FINANCIAL REPORTING MATTERS

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In this issue, we compare the requirements of the Charities Accounting Standard against the Singapore Financial Reporting Standards and highlight the potential impact on entities that adopt the new reporting framework. We then describe accounting for the land intensification allowance, introduced in the Singapore Budget Speech 2010, through an example. A tax incentive scheme for mergers and acquisitions is also featured.

Charities Accounting Standard – Are you on the bandwagon?

On 24 June 2011, the ASC issued the Charities Accounting Standard (CAS)
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Why do we need a CAS?

Currently, only charities that are companies limited by guarantee (CLGs) or large Institutions of a Public Character (IPCs) are required to apply FRS in their financial statements. No financial reporting framework has been prescribed for the other charities in Singapore.

In practice, charities that are not CLGs or large IPCs may adopt either FRS or the Statement of Recommended Accounting Practice 6 *Accounting and Reporting by Charities* (RAP 6) as their financial reporting framework. Some charities may even adopt cash basis of accounting. This reduces the comparability of financial statements as well as their effectiveness as a tool to evaluate the stewardship of governing boards and to promote greater transparency amongst charities.

Quite often, FRS is considered unduly complex, especially for smaller charities, which can be quite a significant hurdle for them to apply FRS. In addition, FRS lacks guidance on transactions that are specific to charities, which inevitably creates diversity in accounting practice.

The CAS was developed with the objective of providing charities with an alternative financial reporting framework that is simpler and more relevant to the charity sector, with enhanced disclosures for greater transparency.

Which financial reporting frameworks are applicable to charities?

The applicable financial reporting frameworks are summarised below:

Type of charity	Applicable financial reporting framework
Charities with significant non-charity subsidiaries, associates or joint ventures	FRS
Statutory boards	SB-FRS
Educational institutions	FRS
All other charities	CAS or FRS

The table above is based on the statement of applicability issued by the Office of the Commissioner of Charities. However, both the statement and the CAS do not define "significant" non-charity subsidiaries, associates or joint ventures for scoping purposes. This may create interpretation issues and diversity in practice for charities that have investments in non-charity subsidiaries, associates or joint ventures that are other than insignificant.

How does the CAS affect your financial reporting?

The CAS was developed based on the requirements of FRS, taking into account the context and circumstances relevant to the charity sector.

Key financial impact of adopting CAS includes:

Category	Key differences to FRS
Presentation	a) Statement of financial activities (SOFA) – Replaces statement of comprehensive income and statement of changes in equity b) 3rd balance sheet is not required c) Statement of cash flows – Indirect method
Recognition	d) Donation and grant income is recognised in SOFA when entitlement is established – Potential accounting mismatch
Measurement	e) Revaluation of property, plant and equipment (PPE), intangible assets and investment properties is prohibited f) Impairment assessment for PPE and intangible assets is not required g) Intangible assets (including goodwill) are amortised over useful life of not more than 10 years h) Capitalisation of R&D and borrowing costs is prohibited i) Remove "fair value" concept in measurement of financial instruments
Disclosures	j) Additional disclosures, including loans extended to other parties

Statement of financial activities – Replaces statement of comprehensive income and statement of changes in equity

The CAS requires all charities to present the statement of financial activities, showing income and expenditure by major types of funds (e.g. unrestricted income funds, restricted income funds and endowment funds). Income and expenditure are analysed by type of activity categories, and a clear link between income, expenditure and the type of activity category is required. Transfers between funds are also presented within the SOFA.

FRS 1 requires the statement of comprehensive income and statement of changes in equity to be presented. In the statement of comprehensive income, income may be categorised by nature whilst expenditure may be analysed by nature or function, whichever provides information that is more reliable. Transfers between funds are presented within the statement of changes in equity.

Our observations

The adoption of CAS may result in significantly different presentation formats for income and expenditure. Charities should consider whether existing systems are able to support the categorisation and apportionment of income and expenditure into the various activity categories as required by the CAS.

3rd balance sheet is not required

The CAS does not require a 3rd balance sheet to be presented for the beginning of the comparative period for retrospective application of accounting policies, restatements or reclassifications in the financial statements.

Our observations

The absence of such requirement is expected to reduce the cost of preparing financial statements for charities that are currently applying FRS, especially in light of various new FRSs that will become effective over the next few years.

How does the CAS affect your financial reporting? (Continued)

Under the CAS, cash flows from operating activities are presented using the indirect method. In addition, interest and dividend received or paid are classified as investing or financing activities in the statement of cash flows.

Statement of cash flows – Indirect method

Whilst FRS 7 encourages the use of the direct method, the indirect method is more commonly used in practice. Interest and dividend received or paid are also more commonly classified as investing or financing activities in the charity sector.

Our observations
The adoption of CAS is not expected to result in significant changes to the cash flow presentation format for most charities.

Donation and grant income is recognised in SOFA when entitlement is established – Potential accounting mismatch

The CAS requires all donation and grant income to be recognised in the SOFA when entitlement is established. It is probable that income will be received, and the amount of income can be measured with sufficient reliability. Generally, non-performance related income, including asset-related donations and grant income, is recognised in the SOFA once entitlement exists, which is similar to the recommended practice under RAP 6.

Charities that are currently applying the FRS may have applied government grant accounting by analogy to donation and grant income. If so, donations and grants are recognised when there is reasonable assurance that conditions will be met and amounts will be received. They are then recognised in profit or loss on a systematic basis over the period in which the underlying expenditure is expensed.

Under the CAS and FRS framework, charities generally recognise donations and grants to beneficiaries as expenditure only when a constructive obligation exists, i.e. when a specific commitment has been communicated directly to the beneficiary and any conditions fall outside the control of the giving charity.

Our observations
Charities that adopt the CAS may experience accounting mismatch when they receive asset-related grants, or use restricted income funds to provide donations or grants to beneficiaries with conditions that are within their control. Charities may overcome this potential consequence through enhanced disclosures and analyses of income and grant expenditure by major programs or projects.

Revaluation of PPE, intangible assets and investment properties is prohibited

PPE, intangible assets and investment properties are measured using the cost model under the CAS. Revaluation is prohibited. However, charities are required to disclose the market value of properties when it is significantly different from the carrying amount. The valuation may be performed by the governing board members, employees or officers, and if so, proper disclosure of the fact is required.

FRS permits PPE and intangible assets to be measured using the revaluation model. Similarly, investment properties may be measured at fair value, with changes therein recognised in profit or loss. Entities are encouraged, but are not required, to disclose the fair value of PPE when it is significantly different from the carrying amount.

How does the CAS affect your financial reporting? (Continued)

Our observations

The likely consequences for charities that have previously adopted the revaluation or fair value model are reduced asset and income size. We do not expect this to be a major consideration since size criterion for charities is generally defined by "gross annual receipts", which exclude unrealised gains or losses.

The requirement to disclose market value may be onerous for some charities, especially those that own historic or heritage buildings. The cost/benefit analysis between professional valuations and internal estimations may be difficult. Some charities may go for external valuations to assist their governing board in discharging its duty of public accountability and stewardship.

Impairment assessment for PPE and intangible assets is not required

The CAS does not require impairment assessment for PPE and intangible assets, including goodwill, which are usually used in the furtherance of the charities' objects and are not held for returns.

In contrast, FRS requires an impairment loss to be recognised when an asset's carrying amount exceeds its recoverable amount. Impairment testing is performed for each cash-generating unit, rather than at the individual asset level.

Our observations

The simplified impairment requirements under the CAS will likely bring relief to charities on the otherwise complex impairment calculations required by FRS. Furthermore, charities no longer have to determine cash-generating units for impairment testing, which may be difficult in practice.

Intangible assets (including goodwill) are amortised over their useful life of not more than ten years

The CAS requires all intangible assets, including goodwill, to be amortised over their useful lives of at most ten years. This addresses potential consequential overstatements of intangible assets in the absence of impairment requirements.

FRS 38 requires intangible assets to be amortised over their expected useful lives and prohibits amortisation of goodwill and intangible assets with indefinite useful life. FRS addresses potential overstatement of the latter by requiring impairment testing to be conducted at least annually or when indication of impairment exists.

Our observations

The simplified accounting for intangible assets is expected to have limited impact on charities since they tend not to acquire major intangible assets or enter into business combinations that result in substantial goodwill.

Capitalisation of R&D and borrowing costs is prohibited

The CAS generally requires all R&D and borrowing costs to be recognised as expenditure when they are incurred. Charities no longer have to determine whether capitalisation criteria are met, the amount of eligible costs to be capitalised, or the period of capitalisation, all of which could be judgemental.

Under FRS, costs incurred on internally generated intangible assets during the development phase are capitalised if conditions are met. FRS also requires borrowing costs to be capitalised as cost of producing qualifying assets.

Our observations

Charities adopting the CAS will have significantly higher expenditure if they have properties under construction or are undertaking activities to develop

How does the CAS affect your financial reporting? (Continued)

Our observations - continued
internally generated intangible assets. From a charities' perspective, the benefits of simplified accounting are likely to outweigh the negative impact on SOFA.

Removal of "fair value" concept in measurement of financial instruments

Under the CAS, financial instruments (other than finance lease receivables and payables) are measured at cost on initial recognition, whilst transaction costs are recognised as expenditure as they are incurred. Subsequently, these financial instruments are measured at cost less accumulated impairment losses. Re-measurement to fair value is prohibited. Impairment of these non-equity financial assets is determined based on undiscounted projected future cash flows, excluding unearned interest. Interest is recognised in the SOFA based on contractual rates.

FRS 39 requires all financial instruments to be measured at fair value on initial recognition, and subsequently at amortised cost or fair value, depending on their classification. Transaction costs are generally included in the carrying amount of financial instruments and the calculation of effective interest rate, the basis upon which interest is recognised. Impairment of non-equity financial instruments is determined based on projected future cash flows discounted using the original effective interest rate. Embedded derivatives are also required to be bifurcated, unless conditions are met, and recognised at fair value through profit or loss.

Our observations
Charities are likely to welcome the simplified accounting for financial instruments under the CAS since determining the fair value of financial instruments can be complex and charities may lack the resources needed to handle the complex accounting for hybrid instruments under FRS.

Additional disclosures, including loans extended to other parties

The CAS requires additional disclosures, including:

- **details of loans extended to other parties,** and the loan recipient's relationship with the charity and/or governing board members. This disclosure is required even for charities that have adopted FRS as their applicable financial reporting framework
- **analysis of grant expenditure** by type of programs and recipients, including name of institutional recipient and grant amount
- **details of material commitments,** including amount of outstanding commitments and movements therein
- **details of remuneration and benefits** (including advances and guarantees) to each governing board member and their close family members – negative statement required
- **segmental information** to distinguish key results of the charity from those of its subsidiaries

Our observations
Charities should consider the functionality of their existing systems and establish processes to ensure that such information is completely captured and disclosed in their financial statements.

Additional considerations for charities with investments in subsidiaries, associates or joint ventures

Additional requirements include:

a) Mandatory presentation of separate financial statements (except statement of cash flows)

b) No exemption f rom consolidation or equity accounting
Charities that were previously exempted from consolidation or equity accounting should assess whether it is practicable, and if so the resources

Additional considerations for charities with investments in subsidiaries, associates or joint ventures (Continued)

required, to prepare consolidated or individual financial statements.

c) Impairment of investments in subsidiaries, associates and joint ventures based on excess of carrying amount over share of net assets

d) Accounting for business combinations using the purchase method similar to FRS 103 (2004).
   - Charities that were applying FRS would have prospectively changed their accounting policy from the purchase method to the acquisition method with effect from annual periods beginning on or after 1 July 2009.
   - Such charities, if they choose to adopt the CAS, will have to apply the purchase method to new business combinations that occur after the CAS effective date.
   - These charities should consider how the acquisition method of accounting for business combinations that occurred during the intervening period may affect the comparability and understandability of their financial statements.

e) Control analysis includes "de facto" control.
   - Charities that choose to adopt the CAS may now have control of investees that were not accounted for as subsidiaries previously.
   - When "de facto" control exists, charities should evaluate whether it is practicable to apply the business combination and consolidation requirements retrospectively.

f) Equity accounti ng for jointly controlled entities – proportionate consolidation is prohibited

Effective dates and transitions

The CAS requires retrospective application and provides special exemptions and simplified transitions for first-time adopters. A charity can be a first-time adopter only once. RAP 6 will cease to be available for use by charities once they have adopted their applicable financial reporting framework.

Charities are required to adopt their financial reporting framework by the specified implementation dates as summarised below – early adoption is encouraged.

Applicable framework	Financial periods beginning on or after 1 July 2011	Financial periods beginning on or after 1 January 2015
FRS	CLG or large IPC **with** significant non-charity subsidiaries, associates or JV	Other charities **with** significant non-charity subsidiaries, associates or JV
CAS or FRS	CLG or large IPC **without** significant non-charity subsidiaries, associates or JV	Other charities **without** significant non-charity subsidiaries, associates or JV

Charities are strongly discouraged from changing between FRS and CAS once they have adopted their applicable financial reporting framework, unless there is compelling reason to do so. Charities should adopt a framework that is most suitable to their needs and operations. Charities should also consider change management and resource requirements when deciding whether CAS should be adopted as their applicable financial reporting framework.

Find out more

For more detailed information on the CAS, you can access the ASC website at:
http://www.asc.gov.sg/cas/index.htm

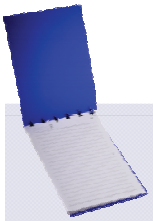
The Office of the Commissioner of Charities has developed an accounting template and related explanatory notes to assist charities prepare their financial statements in accordance with the CAS. These documents are available for download at:
http://www.charities.gov.sg/charity/charity/charityCMSFileDownload.do?id=151
http://www.charities.gov.sg/charity/charity/charityCMSFileDownload.do?id=150

Accounting for the Land Intensification Allowance Incentive

In this section, we discuss the accounting for the Land Intensification Allowance incentive (LIA) introduced in the Budget Speech 2010.

This incentive was introduced to replace the Industrial Building Allowance (IBA), which has been phased out from 23 February 2010.

Details of the LIA incentive were discussed in the June 2011 issue of our Financial Reporting Matters. Businesses that incur capital expenditure on construction, renovation or extension of a building or structure that meets the prescribed criteria must obtain formal approval from EDB in order to claim the LIA.



What are the benefits under the LIA incentive?

The LIA incentive allows businesses to claim the following allowances on their qualifying capital expenditure:

(1) an initial allowance (IA) of 25 percent of the qualifying capital expenditure incurred during the basis period (i.e. the immediate preceding financial year) for the year of assessment (YA); and

(2) an annual allowance (AA) of 5 percent of the qualifying capital expenditure for each YA, provided the following conditions are met:
   a. the construction/renovation/extension works are completed;
   b. the completed building or structure meets the relevant Gross Plot Ratio (GPR) benchmark; and
   c. at least 80 percent of the total floor area of the building or structure is in use by a single user for carrying out the qualifying business.

In this issue, we discuss and illustrate with an example, how an entity accounts for the current and deferred taxes arising from the LIA incentive.

How should an entity account for the current and deferred taxes arising from the LIA incentive?

Under the LIA incentive, the IA and AA for a qualifying LIA building or structure is claimed based on the rate prescribed under the Income Tax Act. Following the prescribed rate, the building or structure that is accounted for under FRS 16 *Property, Plant and Equipment* would usually be depreciated at a faster rate for tax purposes than for accounting purposes.

The acceleration of tax allowances allows qualifying businesses to enjoy the tax allowances in the earlier years. However, in the later years when the tax allowance is fully utilised, businesses would have to pay higher taxes as their accounting depreciation is not tax deductible.

From an accounting perspective, the acceleration of tax allowance merely creates a timing difference on a year to year basis as the total accounting depreciation and tax allowance will eventually be the same at the end of the accounting useful life of the qualifying building or structure.

Acceleration of tax depreciation gives rise to temporary differences

Under FRS 12 *Income Taxes*, the effect of the difference in the depreciation rate for accounting and tax purposes gives rise to taxable temporary differences as the net book value (NBV) of the qualifying building or structure in the financial statements will differ from its tax written down value (TWDV) in the tax return.

Under FRS 12, a deferred tax liability has to be recognised in full for all taxable temporary differences and the amount is calculated by multiplying the temporary differences (the difference between the NBV and the TWDV) with the applicable tax rate.

The example below illustrates the current and deferred tax accounting as discussed above.

Illustrative example

Facts

Company A, with financial year ending on 31 December, receives the approval from EDB under the LIA incentive in January 2X11 to construct an approved building (the "approved LIA building"). It incurs the following capital expenditure to construct the approved LIA building:

Financial year	Capital expenditure incurred ($'000)
2X11	1,000
2X12	3,000
2X13	2,000

The capital expenditure qualifies for tax allowance under the LIA incentive. The construction works are completed in June 2X13. The gross plot ratio (GPR) of the completed building as certified by the architect meets the relevant GPR benchmark prevailing at the date the development application was made to the URA. In 2X13, Company A uses 100 percent of the total floor area of the LIA building for its own business, which is the qualifying activity approved by EDB.

Illustrative example (continued)

For accounting purposes, the capital expenditure is capitalised as building under FRS 16. The amount is stated at cost and is depreciated on a straight-line basis over the building's estimated useful life of 30 years to a residual value of zero. Depreciation of the building commences from the date the building is available for use and this date coincides with the completion of the building in June 2X13. Company A expects to use the building for its own business over the entire useful life of the building. The applicable corporate tax rate is 17 percent.

Analysis

How should Company A account for the current and deferred taxes arising from the LIA incentive?

For tax purposes, Company A claims IA and AA and not the accounting depreciation. Therefore, to arrive at the taxable profit, the accounting depreciation in respect of the approved LIA building is added back to the accounting profit while IA and AA are deducted from the accounting profit.

The adjustments to the accounting profit (please see Table 1, column E, below) and the corresponding current tax asset or liability (please see Table 1, column F, below) that will arise over the accounting useful life of the LIA approved building are as follows:

Table 1

Financial year	(A) Depreciation ($'000)	(B) IA (25%) ($'000)	(C) AA (5%) ($'000)	(D) = (B) + (C) Total allowances claimed ($'000)	(E) = (A) – (D) Adjustment to accounting profit ($'000)	(F) = (E) x 17% Current tax asset/ (liability) ($'000)
2X11	-	250[1]	-	250	(250)	42.5
2X12	-	750[2]	-	750	(750)	127.5
2X13	100[6]	$500[3]	$300[4]	$800	(700)	119
2X14 to 2X27	2,800[7]	-	4,200[5]	$4,200	(1,400)	238
2X28 to 2X43	3,100[8]	-	-	-	3,100	(527)
Total	6,000	1,500	4,500	6,000	-	-

[1] 25% x qualifying capital expenditure incurred in 2X11 of $1,000,000
[2] 25% x qualifying capital expenditure incurred in 2X12 of $3,000,000
[3] 25% x qualifying capital expenditure incurred in 2X13 of $2,000,000
[4] AA commences in 2X13 as all the criteria are met. AA per annum = 5% x total qualifying capital expenditure of $6,000,000 = $300,000
[5] AA per annum of $300,000 x 14 years
[6] Depreciation commences in June 2X13. Depreciation per annum = Total capital expenditure of $6,000,000 / 30 years = $200,000. Depreciation from June to December 2X13 = (Depreciation per annum of $200,000)/ 2
[7] Depreciation per annum of $200,000 x 14 years
[8] Depreciation per annum of $200,000 x 15 years + Depreciation in 2X43 of $200,000/2

As company A can claim IA and AA at a faster rate as compared to the rate for utilising the LIA approved building for accounting purposes, the acceleration of tax allowance creates a timing difference on a year to year basis as the total accounting depreciation (please see Table 1, column A, above) and total tax allowance (please see Table 1, column D, above) are the same over the accounting useful life of the LIA approved building.

This gives rise to taxable temporary differences and deferred liabilities have to be recognised in accordance FRS 12. The temporary differences and the corresponding deferred tax liabilities that will arise over the useful life of the LIA approved building, assuming an applicable tax rate of 17 percent, are as follows:

Illustrative example (continued)

Table 2

		2X11	2X12	2X13	2X14 to 2X27	2X28 to 2X43
		$'000	$'000	$'000	$'000	$'000
Financial statements						
NBV b/f		1,000	4,000	6,000	5,900	3,100
Depreciation		-	-	100	2,800	3,100
NBV c/f	(A)	1,000	4,000	5,900	3,100	-
Tax return						
TWDV b/f		1,000	3,750	5,000	4,200	-
IA and AA		250	750	800	4,200	-
TWDV c/f	(B)	750	3,000	4,200	-	-
Temporary difference	(C) = (A) - (B)	250	1,000	1,700	3,100	-
Deferred tax liability	(C) x 17%	42.5	170	289	527	-

The accounting entries (other than the settlement of current taxes) to record the current and deferred taxes over the useful life of the LIA approved building are illustrated below:

Table 3

Accounting entries	2X11 $'000	2X12 $'000	2X13 $'000	2X14 to 2X27 $'000	2X28 to 2X43 $'000
Dr Current tax liability	42.5	127.5	119	238	
Cr Current tax credit	(42.5)	(127.5)	(119)	(238)	
Dr Current tax expense					527
Cr Current tax liability					(527)
Dr Deferred tax expense[2]	42.5	127.5	119	238	
Cr Deferred tax liability	(42.5)	(127.5)	(119)	(238)	
Dr Deferred tax liability					527
Cr Deferred tax credit[2]					(527)

The current and deferred tax effects recorded in Company A's financial statements arising from the LIA incentive over the useful life of the LIA approved building, will be as follows:

Table 4

	2X11	2X12	2X13	2X14 to 2X27	2X28 to 2X43
	$'000	$'000	$'000	$'000	$'000
Income statement					
Current tax credit/ (expense)	42.5	127.5	119	238	(527)
Deferred tax expense/ (credit)[2]	(42.5)	(127.5)	(119)	(238)	527
Statement of financial position					
Current tax asset/ (liability)[1]	42.5	127.5	119	238	(527)
Deferred tax liability	(42.5)	(170)	(289)	(527)	-

[1] The current tax asset is assumed to be settled in the following financial year.
[2] This amount is the movement in the deferred tax liability calculated in Table 2.

As seen in Table 4, the deferred tax liability builds up over time for the amount of tax allowance in excess of the accounting depreciation during the period 2X11 to 2X27 (i.e. the period where Company A can claim IA and AA at an accelerated rate) and the amount reverses during the period 2X28 to 2X43 when a deductible tax allowance is no longer available.

Illustrative example (continued)

How we can help

This article only focuses on the accounting treatment where the taxpayer (the company) expects to use the building for its own business over the entire useful life of the building and the company is taxed at the corporate tax rate of 17 percent.

When the company intends to sell the approved LIA building, the deferred tax liabilities would be measured based on the company's expected manner of recovery of the building. The deferred tax liability would likely be different from that calculated in the example since there is no tax on capital gains in Singapore, and that LIA previously granted will not be clawed back upon disposal of an approved LIA building. This issue is discussed in our publication Insights into IFRS 3.13.230 - 270. Further information about this publication is available at the bottom of the page.

Furthermore, if an approved LIA building is accounted for using the fair value model under FRS 40 *Investment Property*, the amendments to FRS 12 *Deferred Tax: Recovery of Underlying Assets*, effective for annual periods beginning from 1 January 2012, may change the current way of accounting of deferred taxes for these buildings.

The article on *Deferred Tax on Investment Property Carried at Fair Value* featured in our June 2011 issue of Financial Reporting Matters illustrates with an example the amendments to FRS 12 *Deferred Tax: Recovery of Underlying Assets*.

As a dedicated advisor to our clients, we welcome any opportunity to discuss the relevance of the above matters that may relate to your business.

Find out more

Insights into IFRS 2011/2012 is a publication produced by KPMG International Standards Group.

Insights into IFRS summarises the requirements of IFRSs and provides extensive interpretative and application guidance based on real-life practical questions that arose while working with clients on IFRS issues around the world. It includes many illustrative examples to elaborate or clarify the application of the standards.

The 2011/12 8th Edition of *Insights into IFRS* is based on standards in issue at 1 August 2011 that are mandatory for an annual reporting period beginning on 1 January 2011. It also details the implications of standards and interpretations in issue at 1 August 2011 but not yet effective for annual periods beginning on 1 January 2011 and highlights areas of IFRSs that may change as a result of the ongoing projects of the IASB and IFRIC.

Printed copies of this publication are available at a charge of S$430 (inclusive of GST at the prevailing rate).

Mergers & Acquisitions Scheme

The Merger and Acquisition (M&A) scheme was introduced in the Budget Speech 2010 to encourage Singapore-based companies to consider M&A as a strategy to grow. On 27 June 2011, the Inland Revenue Authority of Singapore (IRAS) issued an e-Tax Guide setting out the details of the scheme. In this section, we highlight the key features of the scheme by way of questions and answers and provide our observations on how companies can benefit from the scheme.

What is the M&A scheme?

The M&A scheme provides companies with tax allowance and stamp duty relief to help these companies defray a portion of the acquisition costs.

Under the scheme, a company (acquiring company) that acquires the ordinary shares of another company (target company) during 1 April 2010 to 31 March 2015 (both dates inclusive) is granted the following:

1. M&A allowance at five percent of the value of the acquisition:
   The M&A allowance is subject to a cap of S$5 million for each year of assessment (YA) for all qualifying M&A deals executed in the basis period for that YA. The allowance is allowed as a deduction against taxable income on a straight-line basis over five years and the claim cannot be deferred.

2. Stamp duty relief :
   The stamp duty relief is subject to a cap of S$200,000 per financial year.

What are the qualifying conditions under the M&A scheme?

The M&A allowance and stamp duty relief under the M&A scheme are given to an acquiring company if the conditions in the following table are met:

No.	Qualifying Criteria
1.	The M&A relates to an acquisition of ordinary shares.
2.	The acquiring company: (a) is incorporated and tax resident in Singapore. If the acquiring company belongs to a corporate group[1], its ultimate holding company must also be incorporated and tax resident in Singapore; (b) is carrying on a trade or business in Singapore[2] on the date of the acquisition of the ordinary shares (acquisition date); (c) has at least three local employees[3] excluding company directors throughout the 12 months prior to the acquisition date; and (d) is not connected[4] to the target company for at least 2 years prior to the acquisition date.

[1] For the purpose of the M&A scheme, a corporate group refers to one comprising two or more companies, each of which is either a holding company or subsidiary of another entity within the group.
[2] This means that the income derived by the acquiring company is chargeable to tax under section 10(1)(a) of the Income Tax Act.
[3] Local employees are Singapore citizens or Singapore permanent residents who and whose employer make CPF contributions.
[4] The acquiring company and the target company are considered to be connected to each other if:
≥ 75% of the ordinary shares of one company is beneficially held, directly or indirectly, by the other; or
≥ 75% of the ordinary shares of each of the two companies is beneficially held, directly or indirectly, by a third company.

What are the qualifying conditions under the M&A scheme? (Continued)

No.	Qualifying Criteria
3.	Where the acquisition is made through a subsidiary[5], the acquiring subsidiary: (a) is incorporated for the primary purpose of acquiring and holding shares in other companies; (b) is directly and wholly-owned by the acquiring company on the acquisition date; (c) does not carry on a trade or business in Singapore or elsewhere on the acquisition date; and (d) does not claim any deduction for M&A allowance or stamp duty relief under the scheme.
4.	The target company or a subsidiary wholly and directly owned by the target company: (a) carries on a trade or business in Singapore or elsewhere on the acquisition date; and (b) has at least three employees working for it for at least 12 months prior to the acquisition date.
5.	The M&A must result in the acquiring company or acquiring subsidiary owning: (a) > 50% of the ordinary shares of the target company if the acquiring company or acquiring subsidiary owns ≤ 50% of the ordinary shares of the target company before the acquisition date; or (b) ≥ 75% of the ordinary shares of the target company if the acquiring company or acquiring subsidiary already owns > 50% (but < 75%) of the ordinary shares of the target company before the acquisition date. <u>Step-acquisition</u> If the ordinary shares of the target company are acquired cumulatively over a period of time (i.e. in a "step-acquisition"), the acquiring company or acquiring subsidiary is allowed to consolidate all acquisitions of ordinary shares of a target company during any of the following periods: (i) the basis period in which the threshold of > 50% or ≥ 75% is met; or (ii) the financial year in which the threshold of > 50% or ≥ 75% is met; or (iii) the 12-month period ending on the date of share acquisition during which the threshold of > 50% or ≥ 75% is met. The above concession relating to step acquisition is available only if the company continues to own > 50% or ≥ 75%, of the ordinary shares of the target company at the end of the basis period or at the end of the financial year.

[5] An acquiring company may acquire the ordinary shares of a target company through a wholly-owned subsidiary that is incorporated for the primary purpose of acquiring and holding shares in other companies (acquiring subsidiary). In such a situation, the M&A allowance and stamp duty relief is granted only to the acquiring company.

The M&A scheme is also extended to a registered business trust (acquiring RBT). The modified conditions applicable to an acquiring RBT can be found in Annex 6 of the IRAS e-Tax Guide "*Income Tax & Stamp Duty: Mergers and Acquisitions Scheme*".

How is the M&A allowance determined?

The **M&A allowance** is equal to five percent of the value of the acquisition. The value of the acquisition is determined as follows:

Purchase consideration[6]	Value of acquisition
Cash	Cash consideration paid
Shares of the acquiring company	Market value (or if unavailable, the net asset value) of the shares of the acquiring company on the acquisition date
Cash and shares of the acquiring company	Sum of the cash paid and the market value (or if unavailable, the net asset value) of the shares of the acquiring company on the acquisition date

[6] The purchase consideration includes contingent consideration. Contingent consideration is the part of the purchase consideration for the share acquisition that is payable only when conditions pre-agreed between the acquiring company and target company are met. Where any contingent consideration is incurred in a basis period subsequent to the basis period in which the qualifying share acquisition took place, the M&A allowance on that contingent consideration is allowed on a straight-line basis over the remaining years of the 5-year write-down period. However, if the contingent consideration is incurred in the last basis period of the 5-year write-down period or later, the M&A allowance on that contingent consideration is allowed fully in the YA relating to the basis period in which the consideration was incurred.

Transaction costs incurred on share acquisition (e.g. valuation and due diligence costs) remain non-tax deductible and are not included in the computation of the M&A allowance.

How is the stamp duty relief determined?

Stamp duty relief is computed based on the higher of:

(i) the amount or value of purchase consideration; or

(ii) net asset value of the ordinary shares of the target company.

The purchase consideration may be satisfied by way of cash or shares of the acquiring company, or a combination of both.

Where the net asset value of the ordinary shares of the target company is higher than the net asset value of acquiring company's share, then stamp duty is computed based on the higher amount.

Can IRAS forfeit the M&A allowance or claw-back the stamp duty relief?

Yes, the M&A allowance can be forfeited and the stamp duty relief can be clawed back following the occurrence of specified trigger events.

The specified trigger events and the resulting consequences following the occurrence of the trigger events are summarised in the table on the next page.

Trigger Event	Scenario	M&A Allowance	Stamp Duty Relief
Divestment	Divestment of shareholding in target company and the initial threshold that resulted in the claim (i.e. > 50% or ≥ 75%, as the case may be, of ordinary shareholding) is not maintained	Ceases to be given with effect from the YA to which the event relates	Claw-back with interest of 6% per annum if the event occurs within 2 years from the acquisition date [7]
Dilution	Dilution of shareholding in target company below 50% ordinary shareholding		
Failure to meet certain conditions during the write-down period	• Acquiring company ceases trade/ business or ceases to have at least 3 local employees; or • Acquiring company (or its ultimate holding company if applicable) ceases to be tax resident in Singapore; or • Acquiring subsidiary carries on trade/ business or ceases to be directly or wholly owned by the acquiring company (holding company), or incurs capital expenditure for which it claims a deduction under the M&A scheme		
Change of shareholders	Substantial change of shareholders of the acquiring company	Ceases to be given with effect from the YA to which the change of shareholders relates. Any unabsorbed M&A allowance is forfeited unless the shareholding continuity test requirement is waived by the Minister	Claw-back with interest of 6% per annum if the substantial change in shareholders occurs within 2 years from the acquisition date [7] unless the shareholding continuity test requirement is waived by the Minister

[7] In the case of a step-acquisition, the stamp duty relief will be clawed back (with interest of 6 percent per annum) if the triggering events occur within 2 years from the date of the last share acquisition.

What is the treatment for unabsorbed M&A allowance?

The M&A scheme is intended to directly benefit a Singapore-based acquiring company which carries on substantive business operations in Singapore and is seeking growth through M&A. Hence, the M&A allowance and stamp duty relief are not available for transfer under the group relief system.

Any unabsorbed M&A allowance is also not available for carry-back to offset the acquiring company's assessable income in the preceding year(s). However, such allowance may be carried forward to offset the acquiring company's future income subject to it meeting the shareholding continuity test.

How to make a claim under the M&A scheme?

The timeframe for filing a claim under the M&A scheme and the documents to be submitted by the acquiring company are summarised on the next page.

Type of claim	M&A allowance	Stamp Duty Relief
Timeframe for filing a claim	At the time of lodgment of the income tax return for the YA relating to the basis period in which the qualifying share acquisition took place	• Within 14 days from date of execution of qualifying acquisition documents if documents are signed in Singapore • Within 30 days of receipt of documents in Singapore if documents are signed overseas
Copy of executed share purchase agreement (if available) or instrument of transfer	√	√
Copy of latest statement of accounts of target company	√	√
Independent valuation report of target company (if incorporated outside Singapore)	√	√
Statutory declaration confirming that the qualifying conditions have been met	√ (declaration by responsible officer of acquiring company)	√ (declaration by advocate, solicitor or responsible officer of acquiring company)
Other documents	Independent professional valuation report of ordinary shares of target company if acquisition is funded by shares of acquiring company whose market value is not readily available, or acquiring company does not wish to determine M&A allowance based on net asset value of its shares (Requirement is waived if acquiring company and target company are not related to each other on acquisition date and value of share acquisition is ≤ S$5 million)	Above statutory declaration to also include confirmation that: • there is no intention of divestment or dilution in shareholding in the target company within 2 years from acquisition date such that the share ownership falls below the required threshold; and • acquiring company is not aware of any events that may result in a substantial change of its ultimate shareholders within 2 years from acquisition date.

How can companies benefit from the scheme?

The M&A allowance cap of S$5 million per YA allows for M&A deals of up to S$100 million per YA. This translates to a tax benefit of up to S$850,000 for all M&A deals executed by a company in one YA, based on the prevailing corporate tax rate of 17 percent.

In addition, based on the stamp duty of 0.2 percent imposed on the transfer of ordinary shares, the cap of S$200,000 allows for transfers of ordinary shares (free of stamp duty) up to a value of S$100 million.

Unlike a capital allowance, the M&A allowance claim cannot be deferred. This means that any M&A allowance that is in excess of the chargeable income for that year constitutes unabsorbed M&A allowance. This amount can be carried forward but will be subject to the shareholding continuity test in the period of claim.

To help defray a portion of the M&A costs, companies contemplating a M&A deal should evaluate the qualifying conditions for the M&A scheme and ensure they can meet the conditions before making a claim for the M&A allowance and stamp duty relief.

They should also ensure that none of the trigger events will occur during the two-year period (to prevent claw-back of stamp duty relief with interest) or five-year write-down period (to prevent forfeiture of M&A allowance).

What is the accounting treatment for the tax benefits under the M&A scheme?

We will be discussing the accounting treatment for the tax benefits under the M&A scheme in the next issue of the Financial Reporting Matters (December 2011).

Other local developments

In this section, we highlight key developments in Singapore legislation and other regulatory developments.

ACRA Matters

ACRA Public Consultation on the review of the Companies Act and the regulatory framework for foreign entities

On 20 June 2011, the Ministry of Finance (MOF) and ACRA jointly invited the public to provide feedback on the *Report of the Steering Committee for Review of the Companies Act* (the Report) and *the Consultation on the Regulatory Framework for Foreign Entities in Singapore*. The review is aimed at ensuring an efficient and transparent corporate regulatory framework that supports Singapore's growth as an international hub for both businesses and investors.

This Report lists 217 recommendations on the key provisions in the Companies Act relating to:

Chapter 1 - directors;

Chapter 2 - shareholders' rights and meetings;

Chapter 3 - shares, debentures, capital maintenance, schemes, compulsory acquisitions and amalgamations;

Chapter 4 - accounts and audit;

Chapter 5 - general company administration; and

Chapter 6 - registration of charges.

An objective of the Steering Committee was to streamline the Companies Act by excluding provisions that are not applicable to all forms of companies incorporated in Singapore. Here are some examples:

- The provisions that govern the winding up of companies will be moved to a new Insolvency Act.
- Specific rules that apply only to listed companies will be moved to the Securities and Futures Act or other legislation, and the Listing Rules.
- The provisions for registration and winding-up of foreign entities will be moved to a new Foreign

Key Recommendations

1. The disclosure requirements under sections 156 and 165 and the duty under section 157(1) to act honestly and use reasonable diligence should be extended to the Chief Executive Officer of a company. (Recommendations 1.25 and 1.26)
2. The current status of "exempt private company" should be abolished. In replacement, a new framework for small companies has been established. (Recommendation 4.4, with details on small companies in various recommendations)
3. The requirement for a separate directors' report should be abolished. (Recommendation 4.15)
4. The amount stated in section 207(9D)(b) used as the threshold to define a "serious offence involving fraud or dishonesty" should be raised from $20,000 to $250,000. (Recommendation 4.22)
5. The components of the accounts in the relevant provisions in the Companies Act should be clarified by referring to the definition of "accounts" contained in the Financial Reporting Standards. (Recommendation 4.35)

ACRA Public Consultation on the review of the Companies Act and the regulatory framework for foreign entities (continued)

6. The determination of whether a company should prepare consolidated accounts should be set by the financial reporting standards and not the Companies Act. (Recommendation 4.38)
7. The definitive register for directors, secretaries and auditors should be kept by ACRA. (Recommendation 5.5a)
8. The memorandum and articles of association should be merged as one document, to be known as the Constitution. (Recommendation 5.6)

The revised Companies Act is not expected to be gazetted before the end of 2011. All stakeholders should watch this space for further developments.

The feedback period of three months closed on 16 September 2011.

You can access this consultation paper at the following address:
http://app.mof.gov.sg/pc_coact_2011.aspx

ACRA launches first handbook for directors in Singapore

ACRA & I: Being an effective director – a book that directors in Singapore can call their own, is now available. This is the first part of ACRA's suite of initiatives to assist directors in understanding their obligations and fulfilling their regulatory responsibilities.

What does it offer?

- It allows directors to better understand their responsibilities and duties
- It serves as a practical hands-on guide for directors in performing their statutory duties and meeting legal and compliance requirements
- It provides real-life examples of non-compliance and lessons learnt
- It addresses offences commonly committed and enforced by ACRA
- It provides step by step guides for electronic online form filings via Bizfile

You can access this handbook at the following address:
http://www.acra.gov.sg/Publications/Guidebook+for+Directors.htm

Singapore Exchange Matters

SGX introduces sustainability reporting guide to support listed companies

"Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs." (Our Common Future, Report of the Brundtland Commission, 1987, Oxford University Press)

In recognition of the increased emphasis on how a business operation could have long term effects on the environment and society, SGX introduced a Sustainability Reporting Guide for its listed companies in late June 2011 that followed the public consultation process. We highlighted it in our December 2010 issue of Financial Reporting Matters.

There are two parts to the Sustainability Reporting Guide:

- **Policy Statement** - describes sustainability reporting and sets out broad principles to guide listed companies in formulating their reporting frameworks; and
- **Guide to Sustainability Reporting for Listed Companies** - sets out answers in response to frequently asked questions from listed companies (the who, what, when, where, why, and how of reporting).

SGX introduces sustainability reporting guide to support listed companies (continued)

This guide helps listed companies take that important first step, extending their reporting on corporate governance to environmental and social aspects of the company's performance.

You can access the Sustainability Reporting Guide at the following address: http://rulebook.sgx.com/net_file_store/new_rulebooks/s/g/SGX_Sustainability_Reporting_Guide_and_Policy_Statement_2011.pdf

How we can help

A sustainability report should provide a balanced, objective and reasonable representation of the sustainability of the reporting company's performance - including both positive and negative aspects of its sustainability scorecard.

The process of assessment, planning and preparation of the report needs to be carefully managed to deliver an ROI against agreed objectives. This provides unique challenges within the firm such as:

- incorporating sustainability issues into strategic goals
- understanding and developing relevant KPIs to report on
- identifying who will be involved in the sustainability reporting process
- analysing potential complexities with the collation and aggregation of data
- verifying data quality is credible and trusted.

KPMG's multi-disciplinary Sustainability Advisory practice can provide insights.

More information can be found at:
http://www.kpmg.com/SG/en/WhatWeDo/Advisory/Sustainability/Pages/default.aspx

SGX Listing Rules amendments (effective from 29 September 2011)

On 14 September 2011, SGX announced amendments to listing rules to strengthen corporate governance practices and foster greater corporate disclosure.

The amendments to Mainboard and Catalist Rules are effective from 29 September 2011. Some of these changes may impact announcements on SGXNET (formerly called MASNET) and annual reports from 29 September 2011.

SGX Listing Rules amendments (effective from 29 September 2011) (continued)

We summarise the key amendments with a focus on those that have disclosure implications.

Amendments having disclosure implications

- **Confirming the suitability of the Chief Financial Officer (CFO)**
  The Audit Committee (AC) is required to assess and provide a negative confirmation on the suitability of the CFO in the prospectus, offering memorandum, introductory document and shareholders' circular. [Rule 610(6)]
- **Confirming the suitability of the appointed auditor**
  When listing on the SGX for the first time, in the annual report every subsequent year, and when a new auditor is appointed, the issuer's directors must confirm that due consideration to the suitability of the auditing firm was exercised and that the issuer has complied with Rules 712 and Rule 715 or 716 in appointing the auditors of the issuer, its subsidiaries and significant associated companies. All auditing firms appointed by the issuer must either be registered with ACRA, an independent oversight body that is accepted by SGX, or a firm that meets SGX's criteria. [Rules 712, 715, 716, 246(14), 1203, 1207(6)(c)]
- **Opining on the adequacy of internal controls**
  In the annual report, the Board, with the concurrence of the AC, is required to opine on the adequacy of the internal controls, addressing financial, operational and compliance risks. [Rule 1207(10)]
- **Disclosing audit fees paid**
  In addition to the current requirement to disclose non-audit fees paid to the auditors, the annual report must disclose the audit fees paid. [Rule 1207 (6)(a)]
- **Unusual conditions in loan agreements involving shareholders and disclosing pledging arrangements**
  An issuer is required to announce loan agreements or issue of debt securities that make reference to control or controlling shareholder interest. Issuers with such loan agreements or debt securities are required to obtain an undertaking from their controlling shareholders to provide notification when share pledging arrangements are entered into such that details of the pledge can be announced by the issuer in SGXNET. [Rules 704(31) and 728]
- **Disclosing information relating to legal representatives (or persons with equivalent authority)**
  Where legal representatives have been appointed with sole powers to represent, exercise rights on behalf of, and enter into binding obligations on behalf of, the issuer or principal subsidiaries, the issuer is required to disclose in the
  - prospectus,
  - offering memorandum,
  - introductory document, and
  - shareholders' circular

  information relating to appointment and the risks relating to their appointment.

  Whenever there are changes to legal representatives, announcements in SGXNET are required. [Rules 610(7) and 704(11)]

Other key amendments

- Under specific circumstances, (E.g. when the issuer is the subject of an investigation of irregularities or other wrongdoing) SGX's approval may be required for appointments of directors, CEOs and chief financial officers (CFOs). [Rule 720].

SGX Listing Rules amendments (effective from 29 September 2011) (continued)

- In the case of cessation of service of directors and key management, such persons must in
  which would ha
  reporting impact
- Unless approved by SGX, no transfer of securities is allowed during a trading suspension. [Rule 729]

Key proposed amendments not implemented

In view of practical problems in implementing some of the proposed rules, here are the key ones that SGX will not be proceeding with.

- **Joint sign-off** by a Singapore-based auditing firm on the issuer's audited accounts when both the issuer's principal operations and its auditors are based in a foreign jurisdiction.
- **The issuer's article of association** must provide that there shall be at least one independent director remaining in office at all times.
- **A Singapore resident independent director to be on the board of overseas principal subsidiaries** Issuers are instead required to have a robust and effective system of internal controls. [Rule 719(1)] Disclosures are also required for issuers to announce whether the board of the issuer has appointed its directors to the board of the overseas principal subsidiaries. The appointment and cessation of such independent directors to the board of these overseas principal subsidiaries are required to be announced on an ongoing basis. [Rule 610(8) and Rule 704(12)].
- **Appointment of governance adviser (GA)**
  SGX retains the flexibility to require a GA on a "when required" basis.

You can access the amendments at the following address:
http://www.sgx.com/wps/wcm/connect/7842fa804853905688ab8ea1bb44abac/09142011_Listing_Rules_Amendments_Strengthen_CorpGov_Annexures.pdf?MOD=AJPERES

SGX proposed rules on general meetings to increase shareholder engagement and to enhance corporate governance

In June 2011, SGX issued a public consultation paper to seek comments on the proposals in relation to rules over general meetings of listed companies governed under both the Mainboard and Catalist Rules; aimed at enhancing shareholders' engagement and corporate governance.

Three key proposals were made:

1. all primary-listed companies to hold their general meetings in Singapore unless prohibited by relevant laws and regulations in the jurisdiction of its incorporation
2. all listed companies to adopt voting by poll; and
3. all listed companies to make prompt disclosure of the results of the polls, including details such as the number of votes for and against each resolution, as well as the number of proxy votes cast.

This is part of the ongoing initiatives led by SGX to strengthen governance amongst the listed companies in Singapore.

The feedback period closed on 17 June 2011.

You can access this consultation paper at the following address:
http://www.sgx.com/wps/wcm/connect/sgx_en/Misc/regulations/PC/Consultation+Paper+on+Proposed+Rule+Changes+on+General+Meetings+to+Increase+Shareholder+Engagement+and+Enhance+Corporate+Governance+Practice

International developments

Defined benefit plans: Amendments to IAS 19 Employee Benefits

On 16 June 2011, the IASB issued an amended version of IAS 19 *Employee Benefits*. The key changes made in the amendments are:

- requiring actuarial gains and losses to be recognised immediately in other comprehensive income, thus
  - removing the corridor method to defer recognition of actuarial gains and losses; and
  - eliminating the ability to recognise all actuarial gains and losses in profit or loss.
- requiring the expected return on plan assets recognised in profit or loss to be calculated based on a rate used to discount the defined benefit obligation; for many entities this change will reduce net profit.
- enhancing the disclosure requirements for defined benefit plans, providing better information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans.
- clarifying areas of diverse application of IAS 19, including the accounting for risk sharing features and the classification of benefits.

The amended version of IAS 19 comes into effect for financial periods beginning on or after 1 January 2013. Early application is permitted.

These amendments generally apply retrospectively. However, there are two exceptions to this application rule.

i) An entity nee d not adjust the carrying amount of assets outside the scope of IAS 19 (such as PPE and inventories) for changes in employee benefit costs that were included in their carrying amount before the date of initial application. The date of initial application is the beginning of the earliest prior period presented in the first financial statements in which the entity adopts the amended IAS 19.

ii) In financial st atements for periods beginning before 1 January 2014, an entity need not present comparative information for the disclosures required about the sensitivity of the defined benefit obligation. This will provide transitional relief for existing IFRS preparers who will need to adopt the amendment before this date.

In Singapore, the ASC has issued the equivalent amendments.

Find out more

First Impressions: Employee Benefits is a publication produced by KPMG International Standards Group.

This publication considers the requirements of the amended IAS 19, and assists entities in understanding what they need to do to apply the standard and investors in understanding what is driving the amended information that they will begin to see, in the second half of 2013 and into 2014.

This publication is available for download at:
http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/first-impressions/Pages/First-impressions-employee-benefits.aspx

Amendments to IAS 1 Presentation of Items of other Comprehensive Income

On 16 June 2011, the IASB issued amendments to IAS 1 *Presentation of Financial Statements*.

The amendments require companies to present separately items of OCI that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. Consequently, an entity that presents items of OCI before related tax effects will also have to allocate the aggregated tax amount between these sections.

The existing requirements that items in OCI and profit or loss could be presented as either a single statement or two consecutive statements is reaffirmed.

The title of the Statement of Comprehensive Income is changed to Statement of Profit or Loss and Other Comprehensive Income. However, an entity is still allowed to use other titles.

The amendments to IAS 1 are effective for financial periods beginning on or after 1 July 2012, and are to be applied retrospectively.

In Singapore, the ASC has issued the equivalent amendments.

ED/2011/2 Improvements to IFRSs

On 22 June 2011, the IASB published Exposure Draft ED/2011/2 *Improvements to IFRSs*. A final *Improvements to IFRSs*, based on the ED, is expected to be published in March 2012. The key proposed amendments to IFRSs are as follows.

IFRS 1 *First-time adoption of IFRSs* :

- to clarify that an entity is required to apply IFRS 1 when the entity's most recent previous annual financial statements did not contain an explicit and unreserved statement of compliance with IFRSs, even if the entity had previously applied IFRS 1 in a reporting period before the period reported in the most recent previous annual financial statements

- to clarify that an entity that capitalised borrowing costs in accordance with its previous GAAP before its date of transition to IFRSs may carry forward without adjustment the amount previously capitalised in the opening statement of financial position at the date of transition. In addition, borrowing costs incurred after the date of transition that relate to qualifying assets under construction at the date of transition should be accounted for in accordance with IAS 23 *Borrowing Costs*.

IAS 1 *Presentation of Financial Statements* :

- to clarify the requirements for additional comparative information presented voluntarily. For example, if an entity presents a third statement of comprehensive income voluntarily, it is not required to present also a third statement of financial position, cash flows and changes in equity

  In addition, except for some minimum disclosures, an entity is no longer required to present related notes to the opening statement of financial position.

IAS 16 *Property, Plant & Equipment* :

- to clarify that servicing equipment should be classified as items of property, plant and equipment when they are used during more than one period. If the servicing equipment is used only during one period, it should be classified as inventory.

ED/2011/2 Improvements to IFRSs (continued)

IAS 32 *Financial Instruments: Presentation* :

- to clarify that the principles of IAS 12 *Income Taxes* should be used in accounting for income taxes relating to distribution to holders of an equity instrument and transaction costs of an equity transaction. In this respect, these income tax consequences will be recognised in equity, consistent with the accounting for the transaction or event itself.

IAS 34 *Interim Financial Reporting* :

- to clarify the requirements in IAS 34 relating to segment information for total assets for each reportable segment. For interim financial statements, total assets for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker; and there has been a material change in the total assets for that segment from the amount disclosed in the last annual financial statements.

The proposed effective date for the amendments is for annual periods beginning on or after 1 January 2013 unless stated otherwise; earlier application would be permitted.

The IASB has invited comments on this ED by 21 October 2011. In Singapore, the ASC issued the equivalent consultation paper and the comment period had closed on 19 August 2011.

ED/2011/4 Investment Entities

On 25 August 2011
Entities.

This ED proposes to amend IFRS 10 *Consolidated Financial Statements* to require investment entities to measure their investments in controlled entities at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments*, rather than consolidating such investments. This measurement exception would not be carried through to a parent of an investment entity that is not itself an investment entity, i.e. the parent is required to consolidate all entities that are controlled through an investment entity.

The proposals include additional disclosures, in addition to those required by IFRS 7 *Financial Instruments: Disclosures*, IFRS 12 *Disclosure of Interests in Other Entities* and IFRS 13 *Fair Value Measurement*. The ED also proposes prospective application, with effects of applying the amendments at the date of adoption recognised as an adjustment to retained earnings at the beginning of that period, i.e. comparatives would not be restated.

Find out more

New on the Horizon: Investment Entities is a publication produced by KPMG International Standards Group.

This publication focuses on proposals to amend IFRS 10 *Consolidated Financial Statements*. The amendments would require qualifying investment entities to account for subsidiaries at fair value through profit or loss. The private equity sector and real estate funds in particular should pay attention to the criteria.

This publication is available for download at:
http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/New-on-the-Horizon/Pages/investment-entities.aspx

ED/2011/4 Investment Entities (continued)

Consequential amendments would be made to IAS 28 (2011) *Investments in Associates and Joint Ventures*, to similarly require investment entities to measure their investments in associates and joint ventures at fair value through profit or loss. Unlike subsidiaries, this measurement exception will be carried through to the parent's consolidated financial statements.

IASB has invited comments on the proposals contained in the ED by 5 January 2012. In Singapore, the ASC issued the equivalent consultation paper and the comment period will close on 28 October 2011.

ED/2011/3 Mandatory Effective Date of IFRS 9

On 4 August 2011, the IASB issued Exposure Draft ED/2011/3 *Mandatory Effective Date of IFRS 9*. IFRS 9 (2009) and IFRS 9 (2010) on *Financial Instruments: Classification & Measurement* as issued by IASB currently are mandatorily effective for annual periods beginning on or after 1 January 2013.

Since the issue of the standard (Phase I) above, IASB has extended its timeline for completion of the remaining phases of the IAS 39 replacement project beyond its previous target of June 2011. Therefore, in order to allow entities adequate lead time to implement the requirements of all phases of the IAS 39 replacement project at the same time, the ED proposes to postpone the mandatory effective date of IFRS 9 (2009) and IFRS 9 (2010) to annual periods beginning on or after 1 January 2015.

IASB has further requested feedback as to whether entities that adopted IFRS 9 for reporting periods beginning before 1 January 2012 should continue to be given exemptions from restating comparative information for prior periods.

IASB has invited comments on the proposals contained in the ED by 21 October 2011. In Singapore, the ASC issued the equivalent consultation paper and the comment period had closed on 26 August 2011.

Request for views on IASB agenda for next three years

On 26 July 2011, the IASB issued a request for views on its agenda setting. The purpose of the Agenda Consultation 2011 is to supplement the IASB's consultation with the IFRS Advisory Council and to obtain input on the IASB's agenda-setting process.

The Agenda Consultation 2011 asks constituents open questions to gather views on the IASB's future work programme. In particular, the IASB is seeking feedback on how it should balance the development of financial reporting with the maintenance of IFRSs by asking questions on:

- what constituents believe should be the IASB's strategic priorities over the next three years
- whether they agree with the proposed IASB approach; and
- how they would balance the categories and the strategic areas of the categories identified by the IASB.

The IASB also is asking for input on how the IASB should prioritise its projects in light of time and resource constraints.

This consultation does not address the three year review cycle of the *IFRS for Small and Medium-sized Entities*; a consultation that will proceed separately from this review.

IASB has invited comments by 30 November 2011. In Singapore, the ASC issued the equivalent consultation paper and the comment period had closed on 16 September 2011.

Find out more

For a more detailed update on these, you can access our website at:
http://www.kpmg.com/SG/en/IssuesAndInsights/Pages/InTheHeadlines.aspx

KPMG Seminar Series
Financial Reporting Standards
2011 Update

Date & Time:
Wed, 19 Oct 2011 (0830 –1730)

Venue:
M Hotel Singapore

Registration Closing Date:
Friday, 5 October 2011

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Fees are inclusive of GST at the prevailing rate, seminar materials, lunch and refreshments.

Information and registration available online at kpmg.com.sg/seminar or scan the above QR code. QR scanner now available at the Apple App Store and Andriod Marketplace.

Please make cheque payable to **KPMG Services Pte Ltd**, 16 Raffles Quay, #22-00 Hong Leong Building, Singapore 048581. KPMG Services Pte Ltd will provide a tax invoice upon clearance of your cheque. Refunds will only be made if written notice is received no later than 5 October 2011. Please inform KPMG Services Pte Ltd of substitution(s) prior to the event date to avoid inconvenience. In circumstances beyond our control, we reserve the right to cancel the event, or make changes to the schedules, venue and speaker(s). Photography, audio, and/or video recording are not permitted during the event unless authorised by KPMG.

Let KPMG help you cut through the complex web of accounting developments. Join our upcoming seminar to gain a comprehensive update on the changes in accounting requirements.

Module 1
This module covers the accounting standards that are effective in calendar year 2011 including:
- revised FRS 24 Related Party Disclosures (2010)
- Improvements to FRSs 2010
- INT FRS 115 Agreements for the Construction of Real Estate
- Amendments to FRS 12 Deferred Tax: Recovery of Underlying Assets
- Classification of Rights Issues (Amendments to FRS 32)
- INT FRS 119 Extinguishing Financial Liabilities with Equity Instruments.

Module 2
Forthcoming changes in accounting requirements will be covered to help you consider the impact on your business and processes. Topics that will be covered include:
- new suite of consolidation and fair value measurement standards
- an update on the revenue recognition and leases projects
- an update on the replacement project for financial instruments accounting.

Who Should Attend
CFOs, Financial Controllers, Accountants and those involved in the preparation and interpretation of financial statements. Users of financial information will also find this seminar beneficial.

Presenters
Reinhard Klemmer, Head of Accounting Advisory Services and the Department of Professional Practice will be joined by Audit Partners and Senior Managers of KPMG in Singapore.

Workshop Details
- Early bird discount of 5% for participants who register before 31 August 2011.
- Certificates of attendance will be awarded upon successful completion of the seminar based on public accountant competency map A1.
- Organisations may enjoy tax deductions of 400% on up to S$400,000 of the training expenditure per year under the enhanced Productivity & Innovation Credit Scheme announced in Singapore Budget 2011.

Common abbreviations

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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