KPMG

Financial Reporting Matters

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AUDIT

The IASB has issued many new and revised standards and interpretations which are effective from January 2009. Singapore is in the process of adopting these changes.

In this issue, we discuss the revisions to FRS 1 *Presentation of Financial Statements* and the amendments to the accounting for FRS 102 *Share-based Payment*. We also discuss international developments during the last four months: the IASB and IFRIC have issued three revised standards, two new interpretations, three exposure drafts and a discussion paper.

Many changes in standards have been issued to be effective from 2009. Entities need to gear up their resources and prepare for their implementation.

In Singapore, all organisations (including statutory boards and charities) will be affected by these changes. Separate accounting standards based on IFRS have been introduced for statutory boards and similar standards are being introduced for charities, widening the reach and impact of changes in IFRS.

In this issue, we discuss the revised FRS 1 *Presentation of Financial Statements*, effective from 1 January 2009, explaining the principles behind these changes and illustrating it with examples. Listed companies that announce interim financial results would need to start to think about which format to adopt, as the SGX requirements have not been updated for the changes. Comparative information would need to be collated.

Among the latest standards and interpretations issued by the IASB, IFRIC 15 *Agreements for the Construction of Real Estate*, is expected to be closely studied by real estate developers in Singapore, and by other industries where the underlying principles can be applied by analogy. Whether a contract is considered a construction contract, a services contract, or a contract for the sale of goods will depend on the specific circumstances of each contract.

Contents

Announcement:

Singapore Illustrative Financial Statements (IFS) 2007 – Updates for 2008

The Singapore IFS illustrates best practice disclosures and the requirements of the Singapore Companies Act, Singapore FRS, and the SGX Listing Manual. For the year ending 31 December 2008, the key changes in financial reporting requirements from 2007 are minimal and are expected to affect only a few companies. The key changes are: INT FRS 111 *Group and Treasury Share Transactions*, INT FRS 112 *Service Concession Arrangements* and INT FRS 114 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*.

In light of the minimal changes to the IFS and in line with KPMG's Global Green Initiative, we will not be printing hard copies of the Singapore IFS 2008. Instead, the IFS 2008, incorporating the above stated changes will be available for download from our website at kpmg.com.sg from the beginning of November 2008.

A. FRS 1 *Presentation of Financial Statements*

In March 2008, the ASC issued the revised FRS 1 *Presentation of Financial Statements* (FRS 1 (revised 2008)). FRS 1 (revised 2008) is the Singapore equivalent to IAS 1 (revised 2008).

What are the key changes?

FRS 1 (revised 2008) introduces 'total comprehensive income' (i.e. changes in equity during a period, other than those changes resulting from transactions with owners in their capacity as owners), which is presented either as:

(a) One statement (a statement of comprehensive income); or
(b) Two statements (an income statement and a statement of comprehensive income).

Another significant change is that an opening statement of financial position (formerly the balance sheet) is required at the beginning of the earliest comparative period following a change in accounting policy, the correction of an error or the reclassification of items in the financial statements. Accordingly, an entity is likely to be required to present its balance sheets for the previous three years, instead of the current two years, when many new/revised standards comes into effect from 1 January 2009.

The revisions to FRS 1 affects mainly the presentation of the income statement and the statement of changes in equity. These changes are intended to introduce greater clarity, by clearly separating:

- Transactions resulting from the entity's income and expense generating activities
- Transactions involving the entity's equity shareholders, such as share capital injections and dividend distributions

When is an entity required to apply this revised standard?

FRS 1 (revised 2008) is effective for annual periods beginning on or after 1 January 2009, with earlier application permitted.

As the standard does not contain any specific transitional provisions, the general requirements under FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* apply. Accordingly, comparative figures need to be restated when an entity first applies the FRS 1 (revised 2008).

What is a statement of comprehensive income?

In order to clearly separate between changes in assets resulting from the entity's own income generating activities and those resulting from transactions with its shareholders, FRS 1 (revised 2008) introduces a new primary statement – the 'statement of comprehensive income' in the financial statements.

Total comprehensive income refers to:

(a) 'Profit or loss', which refers to income and expenses from operating activities recognised in the income statement; and
(b) 'Other comprehensive income' (OCI), which refers to income and expenses which are currently recognised directly in equity.

Examples of components of OCI are:

- Changes in revaluation surpluses on property, plant and equipment and intangible assets;
- Gains or losses from translating the financial statements of a foreign operation;
- Gains or losses on re-measuring available-for-sale financial assets; and
- The effective portion of gains or losses on hedging instruments in a cash flow hedge.

What are the differences between the two formats of the new statement of comprehensive income?

Entities may present the statement of comprehensive income in:

(a) One statement of comprehensive income – with the income statement in full, followed by OCI in full – the total comprehensive income is the sum of the profit for the year and the total of OCI; or
(b) Two statements - an income statement in full ending with profit for the year; and a statement of comprehensive income, beginning with profit for the year as one line, followed by OCI in full, to give the sum as total comprehensive income.

Format (b) is closer to the current presentation adopted by most entities in Singapore. Under format (b), the income statement remains the same.

Irrespective of which format is adopted, both the sub-total 'profit or loss for the period' and the 'total comprehensive income' amounts need to be analysed on the face of the statement(s) into:

- Amount attributable to the owners of the Company; and
- Amount attributable to the minority interest.

There are no changes to the calculation of Earnings Per Share (EPS).

These disclosures are illustrated in Appendix 1.

The IASB believes that an entity should present all non-owner changes in a single statement. This is because there are no clear principles or common characteristics that can be used to separate income and expenses into two statements.

However, many entities prefer the two-statement format because it distinguishes the profit or loss from total comprehensive income.

Statement of comprehensive income – disclosure of tax effects

The revised standard requires the amount of income tax relating to each component of OCI to be disclosed. This disclosure can be made either in the statement of comprehensive income or in the notes to the financial statements.

On the face of the statement of comprehensive income, an entity may present the tax effect of each component of OCI in one of two ways:

(a) 'Gross' presentation - before related tax effects, with one amount shown for the aggregate amount of income tax relating to those components; or
(b) 'Net' presentation - net of related tax effects.

The 'gross' presentation has been adopted in the illustrative examples in Appendix 1.

Statement of comprehensive income – disclosure of reclassification adjustments

Reclassification adjustments refer to amounts reclassified from OCI to the income statement, and is commonly known as 'recycling'.

Entities may present reclassification adjustments on the face of the statement of comprehensive income or in the notes to the financial statements.

Statement of comprehensive income – disclosure of reclassification adjustments

Illustration

Calculation of reclassification adjustments for available-for-sale (AFS) financial assets (modified from IAS 1 Implementation Guidance):

Facts:

31 December 2007: Purchased 1,000 shares (classified as AFS) at $10 each
31 December 2008: Fair value = $12 per share
31 December 2009: Fair value = $15 per share, at date of sale. All shares were sold at the fair value.

Assume tax rate is 20%.

Amounts reported in income statement and OCI for the year ended 31 December 2008 and 2009:

	2009	2008
Income statement:		
Gain on sale of instruments	5,000	-
Income tax expense	(1,000)	-
Net gain recognised in income statement	4,000	-
Other comprehensive income (OCI):		
Gain arising during the year	3,000	2,000
Reclassification adjustment	(5,000)	-
Income tax relating to OCI	400	(400)
Net gain (loss) recognised in OCI	(1,600)	1,600
	2,400	1,600

Unrealised gains of $5,000 (before tax) must be deducted from OCI in the period in which the realised gains are reclassified to profit or loss (in 2009) to avoid including them in total comprehensive income twice (once in OCI and again in the income statement).

Statement of changes in equity – re-focused

Currently, most entities disclose all changes in equity in the statement of changes in equity. This includes each component of gains and losses recognised directly in equity (non-owners), as well as transactions with shareholders (owners).

FRS 1 (revised 2008) requires the statement of changes in equity to focus on transactions with shareholders (owners). Entities are prohibited from presenting the components of income and expense (non-owner changes in equity) in the statement of changes in equity. Instead, these items are presented in the statement of comprehensive income, and only the totals are presented in the statement of changes in equity.

The statement of changes in equity will present a reconciliation between the opening and closing balances of each component of equity, and includes:

(b) The effects of retrospective application of changes in accounting policies or retrospective restatement of errors [(1)] ; and
(a) Total comprehensive income for the period as a single line item per component of equity;
(c) The amounts of transactions with owners in their capacity as owners (such as equity contribution, dividend distribution, share-buyback of the entity's own shares and transaction costs directly related to such transactions).

These disclosures are illustrated in Appendix 1.

(1) These are not changes in equity, but rather, they provide a reconciliation between the previous period's closing balance and the opening balance in the statement of changes in equity.

Changes in titles of financial statements

In order to better reflect the function of each financial statement, FRS 1 (revised) uses the following titles for financial statements:

(a) Statement of financial position (previously the balance sheet)
(b) Statement of comprehensive income (a new statement)
(c) Statement of changes in equity (title does not change but contents are re-focused)
(d) Statement of cash flows (previously the cash flow statement)

An entity may use titles for the statements other than those used in the revised FRS 1. The IASB did not make these terms mandatory to allow time for entities to implement changes gradually as the new titles become more familiar.

Three balance sheets required in some situations

Currently, FRS 1 requires an entity to present one year of comparative information, together with the current year's financial statements. FRS 1 (revised) requires an *opening* balance sheet (effectively resulting in three balance sheets) in the following situations:

- When an entity applies an accounting policy retrospectively;
- When an entity retrospectively restates the financial statements to correct a material error; and
- When presentation or classification of items in the current period has been changed and comparative amounts are reclassified.

For example, if the financial statements for the year ending 31 December 2009 include any change of accounting policy which have been adopted retrospectively, the three sets of balance sheets required will be:

(a) As at 31 December 2009;
(b) As at 31 December 2008; and
(c) As at 1 January 2008 (opening balance sheet).

How does the changes affect interim financial announcements?

FRS 1 (revised) makes consequential changes to FRS 34 *Interim Financial Reporting*, such that the interim report is also required to include the same primary statements as are required by FRS 1 (revised) and as are presented in an entity's annual financial statements. Accordingly, starting with the annual accounting period in which FRS 1 (revised) is first adopted, the interim report should include the same primary statements as required by FRS 1 (revised).

Accordingly, for an entity with financial year ending 31 December 2009 that reports quarterly financial announcements in accordance with FRS 34, the entity would be required to present the financial statements in accordance with FRS 1 (revised 2008) for the quarter ending 31 March 2009.

Appendix 1: Illustrative statement of comprehensive income

In this Appendix, we have illustrated the two acceptable formats for the statement of comprehensive income, based primarily on the illustrative income statement and statement of changes in equity included in KPMG's Singapore Illustrative Financial Statements 2007. We have also illustrated, as a note disclosure, the additional information concerning OCI (relating to tax effect and reclassification adjustments) which entities may choose to present either on the face of the statement of comprehensive income or in the notes.

Single statement approach

This approach shows all the various components of total comprehensive income (profit for the period and OCI) in one statement. In the illustration below, the components of OCI are presented before tax with one amount shown for the aggregate amount of income tax relating to those components, on the face of the statement of comprehensive income. Alternatively, each component of OCI could be presented net of tax.

There is no change to the method of calculating earnings per share which continues to be based on profit or loss for the period attributable to owners of the company.

Statement of comprehensive income (single statement approach)
Year ended 31 December 2009

	2009 $'000	2008 $'000
Continuing operations		
Revenue	310,758	270,224
Cost of sales	(234,867)	(204,232)
Gross profit	75,891	65,992
Other income	8,613	2,154
Distribution expenses	(15,115)	(13,741)
Administrative expenses	(20,196)	(18,360)
Other expenses	(4,343)	(3,762)
Results from operating activities	44,850	32,283
Finance income	2,935	2,696
Finance expenses	(5,090)	(4,748)
Net finance expenses	(2,155)	(2,052)
Share of profit of associates, net of tax	1,125	1,000
Share of profit of joint ventures, net of tax	250	125
Profit before income tax	44,070	31,356
Income tax expense	(10,095)	(7,992)
Profit from continuing operations	33,975	23,364
Discontinued operations		
Profit from discontinued operations, net of tax	295	688
Profit for the year	34,270	24,052
Other comprehensive income (after reclassification adjustments)		
Surplus on revaluation of property, plant and equipment	7,146	7,380
Translation differences relating to financial statements of foreign subsidiaries	474	355
Exchange differences on monetary items forming part of net investment in a foreign operation	40	53
Exchange differences on hedge of net investment in a foreign operation	(8)	3
Cash flow hedges: net movement in hedging reserve	(85)	(116)
Available-for-sale financial assets: net movement in fair value reserve	105	1,028
Income tax relating to components of other comprehensive income	(1,313)	(1,536)
Other comprehensive income for the year, net of tax	6,359	7,167
Total comprehensive income for the year	40,629	31,219
Profit attributable to:		
Owners of the Company	34,156	23,948
Minority interest	114	104
Profit for the year	34,270	24,052
Total comprehensive income attributable to:		
Owners of the Company	40,515	31,115
Minority interest	114	104
Total comprehensive income for the year	40,629	31,219
Earnings per share		
Basic earnings per share (cents)	35.55	24.03
Diluted earnings per share (cents)	35.40	24.01
Continuing operations		
Basic earnings per share (cents)	35.24	23.34
Diluted earnings per share (cents)	35.09	23.32

Two-statement approach

This approach shows the profit or loss for the period in the income statement. The first statement continues to be referred to as the "income statement". The second statement, referred to as the "statement of comprehensive income", is presented immediately after the income statement.

Income statement (two-statement approach)
Year ended 31 December 2009

	2009 $'000	2008 $'000
Continuing operations		
Revenue	310,758	270,224
Cost of sales	(234,867)	(204,232)
Gross profit	75,891	65,992
Other income	8,613	2,154
Distribution expenses	(15,115)	(13,741)
Administrative expenses	(20,196)	(18,360)
Other expenses	(4,343)	(3,762)
Results from operating activities	44,850	32,283
Finance income	2,935	2,696
Finance expenses	(5,090)	(4,748)
Net finance expenses	(2,155)	(2,052)
Share of profit of associates, net of tax	1,125	1,000
Share of profit of joint ventures, net of tax	250	125
Profit before income tax	44,070	31,356
Income tax expense	(10,095)	(7,992)
Profit from continuing operations	33,975	23,364
Discontinued operations		
Profit from discontinued operations, net of tax	295	688
Profit for the year	34,270	24,052
Attributable to:		
Owners of the Company	34,156	23,948
Minority interest	114	104
Profit for the year	34,270	24,052
Earnings per share		
Basic earnings per share (cents)	35.55	24.03
Diluted earnings per share (cents)	35.40	24.01
Continuing operations		
Basic earnings per share (cents)	35.24	23.34
Diluted earnings per share (cents)	35.09	23.32

Statement of comprehensive income (two-statement approach)
Year ended 31 December 2009

	2009 $'000	2008 $'000
Profit for the year	34,270	24,052
Other comprehensive income (after reclassification adjustments)		
Surplus on revaluation of property, plant and equipment	7,146	7,380
Translation differences relating to financial statements of foreign subsidiaries	474	355
Exchange differences on monetary items forming part of net investment in a foreign operation	40	53
Exchange differences on hedge of net investment in a foreign operation	(8)	3
Cash flow hedges: net movement in hedging reserve	(85)	(116)
Available-for-sale financial assets: net movement in fair value reserve	105	1,028
Income tax relating to components of other comprehensive income	(1,313)	(1,536)
Other comprehensive income for the year, net of tax	6,359	7,167
Total comprehensive income for the year	40,629	31,219
Attributable to:		
Owners of the Company	40,515	31,115
Minority interest	114	104
Total comprehensive income for the year	40,629	31,219

Notes to the statement of comprehensive income

The following note illustrates further disclosures required in respect of the statement of comprehensive income, where such information has not been disclosed on the face of the statement.

Note xx - Other comprehensive income

Tax effects relating to each component of OCI

	2009			2008		
	Before tax	Tax (expense) benefit	Net of tax	Before tax	Tax (expense) benefit	Net of tax
	$'000	$'000	$'000	$'000	$'000	$'000
Surplus on revaluation of property, plant and equipment	7,146	(1,313)	5,833	7,380	(1,476)	5,904
Translation differences relating to financial statements of foreign subsidiaries	474	-	474	355	-	355
Exchange differences on monetary items forming part of net investment in a foreign operation	40	-	40	53	-	53
Exchange differences on hedge of net investment in a foreign operation	(8)	-	(8)	3	-	3
Cash flow hedges: net movement in hedging reserve	(85)	15	(70)	(116)	23	(93)
Available-for-sale financial assets: net movement in fair value reserve	105	(15)	90	1,028	(83)	945
Other comprehensive income	7,672	(1,313)	6,359	8,703	(1,536)	7,167

	2009	2008
	$'000	$'000
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments	62	147
Less: amounts transferred to initial carrying amount of hedged items	(67)	(118)
Less: reclassification adjustments for gains transferred to income statement	(80)	(145)
Income tax	15	23
Net movement in the hedging reserve during the period recognised in other comprehensive income	(70)	(93)
Available-for-sale financial assets:		
Changes in fair value	133	898
Less: reclassification adjustments for gains included in income statement on disposal	(58)	(154)
Add: reclassification adjustments for deficits included in income statement on impairment	30	284
Income tax	(15)	(83)
Net change in fair value during the period recognised in other comprehensive income	90	945

Note: Where the group has investments in associates and joint ventures that are accounted for using the equity method, FRS 1.82(h) requires the group's share of OCI (i.e. other than the share of profit or loss) of such investments to be separately disclosed in the statement of comprehensive income.

Appendix 2: Illustrative statement of changes in equity

Consolidated statement of changes in equity
Year ended 31 December 2009

Group	Share capital $'000	Reserve for own shares $'000	Revaluation reserve $'000	Foreign currency translation reserve $'000	Hedging reserve $'000	Fair value reserve $'000	Share option reserve $'000	Accumulated profits $'000	Total $'000	Minority interest $'000	Total equity $'000
At 1 January 2008	43,750	-	8,715	762	478	4,183	368	75,300	133,556	304	133,860
Changes in accounting policy	-	-	-	-	-	-	-	(320)	(320)	-	(320)
At 1 January 2008, restated	43,750	-	8,715	762	478	4,183	368	74,980	133,236	304	133,540
Changes in equity for 2008:											
Value of employee services received for issue of share options	-	-	-	-	-	-	203	-	203	-	203
Purchase of treasury shares	-	(2,400)	-	-	-	-	-	-	(2,400)	-	(2,400)
Final dividend paid of 1.21 cents per share	-	-	-	-	-	-	-	(871)	(871)	-	(871)
Interim dividend paid of 0.63 cents per share	-	-	-	-	-	-	-	(510)	(510)	-	(510)
Total comprehensive income for the year	-	-	5,904	411	(93)	945	-	23,948	31,115	104	31,219
At 31 December 2008	43,750	(2,400)	14,619	1,173	385	5,128	571	97,547	160,773	408	161,181
Changes in equity for 2009:											
Issue of shares under share option scheme - exercise price	606	-	-	-	-	-	-	-	606	-	606
Value of employee services received for issue of share options	-	-	-	-	-	-	203	-	203	-	203
Purchase of treasury shares	-	(1,200)	-	-	-	-	-	-	(1,200)	-	(1,200)
Final dividend paid of 1.84 cents per share	-	-	-	-	-	-	-	(1,381)	(1,381)	-	(1,381)
Acquisition of minority interest	-	-	-	-	-	-	-	-	-	(113)	(113)
Total comprehensive income for the year	-	-	5,833	506	(70)	90	-	34,156	40,515	114	40,629
At 31 December 2009	44,356	(3,600)	20,452	1,679	315	5,218	774	130,322	199,516	409	199,925

B. FRS 102 *Share-based Payment*

In July 2008, the ASC issued the amendments to FRS 102 *Share-based Payment*, which amends vesting conditions and cancellations. FRS 102 (revised 2008) is the Singapore equivalent of IFRS 2 (revised 2008).

Why was FRS 102 amended?

Consider an example of a company which has offered its employees the opportunity to participate in an employee share purchase plan. Employees who agree to participate in the plan will have to save 10% of their salary through monthly salary deductions for a period of three years. The employees may use the accumulated savings to purchase shares at a 15% discount at the end of the three-year period, or receive a refund of their contributions at any point in time. The estimated annual expense to the company for the share-based payment arrangement is $12,000.

After 12 months, some employees stopped paying contributions to the plan and received a refund of their contributions. When this happens, should the company account for this by:

(a) Reversing the portion of share-based expense of $12,000 recognised to-date for those employees that have stopped paying contributions? or
(b) Continuing to recognise expense of $12,000 per year for the three-year period? or
(c) Recognising all expenses of the next two years for those employees that have stopped paying contributions, when those employees stop paying?

FRS 102 (revised 2008) introduces a new concept of "non-vesting condition" and provides guidance

The original definition of vesting conditions in FRS 102 described "vesting conditions" as including service conditions and performance conditions. However, it was not clear whether the conditions in the example above are treated as vesting conditions (is the requirement for an employee to contribute to an employee share purchase plan a vesting condition?). If such a requirement was a vesting condition, then the company would apply (a) and reverse the expense of $12,000 recognised to-date.

In the recent amendments, the definition of vesting conditions has been amended to clarify that vesting conditions are limited to only service and performance conditions. Conditions, other than service or performance conditions, are considered as non-vesting conditions.

In the example above, the requirement for employees to pay contributions is a non-vesting condition since it does not require services from the employees.

Under the amendments, non-vesting conditions must be taken into account in measuring the grant date fair value of the share-based payment. In addition, if employees fulfil the service conditions, then the entity will recognise the grant date fair value of the share-based payment (normally in the income statement), even if the employee does not become entitled to the share-based payment due to the failure to meet a non-vesting condition.

When either the entity or the employee can choose whether to meet a non-vesting condition, and one chooses not to meet the non-vesting condition, the amendment requires the failure to meet the non-vesting condition to be treated as a cancellation.

In the example above, the requirement for employees to pay contributions is a condition that the employees can choose to meet. If an employee chooses not to continue contributing but can still remain in the service of the company, then the company would apply (c), and recognise immediately a further $24,000 that would otherwise be recognised over the remainder of the vesting period.

When neither the entity nor the counterparty (the employees) can choose whether to meet a non-vesting condition, there is no change to the accounting if the non-vesting condition is not satisfied. The entity continues to recognise the compensation cost over the remaining vesting period. An example of a non-vesting condition where neither the entity or counterparty can choose would be where the price of gold cannot increase by more than 7%.

When is an entity required to apply the amendments?

The amendments FRS 102 (revised 2008) apply to annual periods beginning on or after 1 January 2009; earlier application is permitted.

The amendments are required to be applied retrospectively. Entities will need to assess whether transactions that occurred before the implementation date are affected by the amendments. If they are affected, then the comparatives are restated and the amendments would be applied as if they were in place when the transactions occurred.

What action does an entity need to take to implement the amendments?

When an entity adopts the amendments, it would have to consider the following:

(a) Whether there are conditions in its share-based payment plans that are non-vesting in nature; and
(b) If there are non-vesting conditions, valuation expertise might need to be engaged to estimate the fair value of the share-based payment including consideration of the non-vesting conditions.

We have seen in the above example that the accounting consequences of a failure to meet a vesting condition (reverse expense previously recognised) can be significantly different from those failing to meet a non-vesting condition (the expense previously recognised is not reversed but the expense for future periods is accelerated).

It is advisable for entities to review carefully their share-based payment arrangements in order to determine whether any conditions should be considered to be a non-vesting condition instead of a vesting condition in order to make any appropriate adjustments to its compensation cost.

Both vesting and non-vesting conditions determine whether the counterparty (the employee in our example above) receives a share-based payment award. However, only a vesting condition determines whether the entity receives the services that entitle the counterparty to a share-based payment.

How to assess whether a condition is a vesting condition or a non-vesting condition?

It is not always clear whether a condition is a vesting or a non-vesting condition. Some examples of this would be terms such as non-compete provisions, post-vesting transfer restrictions and companies achieving listing status. It is important that entities consider the terms of their plans so as to assess the impact on their bottom line.

C. International Developments

Final IFRSs and interpretations issued

Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*, and IAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*

Refer to IFRS Briefing Sheet – Issue 92 for details.

The **amendments to** IFRS 1 allow a first-time adopter to use a 'deemed cost' to account for an investment in a subsidiary, jointly controlled entity or associate. The entity may choose 'deemed cost' to be either fair value (based on IAS 39 *Financial Instruments: Recognition and Measurement*) or the previous GAAP carrying amount of the investment at the entity's date of transition to IFRSs. This election is to be made on an investment-by-investment basis.

The **amendments to** IAS 27 relates to the company's separate financial statements, and:

1. Eliminates the requirement to distinguish between pre-acquisition and post-acquisition dividends. All dividends received from a subsidiary, jointly controlled entity or associate will be recognised as income.
2. Requires an investor to assess whether there is an indicator of impairment when dividend income is received.
3. Provides new guidance on determining the cost of investment on formation of a new parent in specific situations.

The amendments are effective for annual periods beginning on or after 1 January 2009, with earlier application permitted. The amendments to IAS 27 are to be applied prospectively.

Singapore is expected to issue the amendments with the same effective date.

Improvements to IFRSs 2008

Refer to IFRS Briefing Sheet – Issue 94 for details.

The IASB has issued the **Improvements to IFRSs for 2008** resulting from its first annual improvements project. This project involves non-urgent but necessary amendments to IFRSs focusing on areas of inconsistency in IFRSs or where clarification of wording is required.

Improvements to IFRSs 2008 contains 35 amendments and is divided into two parts:

Part I: Includes 24 amendments that result in accounting changes for presentation, recognition or measurement purposes. Some of these are:

IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations* - if an entity is committed to a sale plan involving the loss of control of a subsidiary, then it would classify all of that subsidiary's assets and liabilities as held for sale (when relevant criteria are met).

IAS 38 *Intangible Assets* – clarifies the accounting for expenditures incurred on advertising and promotional activities.

IAS 40 *Investment Property* – includes property under construction or development for future use within its scope rather than under IAS 16.

Part II: Includes 11 terminology or editorial amendments that the IASB expects to have either no or only minimal effects on accounting.

The amendments are generally effective for annual periods beginning on or after 1 January 2009 with earlier application permitted.

Singapore is expected to issue the amendments from the same effective date.

IFRIC 15 *Agreements for the Construction of Real Estate*

Refer to IFRS Briefing Sheet – Issue 97 for details.

Entities that undertake real estate development may enter into agreements with buyers before construction has been completed.

IFRIC 15 provides guidance on how to determine whether an agreement for the construction of real estate falls within the scope of IAS 11 *Construction Contracts* or IAS 18 *Revenue* and when revenue should be recognised.

IFRIC 15 is effective for annual periods beginning on or after 1 January 2009 and requires *retrospective* application. Earlier application is permitted.

When IFRIC 15 is adopted in Singapore, real estate developers will need to determine whether contracts with customers are construction contracts (IAS 11), contracts for the rendering of services (IAS 18) or contracts for the sale of goods (IAS 18). Most contracts with periods of over one year are likely to use the "Percentage of Completion" method of revenue recognition and the main exception will be those which transfer control and the significant risks and rewards of ownership at a single point in time. The different types of agreements for construction which can exist, the different circumstances, and the different laws in Singapore will mean that each contract will need to be considered individually.

IFRIC 15 can also be applied by analogy, so contracts for the building of aircraft, ships, oil rigs, infrastructure and similar contracts, which often run for more than one accounting period, would be affected. Component accounting may be relevant to some contracts.

Due to the implications, it is not clear when Singapore will issue the interpretation and whether local guidance will be provided.

IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*

Refer to IFRS Briefing Sheet – Issue 98 for details.

IFRIC 16 applies to an entity that hedges the foreign currency risk arising from its net investments in foreign operations and wishes to qualify for hedge accounting in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*.

Key requirements of the interpretation are:

- Does not permit hedge accounting on foreign exchange differences arising between the functional currency of the foreign operation and the presentation currency of the parent entity's consolidated financial statements;
- Requires the foreign currency exposure resulting from the net investment in a foreign operation to be hedged only once in the consolidated financial statements;
- Allows the hedging instrument to be held by any entity within the group, other than in the foreign operation that is being hedged.

IFRIC 16 is effective for annual periods beginning on or after 1 October 2008 and requires prospective application of the guidance.

Singapore is expected to issue the interpretation with the same effective date.

IAS 39 *Financial Instruments: Recognition and Measurement (Issue of additional Application Guidance on Eligible Hedged Items)*

Refer to IFRS Briefing Sheet – Issue 100 for details.

Additional Application Guidance has been issued to clarify that:

1. Changes in cash flows or fair value of a hedged item above or below a specified price or variable (a one-sided risk) can be designated as a qualifying hedged item
2. Clarifies that inflation cannot be designated as a risk, a portion of a financial instrument that is not separately identifiable or reliably measured, unless it is a contractually specified portion of the cash flow of a recognised inflation-linked bond and the other cash flows of the instrument are not affected by the inflation portion.

The effective date of the amendments is annual periods beginning on or after 1 July 2009 and retrospective application is required. Earlier application is permitted.

Singapore is expected to issue the interpretation with the same effective date.

Exposure Drafts (ED) and Discussion Papers

ED Simplifying Earnings per Share – Proposed amendments to IAS 33

Refer to IFRS Briefing Sheet – Issue 101 for details.

The proposed amendments aim to simplify the EPS calculation and reduce differences with US GAAP.

The IASB proposed to simplify the EPS calculation in the following ways:

1. No longer include in the basic EPS calculation: (a) Ordinary shares issuable for little or no cash or other consideration; and (b) mandatorily convertible instruments.
2. Exclude from weighted average number of shares: (a) A contract that requires an entity to repurchase its own shares for cash or other financial assets; and (b) mandatorily redeemable ordinary shares.
3. No adjustment needs to be made to the diluted EPS calculation for: (a) instruments measured at fair value through profit or loss; and (b) liability-settled share-based payments.
4. Use the end-of-period market price of ordinary shares, instead of the average market price, when determining the proceeds from the assumed exercise of options, warrants and their equivalents.

The IASB has invited comments on this ED by 5 December 2008. In Singapore, the ASC has issued the same ED, and the deadline for comments is 17 October 2008.

ED of Proposed Improvements to IFRSs

Refer to IFRS Briefing Sheet – Issue 102 for details.

The IASB has issued an ED on the proposed amendments to IFRSs resulting from the second annual improvement project.

The ED proposes twelve amendments to eight standards. Some of these are: IFRS 2 *Share-based Payment* – to clarify that combinations of entities or business under common control and the contribution of a business on the formation of a joint venture are both outside the scope of IFRS 2.

IAS 18 *Revenue* – to include guidance in the appendix for the determination of whether an entity is acting as a principal or agent associated with the sale of goods or rendering of services.

The IASB has invited comments on this ED by 7 November 2008. In Singapore, the ASC has issued the same ED, and the deadline for comments is 3 October 2008.

ED of *An Improved Conceptual Framework for Financial Reporting: Chapter 1: The Objective of Financial Reporting, Chapter 2: Qualitative Characteristics and Constraints of Decision-useful Financial Reporting Information*

Refer to IFRS Briefing Sheet – Issue 95 for details.

This ED is part of phase A *Objectives and qualitative characteristics* of the joint IASB and FASB common conceptual framework project.

In the first chapter, the ED proposes that the objective of financial reporting is to provide financial information which is useful to present and potential equity investors, lenders and other creditors in making decisions in their capacity as capital providers.

In the second chapter, the ED discusses the qualitative characteristics that would make financial reporting information useful and the constraints for providing decision-useful reporting information. The ED describes two kinds of qualitative characteristics: (1) Fundamental qualitative characteristics and (2) Enhancing qualitative characteristics.

The IASB has invited comments on this ED by 29 September 2008. In Singapore, the ASC has issued the same ED, and the deadline for comments was 15 August 2008.

Discussion Paper (DP) *Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Reporting Entity*

Refer to IFRS Briefing Sheet – Issue 93 for details.

The objective of this joint project with the FASB is to develop a reporting entity concept for the purposes of financial reporting. This will be included in both the IASB and FASB's common conceptual framework.

One of the issues that the DP considers is whether consolidated financial statements should be prepared from the entity's perspective or from the owner's (proprietary) perspective.

Under the entity's perspective, the entity is considered to be separate from its owners while under the owner's perspective. There is no distinction between the entity and the owners. The DP proposes applying the entity perspective.

The IASB has invited comments on the DP by 29 September 2008. In Singapore, the ASC has issued the same ED, and the deadline for comments was 15 August 2008.

Meetings of the International Accounting Standards Board – May, June and July 2008

Refer to IFRS in Brief – Issue 47, 48 and 49 for details.

Issues discussed during the IASB's meetings in May, June and July 2008 include:

(a) IFRS for Private Entities (previously IFRS for SMEs)
The IASB continued its detailed discussion of the proposals, section by section, with a plan to issue the final IFRS in the second half of 2009. They have tentatively agreed on issues such as:

- The standard should be a separate, stand-alone publication and will not cross-reference to the full IFRSs.
- Private entities can choose the less complex accounting policy option in the standard or the more complex full IFRS option in the Appendix.
- Removing the requirement for management to consider guidance in full IFRS or to refer to pronouncements of other standard setters.
- Removing the option to follow the accounting for financial instruments under full IFRS
- Adding more examples in the area of accounting for financial instruments, provisions and contingencies, compound financial instruments and revenue.

(b) Financial Statement Presentation Project
The IASB has decided to propose, for the upcoming DP to be published in September 2008, that an entity should present:

- A single statement of comprehensive income
- Items of OCI in a separate section according to the category to which it relates (i.e. operating, investing or financing)
- Income tax assets, liabilities and cash flows separately in the statement of financial position and cash flow

Income taxes should be allocated between continuing and discontinued operations, items of OCI and items recognised directly in equity.

(c) Revenue Recognition Project
The IASB has tentatively decided that the DP would favour the customer consideration approach for measuring contracts with customers. In this approach, performance would be measured initially by an allocation of the contract price to individual obligations, and subsequently remeasured only if deemed onerous.

Meetings of the International Accounting Standards Board – May, June and July 2008 (continued)

Refer to IFRS in Brief – Issue 47, 48 and 49 for details.

(d) Income Taxes Project

The IASB discussed the pre-ballot draft of the ED of the amendments to IAS 12 *Income Taxes*, which it has planned to issue in the fourth quarter of 2008. It has tentatively decided that the form of the ED would be a draft IFRS, and not an amendment.

(e) Valuation Expert Advisory Panel

The IASB has formed a valuation expert advisory panel to enhance its guidance on valuing financial instruments in markets that are no longer active. The advisory panel has discussed a variety of measurement issues, and plans to first address valuation issues, and then the related disclosure issues.

For a summary of the status of the IASB's current projects, you may refer to *IFRS Briefing Sheet Issue 96.*

International Accounting Standards Committee (IASC) Foundation's Discussion Document *Review of the Constitution of the IASB – Proposals for Change*

Refer to IFRS Briefing Sheet – Issue 99 for details.

The Trustees of the IASC Foundation are undertaking a review of the constitution and propose:

- The creation of a Monitoring Group to establish a direct link of public accountability between the IASC Foundation and the official institutions
- Increasing the size of the IASB from 14 to 16 members
- A required geographical composition of the IASB.

The IASC Foundation has invited comments by 20 September 2008. In Singapore, the ASC has issued the same discussion document, and the deadline for comments was 24 August 2008.

The KPMG International publications covered in this issue are:

- IFRS in Brief: Issues 47 and 49
- IFRS Briefing Sheet: Issues 92 to 102

Common abbreviations defined

IASB – International Accounting Standards Board

IFRIC - International Financial Reporting Interpretations Committee

INT FRS – Interpretation Financial Reporting Standard

SGX – Singapore Exchange

ASC - Accounting Standards Council

FRS – Singapore Financial Reporting Standard

IFRS – International Financial Reporting Standard

IAS – International Accounting Standard

GAAP – Generally Accepted Accounting Principles

FASB – US Financial Accounting Standards Board

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

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