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AUDIT

There has been a significant amount of new and revised standards and interpretations this past year. This is likely to make financial reporting for 2009 more challenging than in previous years. We anticipate the same pace to continue, with significant changes made to financial reporting standards in 2010 and 2011.

In this year-end issue, we provide an overview of changes in financial reporting standards for 2009 and introduce those changes that will become effective in 2010. We also highlight other key developments that have an impact on financial reporting and provide an update on the IASB's activities arising from the global financial crisis.

Contents

This has been a turbulent year and some thought that signs of global recovery were in sight. However, recent announcements of Dubai's debt problems has created doubts as to whether this will cause another round of turmoil in the world economy.

Political leaders around the world gave much attention to accounting standards and the IASB quickly responded to address their concerns by developing accounting guidance at record speed. In addition, 2009 also marked the end of the three-year 'stable period' in IFRSs and the result is that there were significant changes in accounting this year. This means that an annual report this year will look very different from last year's.

As companies prepare for their 31 December 2009 year-end financial statements, they will need to implement and consider a number of new or revised FRSs and interpretations that are effective for the first time. We summarise the requirements for each of these changes.

We highlight some key messages from the Pittsburgh Summit held in September 2009 as The Group of Twenty (G20) gathered to review the progress made to restore the global economy. In addition, we provide an update on the IASB's progress on its financial crisis-related activities, such as the completion of Phase I to replace the current IAS 39.

Also, in this issue, we discuss the newly issued amendments to FRS 102 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*, effective 1 January 2010. The amendments expand the definition of a share-based payment to bring all group entities within the scope of the standard for all group awards. Through illustrations, we explain how the requirements should be applied and the likely impact on the financial statements.

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A. Overview of 2009 changes in financial reporting standards

Over the course of the past year, we have seen an increased pace in changes in financial reporting standards. In attempts to be flexible and responsive to the global financial crisis, the IASB has 'unexpectedly' published amendments to standards, such as the reclassification of financial assets and improving disclosures about financial instruments.

Considering how quickly accounting standards are changing, there is limited time for preparers to understand the new and amended requirements and guidance. Early planning and being prepared for the unexpected is key to managing a company's financial reporting risk.

In this issue, we summarise the new and revised FRSs and interpretations that are effective for the first time for a company with an annual period ending 31 December 2009. We have also included those that are issued but not yet effective for entities to consider the impact of these changes for the coming financial reporting period.

New FRSs effective for annual financial periods beginning on 1 January 2009

INT FRS 113 *Customer Loyalty Programmes*

Effective: Annual periods beginning from 1 July 2008

Refer to *Financial Reporting Matters* – June 2008 for details

This interpretation addresses the accounting for customer loyalty programme award credits granted as part of sales transactions. INT FRS 113 requires that customer loyalty programmes be accounted for by using a 'multi-element' approach. In 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 which may be redeemed in the future.

The portion allocated to the award credits is measured and 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.

It is worthwhile noting that the ED on *Improvements to IFRSs* 2010 clarifies that the redemption rate should be considered in determining the award credits to be recognised as deferred revenue.

INT FRS 116 *Hedges of a Net Investment in a Foreign Operation*

Effective: Annual periods beginning from 1 October 2008

Refer to *Financial Reporting Matters* – December 2008 for details.

INT FRS 116 applies to an entity which hedges the foreign currency risk arising from its net investments in foreign operations. For example, by taking out borrowings in the same currency as the functional currency of the foreign operation.

Key requirements of the interpretation are that it:

- 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.

Improvements to FRSs 2009 subsequently removed this restriction from INT FRS 116 that prevented the hedging instrument from being held by the foreign operation that itself, is being hedged. The amendment is effective for annual periods beginning on or after 1 July 2009, but entities may wish to early-adopt it.

Amendments to INT FRS 109 *Reassessment of Embedded Derivatives* and FRS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives*

Effective: Annual periods ending on or after 30 June 2009

Refer to *Financial Reporting Matters* – June 2009 for details

Amendments to INT FRS 109 require an entity to assess whether an embedded derivative is required to be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. The assessment is to be made based on the circumstances that existed on the later date of when the entity first became a party to the contract, and when there was a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract. If an entity is unable to measure separately the fair value of an embedded derivative that would have to be separated on reclassification out of the fair value through profit or loss category, then reclassification is prohibited and the entire hybrid financial instrument must remain in the fair value through profit or loss category.

Revised FRS 1 *Presentation of Financial Statements*

Effective: Annual periods beginning from 1 January 2009

Refer to *Financial Reporting Matters* – September 2008 for details.

This revised FRS 1 supercedes the current version of FRS 1 and introduces 'total comprehensive income' (changes in equity during a period, other than those changes resulting from transactions with owners in their capacity as owners).

Another significant change is that an opening statement of financial position (also known as 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 three years, instead of the current two years, when many new or revised standards come into effect from 1 January 2009.

For illustration of the adoption of FRS 1 (revised), refer to KPMG Singapore *Illustrative Financial Statements* 2009 at:
http://www.kpmg.com.sg/publications/audit_sifs2009.pdf

FRS 23 (revised) *Borrowing Costs*

Effective: Annual periods beginning from 1 January 2009

Refer to *Financial Reporting Matters* – March 2008 for details

The revised standard requires that an entity capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the total cost of that asset. It also removes the option of immediately recognising all borrowing costs as expenses.

If adoption of FRS 23 (revised) constitutes a change in accounting policy for an entity, then the entity applies the revised standard to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. However, an entity may choose to adopt FRS 23 (revised) from any date prior to the effective date.

Amendments to FRS 32 and FRS 1 – *Puttable Financial Instruments and Obligations Arising on Liquidation*

Effective: Annual periods beginning from 1 January 2009

Refer to *Financial Reporting Matters* – December 2008 for details.

The amendment allows certain instruments that would normally be classified as liabilities to be classified as equity if they meet certain conditions. The amendments cover two categories of instruments issued by an entity:

- A puttable financial instrument.
- A financial instrument that is puttable only on liquidation.

The amendments define a 'puttable instrument' as "...*a financial instrument that gives the holder the right to 'put' the instrument back to the issuer for cash or another financial asset or is automatically 'put' back to the issuer on the occurrence of an uncertain future event or the death or retirement of the instrument holder*."

Entities which are likely to be able to classify the units that they issue as equity includes real estate investment trusts, unit trusts, business trusts and investment funds.

Amendments to FRS 101 *First-time Adoption of Financial Reporting* Standards, and FRS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*

Effective: Annual periods beginning from 1 January 2009

Refer to *Financial Reporting Matters* – September 2008 for details.

The amendments to FRS 101 is not applicable to a Singapore entity which has always been applying FRS.

The amendments to FRS 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 the investment in subsidiary, jointly-controlled entity or associate is impaired when:
   - the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets (including goodwill); or
   - the dividend exceeds the total comprehensive income of the subsidiary, jointly-controlled entity or associate in the period that the dividend is declared.
3. provides new guidance on determining the cost of investment on formation of a new parent in specific situations.

Amendments to FRS 102 *Share-based Payment – Vesting Conditions and Cancellations*

Effective: Annual periods beginning from 1 January 2009

Refer to *Financial Reporting Matters* – September 2008 for details.

The original definition of vesting conditions in FRS 102 (2004) described them as including service and performance conditions. However, it was unclear how other conditions related to share-based payment arrangements should be treated.

Examples include:

- Requirement for an employee to contribute to an employee share purchase plan (ESPP).
- Requirement for an employee to hold shares of an entity for a specified period in order to be eligible for participation in a share-based payment grant.

In the amendments, conditions other than service or performance conditions are considered as non-vesting conditions.

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 even if the employee does not become entitled to the share-based payment due to the failure to meet a non-vesting condition.

Amendments to FRS 107 *Financial Instruments: Disclosure – Improving Disclosures about Financial Instruments*

Effective: Annual periods beginning from 1 January 2009

Refer to *Financial Reporting Matters* – June 2009 for details

The amendments require disclosures relating to fair value measurements using a three-level hierarchy that reflects the significance of the inputs used in measuring fair values. Additional disclosures are required for fair value measurements in Level 3 of the fair value hierarchy. The amendments also require disclosure of any significant transfers between Level 1 and Level 2 of the fair value hierarchy and a narrative explanation of the reasons for such transfers.

Besides enhancing disclosures over fair value measurements relating to financial instruments, the amendments also seek to improve the disclosures of liquidity risk and how liquidity risk is being managed.

FRS 108 *Operating Segments*

Effective: Annual periods beginning from 1 January 2009

Refer to *Financial Reporting Matters* – March 2008 for details

FRS 108 replaces FRS 14 *Segment Reporting.* FRS 108 requires all entities within its scope to adopt the 'management approach' in reporting the financial performance of its operating segments, based on the same segment information as used by top management. Consequently, the segment information disclosed aims to provide the reader with insight into how top management manages the entity's operations.

FRS 108 also requires the amount of each segment item reported to be the measure which is reported internally. This is irrespective of the basis of preparation for the financial statements.

This 'management approach' differs from FRS 14, which currently requires the disclosure of two sets of segments, based on a disaggregation of information contained in the financial statements.

The requirement to disclose segment profit or loss and segment assets in paragraph 23 of FRS 108 was subsequently amended by *Improvements to FRSs* 2009. The amendment clarifies that segment assets should be disclosed only if such amounts are regularly provided to the chief operating decision maker (CODM). Although this amendment is effective for annual periods beginning on or after 1 January 2010, entities may wish to early adopt this amendment if segment assets are not regularly reported to the CODM and apply it as they adopt this new standard in 2009.

Improvements to FRSs for 2008

Effective: Generally for annual periods beginning from 1 January 2009

Refer to *Financial Reporting Matters* – December 2008 for details.

Improvements to FRSs for 2008 contains 35 amendments to 20 FRSs involving non-urgent but necessary amendments to FRSs. The improvements focus on areas of inconsistency in FRSs or where clarification of wording is required. It is divided into two parts:

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

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

We have highlighted certain key amendments within Part I that we considered to have more significant impact and wider relevance in *Financial Reporting Matters* – December 2008 issue.

New FRSs not yet effective[1]

INT FRS 118 *Transfers of Assets from Customers*

Effective: Transfers of assets from customers received on or after 1 July 2009

Refer to *Financial Reporting Matters* – March 2009 for details.

INT FRS 118 provides guidance to entities who receive an item of property, plant and equipment (or cash to acquire it) from customers.

An entity that has received a contribution in the scope of the interpretation recognises it as an asset if it meets the definition of an asset. On initial recognition, the asset is measured at its fair value.

When an asset is recognised, the corresponding amount will be recognised as revenue although the exact timing of revenue recognition will depend on the facts and circumstances of the particular arrangement.

In determining the timing of revenue recognition, the entity needs to consider:

- what performance obligations it has as a result of receiving the customer contribution
- whether these performance obligations should be separated for revenue recognition in accordance with FRS 18
- when revenue related to each separately identifiable performance obligation should be recognised.

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

Effective: Annual periods beginning from 1 July 2009

Refer to IFRS Briefing Sheet – Issue 100 for details.

Additional Application Guidance has been issued to clarify how the existing principles underlying hedge accounting should be applied in two particular situations:

(a) A one-sided risk in a hedged item
(b) Inflation in a financial hedged item.

Revised FRS 101 – *First-time Adoption of FRS (improved structure)*

Effective: Annual periods beginning from 1 July 2009

Refer to IFRS Briefing Sheet – Issue 114 for details.

Revised version of FRS 101 – *First-time Adoption of financial reporting standards* restructures the format without changing its technical content. The objective was to make FRS 101 easier for readers to understand.

The revised version moves the exemptions and exceptions contained in the main body of FRS 101 to different appendices, and also removes FRS 101 transitional provisions that are no longer considered relevant.

[1] *This is from the perspective of a company with an annual financial period beginning 1 January 2009.*

Revised FRS 103 *Business Combinations* and FRS 27 *Separate and Consolidated Financial Statements*

Effective: Annual periods beginning from 1 July 2009

Refer to *Financial Reporting Matters* – September 2009 for details

FRS 103 (revised) and FRS 27 (revised) apply to the acquisition accounting for business combinations.

The main changes from FRS 103 (2004) are that the:

- Contingent consideration payable for the acquisition should be measured at fair value at the acquisition date.
- Acquirer can elect to measure any non-controlling interest (NCI, previously termed 'minority interest'):
  - at fair value at the acquisition date, or
  - at its proportionate interest in the fair value of the identifiable assets and liabilities of the acquiree (consistent with current treatment).
- Transaction costs incurred by the acquirer in connection with the business combination are expensed as incurred.

The main changes from FRS 27 (2004) are as follows:

- In a step acquisition, the identifiable assets and liabilities of the acquiree are recognised at fair value when control is obtained, with any adjustment recognised in profit or loss.
- Acquisitions of additional NCI after control is obtained and disposals of equity interests while retaining control, are accounted for as equity transactions.
- A transaction resulting in a loss of control results in a gain or loss being recognised in profit or loss.

INT FRS 117 *Distributions of Non-cash Assets to Owners*

Effective: Annual periods beginning from 1 July 2009

Refer to *Financial Reporting Matters* – March 2009 for details.

INT FRS 117 requires entities to recognise certain distributions of non-cash assets at fair value, and to recognise in profit and loss the difference between the fair value of the assets distributed and their carrying amounts.

The interpretation applies to non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners, in which all owners of the same class of equity are treated equally.

This interpretation does not apply to common control transactions.

Improvements to FRSs for 2009

Effective: Annual periods beginning from 1 January 2010

Refer to *Financial Reporting Matters* – September 2009 for details.

Improvements to FRSs for 2009 is the result of the second annual improvement project. It contains 15 amendments to 12 FRSs that result in accounting changes for presentation, recognition, measurement or disclosure purposes.

Five of these amendments are effective for annual periods beginning on or after 1 July 2009 as they are largely consequential changes made with the revised FRS 103 which is effective from 1 July 2009. The remaining amendments are generally effective for annual periods beginning on or after 1 January 2010.

In *Financial Reporting Matters* – September 2009 issue, we highlighted four amendments that may be worth early-adopting in 2009. For standards that are adopted early, entities are reminded to make appropriate disclosures in their financial statements.

Amendments to FRS 102 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*

Effective: Annual periods beginning from 1 January 2010

Refer to section D of this publication for details.

The amendments provide guidance on accounting for group cash-settled share-based payment transactions from the perspective of the receiving entity as well as the settling entity.

The amendments require an entity receiving goods or services in either an equity-settled or cash-settled payment transaction to account for the transaction in its separate or individual financial statements.

As a result of the amendments, INT FRS 108 *Scope of FRS 102* and INT FRS 111 *FRS 102 – Group and Treasury Share Transactions* are incorporated into FRS 102 and withdrawn.

Amendment to FRS 32 *Financial Instruments: Presentation – Classification of Rights Issues*

Effective: Annual periods beginning from 1 February 2010

Refer to IFRS Briefing Sheet – Issue 157 for details.

This amendment addresses the accounting for rights issues (rights, options and warrants) which are denominated in a currency other than the functional currency of the issuer.

Previously, such rights issues were accounted for as derivative liabilities. The amendment requires that rights issues to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency, are equity instruments if the entity offers the rights, options or warrants *pro rata* to all of its existing owners of the same class of its own non-derivative equity instruments. This is regardless of the currency in which the exercise price is denominated.

Recently issued IFRSs not yet adopted in Singapore

IFRS for Small and Medium-sized Entities (SMEs)

Effective: To be determined by the national regulator in each jurisdiction

Refer to IFRS Briefing Sheet – Issue 144 for details.

IFRS for SMEs is intended to facilitate financial reporting for small and medium-sized (SMEs) entities by:

- providing significantly less guidance than full IFRSs
- simplifying, in certain areas the recognition and measurement requirements compared to full IFRSs
- removing the more complex option in certain areas in which full IFRSs allow for more than one accounting option.

A summary of the key requirements in the *IFRS for SMEs,* and the significant differences between the *IFRS for SMEs* and existing IFRS requirements (full IFRS) is available in *IFRS Briefing Sheet* – Issue 144.

IAS 24 *Related Party Disclosures (revised 2009)*

Effective: Annual periods beginning from 1 January 2011

Refer to IFRS Briefing Sheet – Issue 158 for details.

On 4 November 2009, the IASB published IAS 24 *Related Party Disclosures* (revised 2009). IAS 24 (2009) simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. IAS 24 (2009) supersedes IAS 24 (2003) with the same title.

A government-related entity is exempt from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with (a) a government that has control, joint control or significant influence over the reporting entity; and (b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

However, if the reporting entity takes advantage of the exemption, the following disclosures are required:

- The name of the government and the nature of its relationship with the reporting entity (i.e. control, joint control or significant influence).
- The following information in sufficient detail to enable users of the entity's financial statements to understand the effect of related party transactions on its financial statements:
  - Nature and amount of each individually significant transaction.
  - For transactions that are collectively, but not individually, significant, a qualitative or quantitative indication of the extent of the transactions.

In addition, the IASB has made some improvements to the definition of a related party and removed inconsistencies.

Amendments to IFRIC 14 - *IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – Prepayments of a Minimum Funding Requirement*

Effective: Annual periods beginning from 1 January 2011

Refer to IFRS Briefing Sheet – Issue 164 for details.

On 26 November 2009, the IASB published the amendments to IFRIC 14. This is to remove unintended consequences arising from the treatment of prepayments in some circumstances when there is a minimum funding requirement (MFR).

Under the amended IFRIC 14, prepayments of contributions would be recognised as an asset rather than an expense, on the basis that the entity has a future economic benefit from the prepayment in the form of reduced cash outflows in future years in which MFR payments would otherwise be required.

IFRS 9 *Financial Instruments*

Effective: Annual periods beginning from 1 January 2013

Refer to section C of this publication for details.

On 12 November 2009, the IASB issued IFRS 9 as part of its comprehensive review of financial instruments accounting. IFRS 9 deals with classification and measurement of financial assets only. It retains, but simplifies, the mixed measurement model and establishes two primary measurement categories for financial assets; amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset.

The guidance in IAS 39 on impairment of financial assets, and on hedge accounting continues to apply until all the requirements of IAS 39 have been replaced. The IASB expects this to occur during 2010.

B. Changes in legislation and best practices

In this section, we highlight key developments for 2009 in Singapore legislation and best practices that may have an impact on financial reporting.

Singapore Exchange Matters

Two changes in SGX regulations that will have an impact on financial reporting in 2009 are:

1. Alignment of SGX financial statements announcements with the new presentation and disclosure requirements of FRS 1 (revised) *Presentation of Financial Statements* and FRS 108 *Operating Segments.*
2. Adoption of new and revised listing rules which are effective 24 March 2009. These new and amended listing rules may affect the items included in the annual reports of companies listed on the SGX.

Refer to *Financial Reporting Matters* – June 2009 for details.

Jobs Credit Scheme extended for six months with two additional payouts

On 13 October 2009, Prime Minister Lee Hsien Loong announced the extension of the Jobs Credit Scheme (JCS) for another six months with two additional payouts at reduced rates.

The JCS was introduced in the Singapore Budget 2009 to encourage businesses to preserve jobs in the downturn. Businesses would receive a cash grant based on the CPF contributions they have made for their existing employees.

The Jobs Credit Grants were payable to eligible employers in March, June, September and December 2009. It was calculated based on 12 percent of the first $2,500 of the wage cost for each eligible employee on the employer's CPF payroll.

The two additional Jobs Credit payouts are in:

1. March 2010 at 6 percent of the first $2,500 of the wage cost for each eligible employees on the January 2010 payroll.
2. June 2010 at 3 percent of the first $2,500 of the wage cost for each eligible employees on the April 2010 payroll.

The accounting treatment prescribed by ICPAS in its Circular A7/2009 is to recognise the Jobs Credit upon receipt (i.e. the grant would be recognised in the month of payment only) from 20 May 2009.

For more details of the scheme, access this link at:
http://www.iras.gov.sg/irashome/jobscredit.aspx

ACRA issues Enhanced Code of Professional Conduct and Ethics for Public Accountants

From 1 August 2009, public accountants in Singapore and members of ICPAS must adhere to an enhanced Code of Professional Conduct and Ethics (the enhanced Code). The enhanced Code is based on the Code of Ethics of the International Federation of Accountants (IFAC), a global benchmark for the international accounting profession. It provides more guidance to public accountants on how to apply the principles and the independence rules, and places an expectation on public accountants to pro-actively identify and eliminate potential threats to their independence.

The issuance of the enhanced Code is part of ACRA's commitment to providing an internationally reputed regulatory framework for auditing in Singapore.

Draft review of Companies Act to be released for public consultation by 2010

At the Asian Investment Conference & Exhibition 2009 held on 18 July 2009, Minister in Prime Minister's Office and Second Minister for Finance and Transport Mrs Lim Hwee Hua announced that the Steering Committee for Reviewing the Companies Act (the Steering Committee) will be releasing a draft Companies (Amendment) Bill for public consultation by 2010.

A fundamental review of the Companies Act has been underway since February 2008. The aim is to update the law to keep pace with relevant international legal developments and technological advances. The new Act will be re-crafted to convey the intent of corporate legislation and the rules in clear, concise and unambiguous language which can be understood by everyone involved in running or investing in a business enterprise.

Some key areas that the Steering Committee have been studying to-date are:

- Codification of directors' duties: To provide greater clarity to directors on their fiduciary duties and responsibilities since the Companies Act does not contain an exhaustive statement of a director's duties.

- Removing restrictions on financial assistance: To study the reforms of countries who have allowed companies to provide financial assistance for the acquisition of its own shares or those of its holding companies since the restriction in the Companies Act is complex and difficult to uphold in practice.

- Replacing the concept of the Exempt Private Company (EPC) with a 'small company' definition: To require large private companies that are currently considered EPCs to file their accounts with ACRA and only allow 'small companies' (based on qualifying criteria such as total annual turnover, gross assets and number of employees) to enjoy those reliefs.

- Appointment of multiple proxies: To allow a nominee or custodian bank to appoint more than two proxies to attend the general meeting of a company. This is to address situations where managers and institutional investors who hold shares through a nominee company or custodian bank may not be able to attend shareholders' meetings due to the limit on the number of proxies.

- Investor rights for CPF Fund investors: To enhance CPF share investors' membership rights who purchased their shares through the CPF Investment Schemes and hence, the shares are held in the names of the CPF Agent Banks. Since the CPF share investors are not the registered members, they do not have the right to attend the annual general meetings of the company.

- Minority shareholders protection: To improve minority shareholders' rights through an alternative route involving a minority buy-out right or appraisal right regime, whereby a minority shareholder who dissents from certain fundamental changes to the enterprise or certain alteration of shareholder rights, may require the company to buy out his shares at a fair value.

MAS introduces requirement for REITs to hold an AGM – effective 1 January 2010

On 11 November 2009, the Monetary Authority of Singapore (MAS) issued the revised Property Funds Appendix within the Code of Collective Investment Schemes.

Effective 1 January 2010, real estate investment trusts (REITs) will be required to hold Annual General Meetings (AGMs) once every calendar year and not more than 15 months from the last preceding AGM. This means that all REITs would have held an AGM by 31 December 2010.

In line with SGX's rule on the timing of AGMs for other listed issuers, REITs will have to hold their AGMs within four months from their financial year-end.

MAS has also revised the Appendix to remove the requirement for REIT managers seeking authorisation for a new REIT to submit information in a prescribed form given that REIT managers are now subject to the capital markets services licensing regime.

C. IASB's response to the global financial crisis – an update

Key messages from the G20 Pittsburgh Summit

The G20 leaders gathered at the Pittsburgh Summit on 24 and 25 September 2009 for the second time in 2009. Unlike at the London Summit in April 2009, the G20 did not provide any new action points for standard setters regarding financial reporting. Instead, they reinforced their previous calls for global convergence of accounting standards and improved stakeholder involvement in the IASB standard-setting process.

This time, the G20 members called on Finance Ministers and Central Bank Governors to strengthen the international financial regulatory system. One critical area is in reforming compensation practices of banks and other financial institutions. The guidelines to implement include:

- avoiding multi-year guaranteed bonuses
- requiring a significant percentage of variable compensation to be deferred, tied to performance and subject to clawback
- paying compensation in the form of shares or share-like instruments if those instruments create incentives aligned with long-term value creation
- aligning compensation for senior executives and other employees who have a material impact on a firm's risk with performance and risk
- enhancing transparency through disclosure of compensation practices
- limiting variable compensation as a percentage of net revenues when variable compensation is inconsistent with maintaining a sound capital base
- ensuring that compensation committees act independently.

The Financial Stability Forum (now known as FSB) was tasked to monitor the implementation of compensation standards and to propose additional measures as needed by March 2010.

Meanwhile, the IASB continues to make progress on the following projects:

1. Reducing the complexity of accounting standards for financial instruments.
2. Addressing issues surrounding rights issues in foreign currency and accounting for debt for equity swap.
3. Improving standards on fair value measurement.
4. Improving the accounting for off-balance sheet vehicles.
5. Examining the area of credit risk in liability measurement.

We summarise the progress since our last update in September 2009 below.

Update on IASB's activities in response to the financial crisis

1. Reducing the complexity of accounting standards for financial instruments

Brief summary

The IASB has received repeated messages from various stakeholders to simplify the accounting standards for financial instruments as preparers and users find the accounting standards complex and the results lack comparability and are difficult to understand.

A complete replacement of IAS 39 is expected by the end of 2010

The need to review IAS 39 on a comprehensive basis is also driven by calls to have comparable accounting with entities preparing financial statements under U.S. GAAP especially in areas such as fair value accounting, classification and impairment of financial assets.

Further, many expressed concerns about the impairment loss model under IAS 39. The current impairment loss model under IAS 39 prohibits provision of impairment loss unless a triggering event has occurred after the initial recognition of a financial asset and has a negative effect on its future cash flows, and that effect can be reliably estimated. This is known as the incurred loss model. Under the incurred loss model, losses, including credit losses, expected as a result of future events, no matter how likely, are not recognised. Many believe that this results in a provision that is too late in the life of the financial assets to provide adequate 'early' warning on the credit quality of that asset.

Progress to-date

Initially, the IASB adopted a timetable to complete a comprehensive review of IAS 39 before end of 2009. The work plan has since been revised for the end of 2010. The IASB will replace IAS 39 in three phases:

- Phase 1- to replace the classification and measurement requirements by the fourth quarter 2009
- Phase 2 - to replace the impairment requirements by the fourth quarter 2010
- Phase 3 - to simplify the hedge accounting requirements by the third quarter 2010

Phase 1 - Classification and measurement

On 12 November 2009, the IASB completed and issued the first phase of IFRS 9 *Financial Instruments* on the classification and measurement of *financial assets* (financial liabilities will be finalised in 2010). This represents the first chapters of the new standard on accounting for financial instruments.

The key changes from the existing IAS 39 are:

- Financial assets will be classified into one of two categories; amortised cost and fair value.
- Financial assets will be measured at amortised cost if all of the following conditions are met:
  - It is held within a business model whose objective is to hold assets in order to collect contractual cash flows
  - Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

  All other financial instruments would be measured at fair value.
- Embedded derivatives are no longer separated from hybrid contracts that have a financial asset host. Instead, the entire hybrid contract is assessed for classification using the principles above. IAS 39 continues to apply to derivative embedded in financial liabilities.
- For an investment in an equity investment that is not held for trading, IFRS 9 allows an entity on initial recognition to elect irrevocably to present all fair value changes from the investment in other comprehensive income (OCI). No amount recognised in OCI is ever reclassified to profit or loss at a later date.

The effective date for mandatory adoption of IFRS 9 is 1 January 2013, with early application permitted. As the European Union (EU) has not endorsed the standard, companies in the EU will not be able to early adopt in 2009.

In Singapore, the ASC has not issued the equivalent standard.

Although Phase I of IFRS 9 is considered to be complete, further amendments in the future may be made to it . The FASB has yet to issue their standard on financial instruments accounting, which is expected in 2010. So far, the FASB's approach is different from the IASB's. If the final standards issued by the IASB and the FASB are significantly different, then both will need to work towards reducing those differences. It may be possible that the IASB will make additional changes to IFRS 9 in order to achieve convergence with U.S. GAAP.

Phase 2 - Impairment of financial assets

On 5 November 2009, the IASB issued ED/2009/12 *Financial Instruments: Amortised Cost and Impairment* for public comment by 30 June 2010. In Singapore, the ASC issued the same proposal for comment by 30 April 2010.

Summary of the proposals

The proposals contained in the ED represent a significant change to the current requirements on recognition of impairment losses for financial assets and their presentation and disclosure in the financial statements.

Under the proposals, expected losses are recognised throughout the life of the loan (or other financial assets measured at amortised cost), and not just after a loss event has been identified. This would avoid the front-loading of interest revenue that occurs today before a loss event is identified, and would better reflect the lending decision. Therefore, in the proposals, a provision against credit losses would be built up over the life of the financial asset. Extensive disclosure requirements would provide investors with an understanding of the loss estimates that an entity judges necessary.

All entities reporting under IFRSs and FRSs are likely to be affected, but the impact will be the greatest for financial institutions – both in terms of the implementation efforts required and the effects on reported profits and capital.

Expert Advisory Panel

The IASB is assembling an expert advisory panel (EAP) that will advise on the operational issues surrounding the application of the Expected Cash Flow approach. The FASB will also participate in the EAP to provide input on operational aspects of applying its own proposed credit losses model.

Phase 3 - Hedge accounting

Phase 3 deals with simplifying hedge accounting and increasing transparency in hedging activities. The IASB is currently conducting outreach with its constituents and intends to issue an exposure draft on hedge accounting in the first quarter 2010.

2. Addressing issues surrounding rights issues in foreign currency and accounting for debt for equity swap

Brief summary

As a result of the financial crisis, an increasing number of entities have undertaken rights issues or have renegotiated with their creditors to accept the entities' equity instrument, such as ordinary shares, as payment for all or a part of their existing debt obligations. Questions arise as to:

(i) whether a call option, such as a rights issue, that would entitle the holder to receive a fixed number of the entity's own equity instruments when the price is fixed in a currency other than the entity's functional currency, should be accounted for as a derivative liability

(ii) how an entity would recognise its own equity instruments issued when those instruments are issued in connection with the extinguishment of a financial liability, i.e., as a result of a debt for equity swap.

2. Addressing issues surrounding rights issues in foreign currency and accounting for debt for equity swap (continued)

Progress to-date

(i) On 8 October 2009, the IASB published *Classification of Rights Issues (Amendment to IAS 32)*. This amendment addresses the accounting for rights issues (rights, options and warrants) that are denominated in a currency other than the functional currency of the issuer.

The amendment requires that rights issues to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all of its existing owners of the same class of its own non-derivative equity instruments. This is regardless of the currency in which the exercise price is denominated.

Entities are required to apply the amendment for annual periods beginning on or after 1 February 2010, with early application permitted.

In Singapore, the ASC issued the equivalent amendment with the same effective date.

(ii) On 26 November 2009, the IASB published IFRIC Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments* to provide guidance on how to account for the extinguishment of a financial liability by the issue by equity instruments. These transactions are often referred to as debt for equity swaps.

Equity instruments issued to a creditor to extinguish part or all of a financial liability would be "consideration paid" in accordance IAS 39. The equity instruments would be measured initially at the fair value of those equity instruments unless that fair value cannot be reliably measured, in which case the equity instruments should be measured to reflect the fair value of the financial liability extinguished.

Any difference between the carrying amount of the financial liability and the initial measurement of the equity instruments would be recognised as a gain or loss in profit or loss.

The interpretation applies retrospectively and is effective for annual periods on or after 1 July 2010, with earlier application permitted.

Singapore has not yet issued the equivalent interpretation.

3. Improving standards on fair value measurement

Brief summary

Currently, guidance on how to measure fair value is dispersed across standards and is in some cases, inconsistent.

Progress to-date

During the IASB October 2009 meeting, the IASB considered the responses received from the ED Fair Value Measurement, which closed on 28 September 2009.

The IASB plans to start deliberating on the topic in January 2010 after a series of roundtable meetings to be held in Norwalk, Tokyo and London in the fourth quarter of 2009.

A final standard on fair value measurement is expected in the third quarter of 2010.

4. Improving the accounting for off-balance sheet vehicles

Brief summary

The consolidation project addresses situations where entities may not have accounted for all the entities they control, such as certain special purpose entities used for securitisation transactions.

The derecognition project addresses concerns that some entities may have stopped accounting for assets they still control.

Progress to-date

The consolidation project:
During the joint meeting of the IASB and the FASB in October 2009, the IASB expects to publish a final standard after considering comment letters on the FASB's ED on consolidation. The FASB ED is expected to be published in the second quarter of 2010. We discussed the "single control model" in the proposed consolidation guidance in *Financial Reporting Matters* – March 2009.

The derecognition project:
The IASB is currently deliberating on the feedback received from the public on the proposed guidance. The highlight of the proposed guidance relates to the derecognition rules for financial assets. The proposed approach is different from the current requirements; it does not combine elements of several derecognition concepts but rather, it focuses *on a single element - control*. If an entity transfers a financial asset with a repurchase agreement, then derecognition could be required if the transfer involves a financial asset that is readily obtainable.

5. Examining the area of credit risk in liability measurement

Brief summary

The inclusion of an organisation's own credit risk in the measurement of its liabilities carried at fair value has always been a controversial issue. However, the effect on the income statement was not apparent when the economy was stable. During the financial crisis, an increasing number of entities' were recognising gains in the income statement on the reduction in the fair value of own debt from credit deterioration. This raises concerns about the decision-usefulness of reflecting gains when an entity's financial health is deteriorating and losses when the entity's financial health improves.

Progress to-date

During the IASB October 2009 meeting, the IASB considered a summary of the responses received on the DP on *Credit Risk in Liability Measurement* and tentatively decided:

- to stop work on credit risk in liability measurement as a stand-alone topic and instead address the issue as part of the conceptual framework project on measurement
- not to change the role of credit/ performance risk in the definition of fair value subject to responses to the ED *Fair Value Measurement*
- to consider the application of the fair value definition in every project involving measurements that would otherwise be at fair value
- to consider the question of credit risk in every project involving a current measurement of a liability that is not at fair value.

D. Amendments to FRS 102 *Share-based Payment - Group cash-settled share-based payment transactions*

Following the IASB's recent revisions to IFRS 2, the ASC has issued *Group Cash-settled Share-based Payment Transactions* (Amendments to FRS 102) in October 2009.

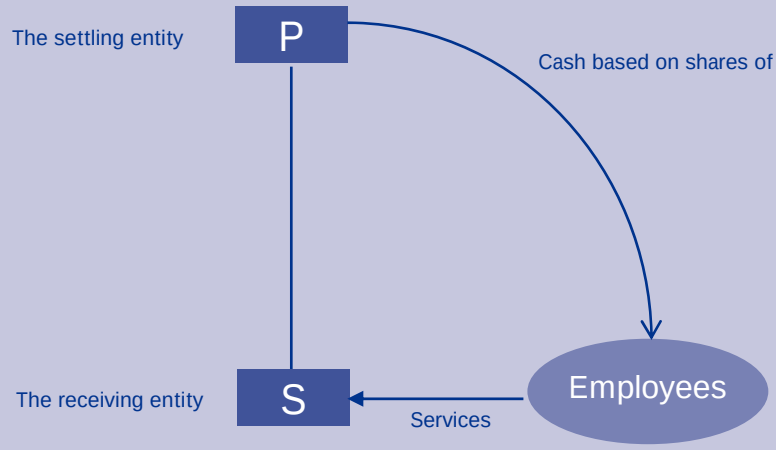
The amendments expand the definition of a share-based payment to bring all group entities' accounts within the scope of the standard for all group awards.

A group share-based payment transaction is now defined as a share-based payment transaction in which the entity receiving the goods or services (receiving entity), the entity settling the obligation (settling entity) and the entity whose equity instruments are granted or whose equity instruments are the underlying measure for a cash payment (reference entity) are in the same group from the perspective of the ultimate parent. This applies to both equity-settled and cash-settled share-based payment transactions. The amendments require both the receiving and settling entities to account for a group share-based payment transaction.

What is the most significant likely effect of the amendment in practice?

In practice, the most significant impact is likely to be on the financial statements of subsidiaries that receive services from its employees when the parent, another group entity, or shareholder, has granted a cash-settled share-based payment. Consider the following example:

Example of a group cash-settled share-based payment:
Parent (P) grants a share-based payment to the employees of subsidiary (S) and has the obligation to settle the payment in cash. The payment is based on the value of the equity instrument of P.



Another consequence of the amendments is that cash payments based on the equity instruments of *any* group entity now meet the definition of a share-based payment transaction (e.g. a subsidiary grants a cash payment to its employees based on the price of its parent's equity instruments). Previously, the definition referred only to equity instruments of the entity.

Once the receiving and settling entities have been identified, classification of the transaction (as equity-settled or cash-settled) is made independently for each entity.

Receiving entity

A receiving entity classifies a group share-based payment transaction as equity-settled when:

- it has an obligation to settle in its own equity instruments; or
- it has no obligation to settle.

In all other cases, a receiving entity classifies a group share-based payment transaction as cash-settled.

This accounting applies irrespective of any intra-group re-charge arrangements.

Application of requirement to the above example:
Before the amendment, S may or may not have accounted for the transaction as a share-based payment, since S is not required to make any payment to the employees, even though it did receive the employees' services.
Once the amendment is applied, in S's financial statements, the transaction will be accounted for as an equity-settled share-based payment transaction since it has no obligation to settle the transaction.

Accordingly, S will record the accounting entry as:
Dr Profit and loss – Employee compensation cost
Cr Equity (Contribution from parent)

Settling entity

A settling entity classifies a group share-based payment transaction as equity-settled if it has the obligation to settle in its own equity instruments. When it has the obligation to settle in cash or other assets (including equity instruments of another group entity), the settling entity will classify the transaction as cash-settled.

Application of requirement to the above example:
In P's separate financial statements, the share-based payment transaction will be accounted for as cash-settled. This is because P has the obligation to settle the transaction in cash. This award will require re-measurement at each period end until the liability is settled.
Accordingly, P will record the accounting entry as:
*Dr Investment in Subsidiary **
Cr Liability for cash-settled share-based payment
* The amendments do not address the debit entry but this is presumably an enhancement in its investment in subsidiary.

In P's consolidated financial statements, the transaction will also be accounted for as cash-settled as the group's obligation is to settle the transaction in cash to the employees that provides the services.
Accordingly, the group's net impact will be:
Dr Profit and loss – Employee compensation cost
Cr Liability for cash-settled share-based payment

Implementation issues that arise from independent classification

The amendments require classification of the transaction as equity-settled or cash-settled to be made independently for each entity. There are a number of implementation issues that arise from independent classification.

Application of requirement to the above example – non-market vesting condition:
In our example above, this results in the transaction being classified as equity-settled in the subsidiary's financial statements, but as cash-settled in the parent's separate as well as consolidated financial statements.

If the condition for the employees to be entitled to the cash-settled share-based payment is a non-market performance condition (for example, meeting certain profit target), then the cost recognised by the subsidiary and the group is different as follows:

- In the subsidiary's financial statements, the cost is based on the grant-date fair-value, whereas
- In the parent's separate as well as consolidated financial statements, the liability is the amount that is ultimately paid.

If the profit target is not met, the subsidiary, the parent and the group ultimately do not recognise any compensation cost.

However, if in our example above, the condition for the employees to be entitled to the cash-settled share-based payment is a market condition (e.g. the requirement for the parent's shares to achieve a set share price) or a non-vesting condition (e.g. a non-compete arrangement), the amounts recognised by the parent and the subsidiary can differ significantly.

Application of requirement to the above example – market vesting condition:
In our example above, if the parent's shares did not achieve a set share price:

- In the subsidiary's financial statements, the subsidiary determines the grant-date fair-value and classifies the award as equity-settled. In the situation where the parent's shares did not achieve the set share price, the subsidiary will continue to recognise compensation cost, because the market condition is not reassessed after the grant date.
- In contrast, in the parent's separate financial statements as well as the consolidated financial statements, no compensation cost is ultimately recognised, because the market condition is not met and the cash is not paid.

Effective date and transitional rules

The amendments to FRS 102 are effective for annual periods beginning on or after 1 January 2010, with earlier application permitted.

The amendments are applied retrospectively and comparatives need to be adjusted.

When the information necessary for retrospective application is not available, the entity reflects in its financial statements the amounts previously recognised in the consolidated financial statements of the group.

Business impact

Previously, there was no specific guidance for the attribution of cash-settled share-based payments to the entity receiving goods or services when that entity had no obligation to settle the transaction. With these amendments, the IASB has confirmed that the entity that receives goods or services in a share-based payment transaction accounts for these goods or services.

However, this accounting treatment differs from the approach taken for employee benefits such as salaries, bonuses and profit-sharing plans. Under the current requirements, an entity that has no obligation to fund payment of the employees for such benefits does not recognise an expense. The amendments do not give any clear indication of the IASB's views on this issue.

Due to the different accounting treatment for share-based employee benefits and non-share-based employee benefits, entities might want to consider the types and structure of employee incentives.

Withdrawal of INT FRS 108 and 111

The guidance contained in INT FRS 108 *Scope of FRS 102* and INT FRS 111 *FRS 102 – Group and Treasury Share Transactions* has been incorporated into the amendments to FRS 102. Accordingly, the interpretations have been withdrawn.

The above discussion covers just some of the many implementation issues that could emerge as a result of the amendments. KPMG's International Standards Group has produced a publication which addresses all of the above issues and many more implementation issues in detail.

First Impressions: Amendments to IFRS 2 – Group Cash-settled Share-based Payment Transactions is available at:

http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/IFRS-interpretive-guidance/Pages/First-Impressions-Amendments-to-IFRS2.aspx

E. International developments

ED/2009/11 *Improvements to IFRSs* 2010

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

The ED proposes 15 amendments to 11 standards. 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 significant influence over an associate or loss of joint control over a jointly controlled entity, then the entire investment would be classified as held for sale.

- IAS 1 *Presentation of Financial Statements* – a reconciliation from the opening to closing balance for *each* component of equity can be presented either in the statement of changes in equity or in the notes.

- IAS 27 *Consolidated and Separate Financial Statements* – impairment testing of investment in subsidiaries, jointly controlled entities and associates in the separate financial statements of the investor (accounted for at cost) should be performed following IAS 39 and not IAS 36.

The IASB and the ASC have invited comments on the ED. The comment periods have closed.

ED/2009/10 *Discount Rate for Employee Benefits – Proposed amendments to IAS 19*

The ED proposed to amend *IAS 19 Employee Benefits* to remove the requirement to use the rate from market yields on government bonds to determine a discount rate when there is no deep market in high quality corporate bonds.

Under the proposals, the discount rate would always be based on market yields on high quality corporate bonds at the end of the reporting period; entities would no longer be required to assess whether a particular corporate bond market is deep.

Both the IASB and the ASC invited comments on the ED and the comment periods are closed.

During the deliberation of the ED in October 2009 IASB meeting, the IASB decided not to proceed with the ED since the comments received raised more complex issues than expected.

ED/2009/13 *Proposed amendment to IFRS 1 First-time Adoption of IFRS – Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*

The proposed amendment aims to provide first-time adopters with the same relief available to those already applying IFRSs when they first apply *Improving Disclosures about Financial Instruments* (Amendments to IFRS 7). Comparative information is not required by the Amendments to IFRS 7 in the first year of application.

IFRS 1 generally requires retrospective application of current IFRS requirements to all periods presented in an entity's first set of IFRS financial statements. Therefore, the ED proposes to provide relief to an entity with a first IFRS reporting period that starts earlier than 1 January 2010 from providing comparative information for the disclosures required by the Amendments to IFRS 7.

The IASB intends to finalise the amendment in time for it to be available for adoption for annual financial periods ending December 2009. Therefore, the IASB has invited comments on this ED by 29 December 2009. In Singapore, the ASC has requested comments by 18 December 2009.

IASC Foundation document *Part 2 of the Constitution Review – Proposals for Enhanced Public Accountability*

The IASC Foundation Constitution issued the Discussion Document (draft DP) on Part 2 of the *Constitution Review: Proposals for Enhanced Public Accountability*. This draft DP aims at enhancing public accountability and stakeholder outreach.

The proposals include:

- enhancing consultation on the IASB's agenda-setting process
- confirming the Trustees' ability to waive normal due process to permit a fast-track procedure for changes to IFRSs in exceptional circumstances
- changing the name of the *IASC Foundation* to the *IFRS Foundation*, and the name of the *IASB* to the *IFRS Board*
- introducing further geographical distribution requirements for Trustees
- reducing the length of any second term for members of the IASB other than the chair and vice-chair.

The IASB and the ASC have invited comments on the draft DP. The comment periods have closed.

For a more detailed update on these, you can access our website at:

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

kpmg.com.sg

Common abbreviations defined

ASC – Accounting Standards Council in Singapore
ACRA – Accounting & Corporate Regulatory Authority
DP – Discussion paper
ED – Exposure Draft
FASB – U.S. Financial Accounting Standards Board
FSP – FASB Staff Position
FRS – Singapore Financial Reporting Standard
GAAP – Generally Accepted Accounting Principles
IAS – International Accounting Standard
IAASB – International Auditing and Assurance Standards Board
IASB – International Accounting Standards Board
IASC – International Accounting Standards Committee
ICPAS – Institute of Certified Public Accountants of Singapore
IFRIC – International Financial Reporting Interpretations Committee
IFRS – International Financial Reporting Standard
INT FRS – Interpretation of Financial Reporting Standard
IRAS – Inland Revenue Authority of Singapore
SGX – Singapore Exchange

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