted from mandatory quarterly reporting.

Code of Corporate Governance 2005

Effective: Annual general meetings held on or after 1 January 2007

Refer to *Financial Reporting Matters – August 2005* for details.

The revised Code of Corporate Governance (2005 Code) replaces the existing Code (2001 Code). The 2005 Code continues to be just a reference for best practice and is not mandatory.

Currently, listed companies are required to disclose in their annual reports whether their corporate governance practices comply with the Principles of the 2001 Code, and explain any deviations from the Guidelines of the 2001 Code. The 2005 Code is structured as Principle, Guidelines and Commentary. Companies are not required to disclose and explain deviations from the Commentary.

The role of the Audit Committee has been expanded to include arrangements for staff of the company to raise concerns, in confidence, about possible improprieties in matters of financial reporting or other matters. In addition, the Remuneration Committee (RC) should comprise entirely of non-executive directors, the majority of whom, including the chairman of the RC, should be independent.

D. Changes in Financial Reporting Standards

No new major standards to be effective before 2009

For those involved with FRS, the past few years have been a time of great activities. It comes as a welcoming move that the IASB announced that it will not require the application of new IFRS under development or major amendments to existing standards before 1 January 2009, to provide stability and increased lead time to prepare for implementation of new standards.

The establishment of this approach does not preclude the publication of new standards before that date, or interpretations and minor amendments to deal with potential issues identified during implementation.

We summarised below the new FRS, INT FRS and amendments to FRS, as well as IFRIC Interpretations expected to be adopted shortly in Singapore, for your reference.

New FRS effective for financial year beginning on 1 January 2006

FRS 102 *Share-based Payment* Effective: Annual periods beginning from 1 January 2006 (non-listed companies)

Refer to *Financial Reporting Matters - October 2004 and February 2006* for details.

For listed companies, FRS 102 has been effective from 1 January 2005. All other companies are required to apply FRS 102 from 1 January 2006.

For non-listed companies in Singapore applying FRS 102 for the first time in 2006, they would need to take note that FRS 102 requires share-based payment to be measured at its fair value. Measurement using intrinsic value is allowed only in rare cases where the company is unable to estimate the fair value reliably. The application guidance in FRS 102 discusses approaches to determine the fair value of equity instruments for an unlisted entity.

Where employees of non-listed companies in Singapore receive equity instruments from a parent company or other related companies, the non-listed company is also required to record an expense based on the fair value of the instruments granted to its employees.

Amendments to FRS 19 *Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures* Effective: Annual periods beginning from 1 January 2006

Refer to *IFRS Briefing Sheet - Issue 12* for details.

The amendments to FRS 19 relate to accounting for defined benefit plans. It is not expected to apply to the majority of Singapore companies providing post-employment benefits solely under the Central Provident Fund Scheme, which is a defined contribution plan. However, the amendments will be relevant to Singapore groups with overseas subsidiaries that provide defined benefit schemes for their employees.

The amendments have changed four aspects of FRS 19 by:

- permitting entities to make an accounting policy election to recognise all actuarial gains and losses directly in equity, rather than through the income statement;
- requiring employers participating in a multi-employer plan to recognise additional liabilities or assets in some circumstances;
- including requirements for defined benefit accounting for group plans in the separate financial statements of a group entity; and
- requiring additional disclosures.

FRS 106 Exploration and Evaluation of Mineral Resources

Effective: Annual periods beginning from 1 January 2006

Refer to *IFRS Briefing Sheet* - Issue 14 and 28 for details.

FRS 106 is limited to exploration for and evaluation of mineral resources and cannot be applied by analogy to similar activities such as research. Accordingly, this new standard is not expected to apply to most Singapore companies that generally do not engage in activities to explore and evaluate mineral resources.

Amendments to FRS 21 *The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation*

Effective: Annual periods beginning from 1 January 2006

Refer to *Financial Reporting Matters* – June 2006 for details.

This amendment to FRS 21 affects only the consolidated financial statements. The main change affects a quasi-equity monetary item that is denominated in a currency that is neither the functional currency of the borrower or the lender. In such a case, the previous version of FRS 21 would not allow the translation differences to be recognised in equity. However, this amendment to FRS 21 allows exchange differences arising from the translation of a qualifying monetary item that is denominated in any currency to be recognised in equity in the consolidated financial statements.

Any change in accounting policy arising from adoption of this amendment to FRS 21 should be accounted for retrospectively, following FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Amendments to FRS 39 *Financial Instruments: Recognition and Measurement - Cash Flow Hedge Accounting of Forecast Intra-Group Transactions*

Effective: Annual periods beginning from 1 January 2006

Refer to *IFRS Briefing Sheet* - Issue 21 for details.

Foreign currency risks arising from highly probable forecast intra-group transactions impact mainly non-financial institutions. Generally, the previous version of FRS 39 permits the designation of hedged items only when they involve a party external to the entity.

The amendment modifies FRS 39 to permit the designation of the foreign currency risk of a *highly probable forecast intra-group transaction* as a hedged item in the consolidated financial statements of the group provided that the hedged item:

- is denominated in a currency other than the functional currency of the entity entering into the hedge; and
- the foreign currency risk related to the transaction will affect consolidated profit or loss.

Amendments to FRS 39 *Financial Instruments: Recognition and Measurement - The Fair Value Option*

Effective: Annual periods beginning from 1 January 2006

Refer to *IFRS Briefing Sheet* - Issue 27 for details.

Under the previous version of FRS 39, entities may designate any financial asset or financial liability as measured at fair value through profit or loss.

The amendment restricts the use of the fair value option to situations where the following conditions apply:

- the designation results in more relevant information; or
- a contract contains one or more embedded derivatives.

The detailed rules and guidance as to the situations where the above criteria will be met are provided in the standard.

At the date of application of the amendment for the first time, entities are required to “de-designate” any financial asset or financial liabilities that were previously designated at fair value through profit or loss, but do not qualify for such designation under the amendment.

Amendments to FRS 39 *Financial Instruments: Recognition and Measurement* and FRS 104 *Insurance Contracts – Financial Guarantee Contracts and Credit Insurance*
Effective: Annual periods beginning from 1 January 2006

Refer to *Financial Reporting Matters – August 2006* for details.

It is common for holding companies to issue financial guarantees to banks in respect of banking facilities extended to their subsidiaries. Accounting for these intra-group (and other) guarantees by the issuers could be significantly affected by amendments to FRS 39 and FRS 104.

Under FRS 39, such guarantee arrangement must be accounted for as follows:

- initially recognise the guarantee liability at its fair value under FRS 39 (whether any consideration is given or not); and
- subsequently measure the guarantee liability at the higher of:
 - (i) the initial fair value under FRS 39, less cumulative amortisation recognised in accordance with FRS 18 *Revenue*; and
 - (ii) the amount that would be recognised under FRS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

INT FRS 104 *Determining Whether an Arrangement Contains a Lease*
Effective: Annual periods beginning from 1 January 2006

Refer to *Financial Reporting Matters – October 2005* for details.

This new accounting interpretation requires certain contracts, previously considered normal executory contracts, to be accounted for as leases. From the purchaser's perspective, the interpretation could potentially require an entity to recognise, in its financial statements, assets that are currently not on the balance sheet. From the supplier's perspective, if the arrangement requires lease accounting, this could result in derecognition of assets and a different profile for revenue recognition as revenue would be recognised from leasing those assets rather than from the sale of goods or rendering of services.

INT FRS 104 gives two main criteria for assessing whether a contractual arrangement contains a lease. They are:

- whether the fulfilment of the arrangement is dependent on the use of a specific asset; and
- whether it conveys the right to control the use of that asset.

INT FRS 105 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*
Effective: Annual periods beginning from 1 January 2006

Refer to *IFRS Briefing Sheet – Issue 17* for details.

An entity may have an obligation to dismantle and remove an asset taken out of service or restore site conditions. The entity may in turn, contribute to a fund that reimburses it for qualifying costs incurred. INT FRS 105 applies to accounting by a contributor for interests arising from decommissioning funds in which the assets are administered separately and a contributor's right to access the assets is restricted.

INT FRS 105 generally requires such an entity to recognise its liability to pay decommissioning costs as a liability and recognise its interest in the fund separately unless the contributor is not liable to pay decommissioning costs even if the fund fails to pay.

INT FRS 106 *Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment*

Effective: Annual periods beginning from 1 December 2005

Refer to *IFRS Briefing Sheet* - Issue 35 for details.

INT FRS 106 addresses when certain producers of electrical goods would need to recognise a liability for the cost of disposal of waste arising from those electrical goods. This interpretation was issued in response to the European Union's (EU) Directive on Waste Electrical and Electronic Equipment (WEEE).

INT FRS 106 concluded that participation in the market during the measurement period is the obligating event. Thus, there is no obligation unless and until a sale is made during the measurement period. Entities must recognise a provision, and an expense, as they recognise sales for the particular type of historical WEEE during the measurement period.

Note that an entity that manufactures electrical goods outside of the EU, but sells them in the EU, would be required to comply with the Directive, so long as the entity participates in the market during the measurement period.

New FRS effective for financial year beginning after 1 January 2006

FRS 40 *Investment Property*

Effective: Annual periods beginning from 1 January 2007

Refer to *Financial Reporting Matters* - June 2005 for details.

Under FRS 40, an entity has a choice between the cost model and the fair value model, irrespective of whether the current accounting policy is at cost or at valuation.

Under the cost model, entities would carry their investment properties at cost less depreciation and impairment loss, as if the properties were owner-occupied. There is no difference between the cost model under FRS 40 and the current practice.

Under the fair value model, all changes in fair value are recognised directly in the income statement instead of through the revaluation reserve. The application of the fair value model would increase the volatility of the earnings of property investment companies and might have an impact on such companies' dividend policy.

FRS 107 *Financial Instruments: Disclosures and Amendments to FRS 1 – Capital Disclosures*

Effective: Annual periods beginning from 1 January 2007 (listed companies) and 1 January 2008 (non-listed companies)

Refer to *Financial Reporting Matters* - April 2006 for details.

FRS 107 supersedes the disclosure requirements in FRS 32 *Financial Instruments: Disclosure and Presentation*. The presentation requirements in FRS 32, including the requirement for split accounting, will remain unchanged.

FRS 107 is applicable to all entities, regardless of the size or industry. It is timely to start preparing for the implementation of FRS 107 now because comparative information on risk disclosures are required if the entity does not early adopt FRS 107.

In general, the standard setter's aim is to simplify the disclosure requirements in the current standard in respect of concentrations of risk, credit risk, liquidity risk and market risk. However, this simplification has introduced some new disclosures – in particular, sensitivity analysis for market risk to which the entity is exposed at the balance sheet date.

INT FRS 107 *Applying the Restatement Approach under FRS 29 Financial Reporting in Hyperinflationary Economies*

Effective: Annual periods beginning from 1 March 2006

Refer to *IFRS Briefing Sheet* - Issue 40 for details.

This interpretation requires that in the year in which an entity identifies the existence of hyperinflation in the economy of its functional currency, the entity should restate for the effects of inflation as if it always had done this restatement.

A worked example accompanies the interpretation to illustrate the accounting for entities whose functional currencies are hyperinflationary for the first time.

This interpretation is expected to have limited application in Singapore.

INT FRS 108 Scope of FRS 102

Effective: Annual periods beginning from 1 May 2006

Refer to *IFRS Briefing Sheet* - Issue 42 for details.

INT FRS 108 provides guidance on accounting for share-based payment transactions when the fair value of identifiable goods or services by an entity is less than the fair value of the share-based payment.

For example, a company may issue shares to a charity as a contribution. Although no identifiable tangible goods and services may have been received, the company would probably have enhanced its corporate image in the process. The company may then expand its customer base or receive other future economic benefits as a result of its enhanced corporate image. The interpretation requires the company to recognise the unidentifiable goods or services received on the grant date at the fair value of the shares issued.

INT FRS 109 Reassessment of Embedded Derivatives

Effective: Annual periods beginning from 1 June 2006

Refer to *IFRS Briefing Sheet* - Issue 46 for details.

Subsequent to initial recognition of a hybrid instrument, INT FRS 109 prohibits the reassessment of whether to separate an embedded derivative unless there is a significant change in the terms of the contract.

Changes in accounting policies should be accounted for retrospectively in accordance with FRS 8.

INT FRS 110 Interim Financial Reporting and Impairment

Effective: Annual periods beginning from 1 November 2006

Refer to *Financial Reporting Matters* – October 2006 for details.

INT FRS 110 states that an entity should not reverse an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost.

The interpretation should be applied prospectively from the date that the entity first applied the measurement criteria of FRS 36 *Impairment of Assets* (i.e.. annual periods beginning from 1 July 2004 - for goodwill) and FRS 39 (i.e.. annual periods beginning from 1 January 2005 - for investment in an equity instrument and financial asset carried at cost). If an entity had early adopted FRS 36 or FRS 39, the early adoption date would apply.

IFRIC Interpretations expected to be issued shortly in Singapore**IFRIC 11 IFRS 2 Share-based Payment - Group and Treasury Share Transactions**

Effective: Annual periods beginning from 1 November 2006

Refer to *IFRS Briefing Sheet* - Issue 57 for details.

IFRIC 11 addresses the accounting for the two scenarios below:

- (a) When a parent grants rights to its equity instruments directly to employees of a subsidiary, the transaction should be classified as equity-settled in the financial statements of the subsidiary when the transaction is classified as equity-settled in the consolidated financial statements of the parent.
- (b) When a subsidiary grants rights to equity instruments of its parents to its employees, the transaction should be classified by the subsidiary as a cash-settled arrangement.

The IFRIC noted that the above two transactions are accounted for in the same way in the consolidated financial statements, ie. equity-settled arrangements, but reached a consensus that they are different from the subsidiary's perspective.

Changes in accounting policies should be accounted for retrospectively in accordance with FRS 8, subject to the transitional requirements of FRS 102.

E. Developments in international standards and interpretations

IASB September and October 2006 meetings

Refer to *IFRS in Brief* - Issue 28 and 29 for details.

IFRS for Small and Medium-sized entities

Amongst the various issues that the IASB discussed at its September and October 2006 meetings, we highlighted the following two that are of particular interest.

At its September 2006 meeting, the IASB continued its discussion of a draft exposure draft of an IFRS for Small and Medium-sized entities (SMEs), focusing on financial instruments, income taxes, employee benefits, inventories, revenue and impairment.

At its October 2006 meeting, the IASB proceeded to review the draft exposure draft of an IFRS for SMEs and an exposure draft of implementation guidance comprising illustrative financial statements and a disclosure checklist.

Subsequent to its October meeting, the IASB has on 9 November, posted the latest staff draft of an exposure draft of an IFRS for SMEs on its website. The Board has not completed its consideration of the text, and further changes will be made to this draft before the Board publishes the exposure draft for public comment later this year.

Related Party Disclosures

At its September 2006 meeting, the IASB tentatively decided that when an entity qualifies as a related party of another entity simply because of the existence of common control from the State, IAS 24 should provide relief from the requirement to disclose related party transactions between those two commonly controlled entities. However, there are some situations in which disclosures should be made because of the nature of relationship that exists.

At its October 2006 meeting, the IASB tentatively decided to amend IAS 24 to include an associate and a subsidiary of the associate's significant investor in the definition of a related party, for the subsidiary's individual financial statements, and to clarify the Board's intention to include these entities in the definition of a related party for the associate's individual and the group's consolidated financial statements.

The KPMG international publications covered in this issue are:

- IFRS in Brief: Issues 28 and 29
- IFRS Briefing Sheet: Issue 57

This section provides a highlight, particularly the relevance of international developments in the local context, of our International publication – *IFRS in Brief* and *IFRS Briefing Sheet*. You can access the electronic version as follows:

IFRS in Brief:
http://www.kpmg.com.sg/newsletters/ifrs_in_brief.html

IFRS Briefing Sheet:
http://www.kpmg.com.sg/newsletters/ifrs_briefing_sht.html

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