KPMG

Financial Reporting Matters

June 2008 Issue 21

AUDIT

Many companies are still in the process of finalising their 2007 financial statements and preparing their annual returns for filing with ACRA. In this issue, we discuss the key features of the new XBRL filing requirements, focussing on the common implementation issues and suggested approaches.

In this issue, we also discuss the changes in wording to the statutory auditors' report and INT FRS 113 *Customer Loyalty Programmes*, which is effective 1 July 2008, and summarise some key developments that will have an impact on financial reporting.

Contents

Many Singapore entities are still in the process of filing their financial statements with the Accounting and Corporate Regulatory Authority (ACRA) in the new eXtensible Business Reporting Language (XBRL) format. We discuss the key features of the new filing requirements, focussing on the common implementation issues and suggested approaches to facilitate a smooth year-end filing.

In March 2008, the Institute of Certified Public Accountants of Singapore (ICPAS) issued revisions to the auditors' report effective for those dated on or after 19 March 2008. We discuss these changes in wording in the auditors' report.

Since our last publication, the ASC has issued a revised version of FRS 1 *Presentation of Financial Statements* and two interpretations, INT FRS 113 *Customer Loyalty Programmes* and INT FRS 114 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*.

INT FRS 113 provides guidance in accounting for customer loyalty programmes. For some entities, application of the new interpretation may be challenging. In this issue, we address the requirements of INT FRS 113 and illustrate its application with worked numerical examples.

The Accounting Standards Council (ASC) in Singapore has recently invited the public to comment on whether Singapore should adopt a different reporting framework for Small and Medium Sized Entities (SME) and what the conditions should be for an entity to qualify as an SME. We provide information on the conditions proposed and the process for submission of comments.

A. Implementation of XBRL filing

More than six months have elapsed since ACRA introduced the new requirements to file financial statements in XBRL format. ACRA has provided a free online tool, FS Manager, to help companies prepare, manage and file their XBRL financial statements.

The process of preparing, managing and filing XBRL financial statements is similar to implementing a new information system for preparing financial statements.

In this section, we discuss the key features of the new XBRL filing requirements, focussing on the common implementation issues and suggested approaches.

Key features of XBRL filing requirements

From 1 November 2007, all Singapore incorporated companies with financial periods ended on or after 30 April 2007 (except for the excluded categories highlighted below), are required to file XBRL financial statements.

There are two options, either to file a full or partial set of financial statements. The key features of these two filing options are:

Option A - Full XBRL

- Financial statements to be approved by shareholders at the Annual General Meeting (AGM) must be prepared using FS Manager
- If FS Manager is NOT used to prepare the financial statements, Option B should be selected

Option B - Partial XBRL

- Financial statements to be approved by shareholders at the AGM are prepared using software such as Microsoft Word or Excel
- Only the balance sheet, income statement and mandatory information are prepared using FS Manager (Partial XBRL financial statements) when filing with ACRA
- A Portable Document Format (PDF) copy of the audited financial statements as approved at the AGM must be filed with ACRA together with the Partial XBRL financial statements
- This option is subject to review by ACRA after 31 October 2008

Excluded categories

The following categories of entities are exempt from filing XBRL financial statements:

- Companies limited by guarantee
- Foreign companies and their branches
- Banks, insurance companies and finance companies whose activities are regulated by the MAS
- Companies which are allowed by law to prepare financial statements in accordance with accounting standards other than the Singapore Financial Reporting Standards or the International Financial Reporting Standards (IFRS)

These entities shall continue with the old practice of filing a PDF copy of the audited financial statements as approved at the AGM.

What are the common implementation issues?

Some common issues include:

- PDF copy of financial statements created using FS Manager cannot be converted back to XBRL format
- No "track change" functionality in FS Manager
- Prior version is overridden each time a change is made and saved
- Serial number of the XBRL financial statements approved at the AGM is different from that filed with ACRA
- Slower processing speed when a large number of users are preparing the XBRL financial statements using FS Manager
- XBRL file uploaded and stored on BizFile may not be available if the company does not file within one week

PDF copy of financial statements created using FS Manager cannot be converted back to XBRL format

Using FS Manager, a series of web-based forms conforming with the ACRA's XBRL taxonomy to create a set of financial statements are prepared. Upon completion, preparers have the option to save the financial statements either in XBRL or PDF format.

It is important to note that a set of financial statements saved in XBRL format can be converted to PDF document using this same saving option in FS Manager, but not vice versa. Currently, there is no software available for the conversion of a PDF document to XBRL format. Since financial statements filed with ACRA must be in XBRL format, companies should not convert the XBRL formats into PDF unless it is already filed with ACRA.

Suggested approach

Preparers should save the financial statements created in FS Manager in both XBRL and PDF format. It would not be sufficient to save the financial statements in PDF only, since filing with ACRA can only be done later in XBRL format.

No "track change" functionality in FS Manager

There is no "track change" functionality. Therefore, it is not possible to identify what changes have been made and whether the correct set of XBRL financial statements has been amended.

Suggested approach

Amendments should be manually marked-up on the PDF document created using FS Manager to leave an audit trail of the changes made.

Before making any amendments on the XBRL financial statements, the serial number of the XBRL file on which amendments are to be made should be agreed to that of the marked-up PDF document. This helps to ascertain that the correct XBRL file is being amended.

Prior version is overridden each time a change is made and saved

XBRL files and PDF documents created or modified using FS Manager are automatically saved under a standard filename containing the company name and its current financial year end.

A unique serial number is generated and attributed to each XBRL file and PDF document on creation. The serial number is the only control identifier for the XBRL financial statements and it is randomly generated (i.e. not in a sequential order nor stamped with a date and time).

A new serial number is generated and attributed to the XBRL file and PDF document each time changes are made and saved. Since the filename assigned upon saving the XBRL financial statements is always the same, there is a risk that the previous saved version may be overridden. This action cannot be reversed and preparers will not be able to retrieve the previous version.

Suggested approach

The standard file name could be extended to include the following information:

- Version date (yyyymmdd) and time (hhmm)
- Serial number

Serial number of the XBRL financial statements approved at the AGM is different from that filed with ACRA

For companies electing Option A, the same version (identified by the unique serial number on both the XBRL file and PDF document) of the financial statements approved by shareholders at the AGM should be filed with ACRA.

Typically, preparers of XBRL financial statements are not authorised users within their entities. However, there are a number of field values in FS Manager that are pre-populated from BizFile for which only an authorised user is allowed to access. This is retrieved and selected upon logging into BizFile using their "SingPass".

After the financial statements are approved by the shareholders at the AGM, an authorised user is required to log into BizFile to select or re-select any field values for finalising the financial statements for filing. This selection and re-selection will be considered as a change made to the XBRL file. Consequently, a new serial number will be generated and attributed to the final version of XBRL financial statements to be filed with ACRA.

Suggested approach

Directors should ensure that all required information within FS Manager are updated in Bizfile by the authorised users. In addition, the authorised users, and not the preparers, should be the last persons finalising the XBRL financial statements since only they are allowed to select or re-select any field values that are pre-populated from BizFile .

Slower processing speed when large number of users are preparing financial statements using FS Manager

Currently, ACRA only has an online version of FS Manager for shared use by preparers of the financial statements. When a large number of preparers are using FS Manager at the same time, the information processing speed may slow down appreciably.

Suggested approach

Companies are encouraged to start preparing the financial statements in FS Manager in advance of the filing deadline. For example, a phase approach could be adopted where comparative information is updated first.

XBRL file uploaded and stored on BizFile may not be available if the company does not file within one week

ACRA's system only allows files to be stored on BizFile for up to one week. Therefore, any XBRL files uploaded and stored on BizFile may not be available online if the company does not file within one week.

Suggested approach

Authorised users are encouraged to store a copy of the work-in-progress or finalised XBRL file offline. For example, saving the file on the desktop or on a removable storage device. The finalised XBRL file should only be uploaded using BizFile when the Annual Return is ready for filing.

Are you ready?

Moving forward

ACRA has reviewed a sample of financial statements filed in XBRL format since 1 November 2007 and has identified a list of common findings. We encourage preparers of the financial statements to take note of the observations.

A copy of the ACRA's common findings is currently available for download on their website at:
http://www.acra.gov.sg/Services/Company/Common_Findings_from_Review_of_FS_Filed_in_XBRL_Format.htm.

The implementation of XBRL filing requires companies to plan in advance. Companies are encouraged to start redesigning their existing workflow to deal with the implementation issues highlighted above.

In addition, companies also need to assess if additional training is required for their preparers and authorised users. This helps to keep them up to date on the new filing requirements.

B. Auditors' Report – Changes in Wording for entities under the Companies Act

What was the previous wording?

Effective for auditors' reports dated on or after 31 December 2006, auditing standard SSA 700 sets out the wording in the auditors' report to provide a better explanation of the respective responsibilities of management and auditors over financial statements. The paragraph on management's responsibility was previously worded as:

"*The Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with the provisions of the Singapore Companies Act, Chapter 50 and Singapore Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.*"

What is the revised wording?

The wording in the auditors' report has been amended mainly to change the word "directors" to "management". The revised wording explaining management's responsibility for internal control is now based on the wording in section 199(2A) of the Companies Act, for public companies and subsidiaries of public companies. A "public company" is as defined in Section 4 of the Companies Act. The paragraph on management's responsibility is now worded as:

"*Management is responsible for the preparation and fair presentation of these financial statements in accordance with the provisions of the Singapore Companies Act, Chapter 50 and Singapore Financial Reporting Standards. This responsibility includes:*

(a) devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets;

(b) selecting and applying appropriate accounting policies; and

(c) making accounting estimates that are reasonable in the circumstances."

These amendments are effective for auditors' reports dated on or after 19 March 2008.

What does the revised wording mean to a company?

The revised wording is now aligned with the wording in the Companies Act on management's responsibility for public companies and their subsidiaries.

However, the revised wording is silent on the wording to be used for private companies and Singapore branches of foreign companies. Nevertheless, ICPAS has recommended the use of the revised wording for these companies, as it would be viewed positively from a corporate governance perspective.

C. Accounting for INT FRS 113 *Customer Loyalty Programmes*

Why was INT FRS 113 issued?

Retailers often award points at a retail outlet to customers when a purchase is made. This is a popular technique to encourage customer loyalty and increase purchase frequency. Customers can redeem these award credits subsequently for free or discounted goods or services at a later date.

Prior to the issuance of INT FRS 113, accounting practices for customer loyalty programmes varied. One common practice was to account for the award credits based on the cost of supplying the free or discounted goods or services as a marketing expense. INT FRS 113 eliminates such diversity by providing clear guidance and standardises the accounting practice.

What are the requirements?

The Interpretation requires that customer loyalty programmes be accounted for by using a 'multi-element' approach. Under this approach, the consideration received from a sales transaction is separated into two identifiable components:

1. The goods or services delivered
2. The award credits that may be redeemed in the future

The portion allocated to the award credits is measured based on the fair value of the points to the customer. It is deferred and recognised in income as, and when, the entity has fulfilled its obligations with respect to the redemption of the award credits.

The following table illustrates the impact of INT FRS 113 on a sales transaction using the 'multi-element' approach:

Components of a sale transaction	Measurement	Timing of revenue recognition
Sale of goods	Residual fair value	On delivery
Award credits	Fair value to the customer	Deferred until award credits are redeemed

Which entities are required to apply INT FRS 113?

INT FRS 113 applies when the award credits are granted or issued as a result of a sales transaction made by an entity such as a department store, supermarket, coffee chain, airline, a hotel. Regardless of the design of the loyalty programme, the award credits may be in the form of points, 'air miles' or vouchers redeemable for a variety of goods or services at different values . The programme may or may not have qualifying conditions and expiry dates for redemptions.

INT FRS 113 does not apply:

- When award credits offered to customers do not require an initial purchase. Examples include a 'money-off' or discount voucher provided at the entrance of a store, on the streets or in a newspaper advertisement
- With programmes under which award credits can be redeemed for financial assets such as cash-back arrangements
- With programme operators selling award credits to another entity who will issue these credits in their customer loyalty programmes

How does this impact entities reporting under FRS?

For entities who treat the cost of redeeming award credits as a marketing expense, application of the new interpretation may be challenging since it may result in significant changes in their accounting policies. It may also result in changes to systems and procedures for recording data on award credits that will be used to estimate the fair value of award credits and expected redemptions.

Since INT FRS 113 is effective for annual periods beginning on or after 1 July 2008, management should allocate sufficient time to consider the impending changes and the likely impact of complying with INT FRS 113.

Application of the Interpretation

I. How to determine the amount to defer?

INT FRS 113 requires that the consideration allocated to the award credits "be measured by reference to their fair value" to the customer. There are two steps to calculating the fair value of the award credits. The first is to determine its fair value and the second is to adjust it by the number of award credits that are expected to be redeemed.

Step 1: Determining the fair value of the award credits

INT FRS 113 does not prescribe an allocation method for estimating fair value of the award credits. There are two acceptable methods;

A. Equal to its *individual fair value*

This is the amount for which the award credits may be sold separately. It can be based on:

- The cash value of the awards (e.g. dollar amount of voucher)
- The value of goods the awards can buy

The *individual fair value* method is illustrated as follows:

Example 1
Individual fair value of award credits

A department store awards 1,000 points to customers for total sales of $1,000. For every 500 points accumulated, the customer is entitled to obtain a $50 discount on any future purchases made in the store. Customers who are not part of the loyalty programme would also pay $1,000 for these goods.

The fair value of the 1,000 points is therefore $100 (= $50/500pts X 1,000).

The department store will allocate the revenue based on the *individual fair value* of the points:

Revenue allocated to the points (deferred)	$ 100
Revenue allocated to the goods (recognised in revenue)	900
	1,000

B. Based on the *relative fair value*

A proportion of the total consideration is allocated to the award credits, based on the fair value of the award credits relative to the fair values of the other components in the sale.

The *relative fair value* method is illustrated as follows:

Example 2
Relative fair value of award credits

Considering the same facts as the previous example, the department store will allocate the revenue based on the *relative fair values* of the points:

Revenue allocated to the points (deferred) (100/1,100 X $1,000)	$ 91
Revenue allocated to the goods (recognise in revenue) (1,000/1,100 X $1,000)	909
	1,000

It is not acceptable to first measure the fair value of the other components of the sale transaction and then to allocate the residual amount of the consideration to the award credit.

Step 2: Adjust for redemption expectations

Deferred revenue is derived by multiplying the fair value of the award credits by the number of award credits which are expected to be redeemed.

Expected redemption rates can be based on factors such as redemption period, qualifying requirements of the reward plan, historical and expected customer redemption behaviour. Redemption rates should be revised by management on a regular basis to ensure that award credits are released in the correct period.

II. When is revenue recognised?

Revenue relating to the award credits will be recognised in income:

- when the award credits are redeemed by the customer; or
- when the entity transfers the obligation to a third party

If a third party supplies the award items, then the entity needs to determine whether the entity is acting as a principal or an agent in this arrangement.

Entity supplies the award items

If the entity granting the award credits also supplies the award items to customers, then revenue is recognised as and when the award credits are redeemed or have expired.

The amount to be recognised as income is based on the cumulative number of award credits that have been redeemed to-date, relative to the number of the award credits expected to be redeemed.

This can be expressed in the following formula:

$$\left[\frac{\text{Cumulative award credits redeemed to date}}{\text{Total award credits expected to be redeemed}} \times \text{Total deferred revenue relating to the award credits}\right] - \text{Revenue recognised to date}$$

The following example illustrates the accounting for award credits granted and supplied by the same entity.

Example 3
Entity supplies the award items

A department store awarded 1,000 points to customers on purchases made for a total consideration of $1,000. For every 500 points accumulated, the customer is entitled to obtain a $50 discount on any future purchases made in the store. Customers have a three-year period over which they can use the points. The store expects 800 of these points to be redeemed over the next 3 years.

The fair value of the 1,000 points is $80 (= $50/500pts X 1,000 X 80 percent).

On the initial sale, the fair value of the points is deferred:

Dr Cash	$ 1,000	
Cr Deferred revenue		80
Cr Revenue		920

End of Year 1, 300 points have been redeemed. The store will recognise revenue of $30 (= (300/800) X $80).

Dr Deferred revenue	$ 30	
Cr Revenue		30

End of Year 2, another 400 points have been redeemed, bringing the total award credits redeemed to date to 700 [=300 + 400]. Management now expects a total of 900 points to be redeemed. The store will recognise revenue of $32 (=(700/900) X $80 – $30).

Dr Deferred revenue	$ 32	
Cr Revenue		32

End of Year 3, 210 additional points are redeemed or have expired. The amount remaining in deferred revenue of $18 (= $80-$30-$32) is recognised.

Dr Deferred revenue	$ 18	
Cr Revenue		18

Note that changes in the total award credits expected to be redeemed do not affect the consideration deferred. Instead, changes in the redemption expectation are reflected in the amount of deferred revenue released in income for the current and future periods.

Third party supplies the award items

If a third party supplies the award items, the entity is required to assess whether it is collecting the consideration allocated to the award credits on its own account (i.e., as a principal in the transaction) or on behalf of the third party (i.e., as an agent). The assessment will determine the timing and presentation of the revenue to be recognised in income.

INT FRS 113 does not discuss the differentiating factors of a principal-agent relationship. Management will need to exercise judgment when assessing its role in the customer loyalty programme, considering the relevant facts and circumstances surrounding the transaction.

If the entity is the principal in the transaction, revenue is measured at the gross amount when the entity fulfills its obligation to its customers. An expense is recognised for its obligation to the third party acting as the supplier in the entity's loyalty programme.

The following example illustrates the accounting for award credits when the entity acts as a principal.

Example 4
Entity is acting as a principal

An airline company sponsors a frequent flyer programme. Enrolled members with "Gold" status are entitled to one air mile for every $1 spent in a purchase. This goes towards a possible redemption for a free air ticket to a destination anywhere in the world. The minimum requirement for a free air ticket starts at 15,000 air miles. Customers have a seven year period over which they can use the air miles. If the customer redeems the air miles for a destination that is not part of the airline's route, the airline company is responsible for finding a flight meeting the customer's specifications with any other airline company in the same alliance group. The airline company is acting as a principal in this transaction.

Assume the airline awards 200,000 air miles to its frequent flyer members on overall sales of $300,000. It expects 100 per cent of the points to be redeemed.

The company determines that the fair value of the air miles is $70,000 (= 200,000 X $0.35 fair value per air mile) and the cost is $0.30 per air mile.

On the initial sale, the fair value of the points is deferred:

Dr Cash	$ 300,000	
Cr Deferred revenue		70,000
Cr Revenue		230,000

End of Year 1, 50,000 air miles are redeemed whereby a third party supplied the free air ticket. The airline will recognise revenue of $17,500 (= (50,000/200,000) X $70,000) and cost payable to the supplier of $15,000 (50,000 X $0.30).

Dr Deferred revenue	$ 17,500	
Cr Revenue		17,500
Dr Expense	$ 15,000	
Cr Payable to third party		15,000

If the entity is the agent in the transaction, revenue is measured at the net amount retained. This is calculated as the difference between the amount allocated to the award credits and the amount payable to the third party. It is presented in the income statement as other or commission income. The obligation to supply the award item lies with the third party and not with the entity.

Example 5
Entity is acting as an agent

A supermarket participates in a reward plan run by a reward programme operator. It issues one point for every $5 purchase by customers holding the rewards card. The cardholders can choose to redeem their points at any store participating in the programme including the supermarket. For every one point the company issues, it pays the reward programme operator $0.50 per point and considers that the fair value of the points to be $0.70 per point.

Once the company issues the points, it has fulfilled its obligations towards its customers. The obligation to supply the reward items lies with the retailers chosen by the cardholders upon redemption. The company is acting as an agent in this transaction.

Assume that 200 points were issued on sales of $2,000.

The revenue recognised at the time of sale will be:

Dr Cash	$ 2,000	
Cr Revenue		1,860
Cr Commission income		40 (a)
Cr Accounts payable to operator		100 (b)

(a) (= 200 X ($0.70- $0.50))
(b) (= 200 X $0.50)

The above are some examples that may occur in practice. However, there is a wide range of schemes ranging from simple, to highly complex ones. Each scheme needs to be carefully analysed and assess to determine the appropriate accounting treatment.

Onerous contracts

INT FRS 113 states that if the unavoidable cost of meeting the obligation to supply the awards are expected to exceed the consideration received or receivable for them, then the entity has an onerous contract, The related liability should be recognised in accordance with FRS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

What is the effective date?

INT FRS 113 is effective for annual periods beginning on or after 1 July 2008 with earlier application permitted. Application of INT FRS 113 should be accounted for using FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Management will need to assess whether application of INT FRS 113 is a change in an accounting policy or a change in an accounting estimate.

- It is a change in accounting policy for entities who previously recorded the award credits as an expense. The application of INT FRS 113 should be accounted for on a fully retrospective basis. Interim financial statements and comparatives should reflect the affects of INT FRS 113
- It is a change in accounting estimate for entities who previously recorded the award credits as a reduction of revenue. This occurs where there is a need to change the valuation methodology to comply with INT FRS 113. The application of INT FRS is then accounted for on a prospective basis

It should be noted that in practice, entities need only apply INT FRS 113 to customer loyalty programmes in existence if the effect is material.

What are the disclosure requirements?

No additional or other specific disclosures are required by this new Interpretation. However, disclosure requirements from existing FRSs should be considered:

- The accounting policy for customer loyalty programmes should be disclosed in accordance with INT FRS 113
- When there is a change in the entity's accounting policy due to the application of a new Interpretation or a change in an accounting estimate, disclosure requirements under FRS 8 applies
- If an entity does not apply the interpretation early, it still needs to disclose the impact, if known or reasonably estimable, in its financial statements for years ending before 1 July 2008

D. ASC Public Consultation on Differential Reporting Framework for Small and Medium Sized Entities

What is this consultation paper about?

All Singapore-incorporated companies, regardless of size or the level of public interest in them, are currently required to prepare their financial statements in accordance with the Financial Reporting Standards issued by the ASC.

In our June 2007 issue of *Financial Reporting Matters*, we discussed an Exposure Draft (ED) issued by the IASB on IFRS for SMEs. The ED proposed that SMEs be defined as entities that publish general purpose financial statements for external users. They do not otherwise have public accountability. The IASB had stated that national regulators should decide which entities would be permitted or required to comply with the IFRS for SMEs in their jurisdictions. A similar ED has been issued in Singapore.

The IASB is currently deliberating the comments received on the ED, with a view to issuing the final standard in the fourth quarter of 2008.

On 13 May 2008, the ASC published a consultation paper on the proposed differential reporting framework for SMEs. The consultation paper invites all interested persons to comment on its preliminary views regarding having a differential reporting framework for SMEs in Singapore.

Do you agree that Singapore should adopt a differential reporting framework for SMEs?

The primary question in the consultation paper is whether Singapore should adopt a differential reporting framework for SMEs. An appendix in the consultation paper summarises the practices in other countries that have already adopted a differential reporting framework for their SMEs. These include Australia, Canada, the European Union, Hong Kong, Malaysia, New Zealand and the United Kingdom. The ASC seeks views on the reasons justifying a different reporting framework. These include:

(a) An SME has less public accountability than that of big enterprises
(b) The general purpose financial information needs for an SME are different from that of the big enterprises
(c) The cost and complexity for SMEs to follow the full financial reporting standards outweigh the benefits

What is the ASC's preliminary views on the conditions to be met in order to apply a differential reporting framework?

The ASC's Taskforce on this project proposes that a differential reporting framework should be applicable only to an entity that satisfies two conditions:

(a) It is not publicly accountable. That is, it does not issue debt or equity securities in a public market or holds assets in a fiduciary capacity for others
(b) It satisfies the "size test" to be regarded as an SME

For the "size test", the Taskforce proposes that a company would qualify as an SME if it satisfies two of the following three criteria:

(a) Net assets do not exceed S$15 million
(b) Annual turnover does not exceed S$15 million
(c) The average number of employees does not exceed 200

What if the entity meets the conditions to qualify as an SME in one year but not in another year?

With the use of quantitative criteria such as annual turnover, net assets and average headcount, it is possible for a company to cross the thresholds. This may be due to changes in these figures, such that it may not qualify for an SME on a year-on-year basis. For this purpose, the Taskforce proposes that if the company fails to meet the "size test", the exemption continues for the first year that the company does not fulfill these conditions. This will continue uninterrupted if the company reverts to being small or medium-sized the following year.

Is there any action required on the company's part?

The Taskforce invites comments on its preliminary view from 13 May 2008 to 30 June 2008. To make any submission of comments easier, the Taskforce had included a two-page form detailing the few questions that it is seeking comments on.

The results of this consultation paper is expected to be important in deciding whether Singapore adopts IFRS for SMEs, and the threshold for companies to apply this proposed standard. Given the increasing complexity and costs of complying with financial reporting standards, it is timely to consider whether the full IFRSs will contribute to meaningful and useful financial reporting.

If you have any views on this consultation paper and how it would affect you, you can either talk to your usual KPMG contacts and/or submit your comments directly to the ASC.

E. International Developments

Discussion Paper (DP) *Reducing Complexity in Reporting Financial Instruments*

Refer to IFRS Briefing Sheet – Issue 89 for details.

The objective of this joint project with the U.S. Financial Accounting Standards Board (FASB) is to develop less complex and principle-based standards for the accounting of financial instruments. The DP suggests a long-term solution that would require measuring all financial instruments, within the scope of a financial instruments standard, at fair value.

The DP discusses three intermediate approaches to address the complexity of measuring financial instruments:

(a) Amending the current measurement requirements
(b) Replacing the existing measurement requirements
(c) Simplifying hedge accounting requirements

The IASB had invited comments on the DP by 19 September 2008. In Singapore, the ASC has also issued the DP for comments by 1 July 2008.

Discussion Paper (DP) *Preliminary Views on Amendments to IAS 19 Employee Benefits*

Refer to IFRS Briefing Sheet – Issue 90 for details.

This DP is the first milestone of the short-term phase of the IASB's project on post-employment benefits, which the IASB will develop into an exposure draft for proposed amendments to IAS 19.

The key changes proposed in the DP in comparison to the existing requirements of IAS 9 include:

- Requiring changes in the value of plan assets and post-employment benefit obligations to be recognised when they occur, which therefore would remove the optional "corridor" deferral method for recognition of actuarial gains and losses
- Replacing the current distinction between defined benefit plan and defined contribution accounting with two categories of promises with different accounting, i.e., defined benefit promises and contribution-based promises

The IASB had invited comments on the DP by 26 September 2008. In Singapore, the ASC has also issued the DP for comments by 15 August 2008.

Financial Stability Forum's (FSF) report on *Enhancing Market and Institutional Resilience*

Refer to IFRS Briefing Sheet – Issue 91 for details.

The report provides the FSF's recommendations for increasing the resilience of markets and institutions based on the lessons learned from the recent financial turmoil. This is an outcome of an international collaborative effort of the main international bodies and national authorities in key financial centres.

Financial reporting is one of five main areas addressed in the report. In this area, the most immediate recommendation is for financial institutions to make enhanced disclosures in their 30 June 2008 interim financial statements. In the medium term, the report recommended that:

- The IASB should improve on the accounting and disclosure standards for off-balance sheet entities
- The IASB will enhance its guidance on valuing financial instruments when markets are no longer active
- The IASB will strengthen its standards to achieve better disclosures about valuations, methodologies and the uncertainty associated with the valuations

E. International Developments (continued)

Meetings of the International Accounting Standards Board – March and April 2008

Refer to IFRS in Brief – Issue 45 and 46 for details.

Issues discussed during the IASB's meeting in March and April 2008 include:

(a) First Annual Improvements Project

The IASB completed its discussion on the project, and issued the improvements to IFRS on 22 May 2008. The improvements to IFRSs 2008 contain 35 amendments. The amendments are generally effective for annual periods beginning on or after 1 January 2009, with earlier application permitted.

(b) IFRS for SMEs

The IASB discussed comments received on its ED. It also instructed its staff to seek input from the project's working group on the views of users on disclosures, and also on simplification of recognition and measurement principles. The Board expects to at least have tentative decisions on all technical issues by the end of its July 2008 meeting, and review a revised draft of the final standard at the Board's September or October 2008 meeting.

(c) Responses of the IASB and the FASB to the Credit Crisis

The IASB is prioritising its projects, focusing on consolidation, de-recognition and fair value measurement, as well as working on improved disclosure. As a result, the issuance of an ED on IAS 27 is anticipated to be accelerated. It will include IFRS 7 *Financial Instruments: Disclosures* on proposed enhancements.

The FASB is working to eliminate qualifying special purpose entities and place more emphasis on qualitative factors in assessing control by the end of 2008. It is also working on improved disclosures.

The KPMG International publications covered in this issue are:

- IFRS in Brief: Issues 45 and 46
- IFRS Briefing Sheet: Issues 89 to 91

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

Should you wish to discuss any matter highlighted in this publication, please contact:

Jeremy Hoon
Partner,
Professional Practice Department
Tel: +65 6213 2608
jeremyhoon@kpmg.com.sg

KPMG
16 Raffles Quay
#22-00 Hong Leong Building
Singapore 048581
Tel: +65 6213 3388
Fax: +65 6225 0984