FINANCIAL REPORTING MATTERS

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In this year-end issue, we provide an overview of changes in financial reporting standards and tax changes for 2011. We then look at some examples where the application of FRS 110 could result in changes to the consolidation conclusion. We also look into the future and discuss about the emerging trend of Integrated Reporting. The accounting treatment for the tax allowance and stamp duty relief under the Mergers and Acquisitions Scheme is analysed in detail.

Overview of 2010 Tax Benefits and changes in Financial Reporting Standards (FRSs)

In this section, we summarise the new FRSs that are effective for the first time for a company with an annual period beginning 1 January 2011, as well as recent major tax developments that might impact the current financial period. We have also included FRSs issued but not yet effective for companies to consider the necessary disclosures required in the current financial period, and the impact on subsequent financial periods.

A. New FRSs effective for annual financial periods beginning on 1 January 2011

Revised FRS 24 Related Party Disclosures

Effective: Annual periods beginning from 1 January 2011

Refer to *Financial Reporting Matters* – March 2010 for details

The revised standard refines the definition of a related party and simplifies the disclosure requirements for government-related entities.

The definition of a related party has been amended to remove inconsistencies and to make relationships between two parties symmetrical. Consequently, all entities will need to re-assess their list of related parties as the components could potentially change. This may then necessitate the collection and disclosure of additional information, especially in respect of other investments and roles of individual investors, and key management personnel and their close family members. Additionally, the revised standard now explicitly requires the disclosure of commitments with related parties.

The revised standard provides a partial exemption for government-related entities. The standard still requires disclosures that are important to users of financial statements but eliminates requirements to disclose information that is costly to gather and of less value to users. Disclosure about related parties transactions is only required if they are individually or collectively significant.

Classification of Rights Issues (Amendment to FRS 32)

Effective: Annual periods beginning from 1 February 2010

Refer to *Financial Reporting Matters* – March 2010 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.

Prepayments of a Minimum Funding Requirement (Amendments to INT FRS 114)

Effective: Annual periods beginning from 1 January 2011

Refer to *IFRS Briefing Sheet* – Issue 164 November 2009 for details.

Questions arose as to the appropriate accounting treatment when an entity makes prepayments under minimum funding requirements (MFR) to fund a post employment or other long term defined benefit plans. Under current INT FRS 114 requirements, a prepayment would be recognised as an expense if the entity did not have an unconditional right to a refund of surplus.

Under the amended INT FRS 114, such prepayments of contributions would be recognised as an asset rather than an expense. This is 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.

INT FRS 115 *Agreements for the Construction of Real Estate* (issued together with an Accompanying Note)

Effective: Annual periods beginning from 1 January 2011

Refer to *Financial Reporting Matters* – September 2010 for details

This Interpretation provides guidance on the accounting for revenue arising from agreements for the construction of real estate. The Interpretation establishes that FRS 11 *Construction Contracts* should be applied to agreements for the construction of real estate that meet the definition of a construction contract in accordance with FRS 11.3. These are agreements in terms of which the buyer is able to specify the major structural elements of the design of the real estate before construction begins and/or specify major structural changes once construction is in progress, regardless of whether or not this ability is exercised. If the agreement does not meet the definition of a construction contract, then it is in the scope of FRS 18 *Revenue*.

Revenue arising from agreements for the construction of real estate will be recognised by reference to the stage of completion of the contract activity in accordance with FRS 11 when:

1. the agreement meets the definition of a construction contract in accordance with FRS 11;
2. the agreement is only for the rendering of services in accordance with FRS 18; or
3. the agreement is for the sale of goods but all the recognition criteria of FRS18.14 are met continuously as construction progresses.

In all other cases, revenue is recognised when all of the revenue recognition criteria of FRS18.14 are satisfied.

The Accompanying Note to INT FRS 115 sets out the consensus that a sale of uncompleted residential property in Singapore under the standard sale and purchase agreements (as prescribed in the schedule to the Housing Developers Rules). This would result in the transfer, to the purchasers, of the control and the significant risks and rewards of ownership of the uncompleted property in their current state as construction progresses. Hence revenue on these residential property sales would be recognised by reference to the stage of completion and the progressive payments received when all the other recognition criteria under FRS 18.14 are met continuously as construction progresses. The same applies to mixed developments governed under the same schedule and sold under a progressive payment scheme.

INT FRS 119 *Extinguishing Financial Liabilities with Equity Instruments*

Effective: Annual periods beginning from 1 July 2010

Refer to *Financial Reporting Matters* – March 2010 for details

INT FRS 119 *Extinguishing Financial Liabilities with Equity Instruments* provides guidance on how to account for the extinguishment of a financial liability by issuing 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 with paragraph 41 of FRS 39 *Financial Instruments: Recognition and Measurement.*

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.

Improvements to FRSs 2010

Effective: Annual periods beginning from 1 July 2010 and 1 January 2011

Refer to *Financial Reporting Matters* – December 2010 for details.

Improvements to FRSs for 2010 is the result of the third annual improvement project. It contains 11 amendments to seven FRSs that result in accounting changes for presentation, recognition, measurement or disclosure purposes.

Four of these amendments are effective for annual periods beginning on or after 1 July 2010 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 2011.

Limited Exemption from Comparative FRS 107 Disclosures for First-time Adopters (Amendments to FRS 101)

Effective: Annual periods beginning from 1 July 2010

Refer to *Briefing Sheet* – Issue 170 January 2010 for details.

FRS 101 was amended to provide first-time adopters the same relief from the requirement to provide comparative period disclosures for the information required to be presented by the amendments to FRS 107 *Financial Instruments – Improving Disclosures about Financial Instruments*, as it had to existing FRS reporters. In that way, first-time adopters are not disadvantaged when compared to current FRS reporters.

These amendments to FRS 107 relate to the analysis of financial instruments measured at fair value, in a three-level fair value hierarchy that reflects the significance of the inputs in such fair value measurements.

As a consequence of the amendment to FRS 101, an entity need not provide the disclosures required by the amendments to FRS 107. This is applicable for

- any annual or interim period presented within an annual comparative period ending before 31 December 2009; or
- any statement of financial position as at the beginning of the earliest comparative period is at a date before 31 December 2009.

B. Tax changes affecting business for year ending 31 December 2011

Productivity and Innovation Credit (PIC) scheme

Effective dates:

- The PIC scheme is applicable from Year of Assessment (YA) 2011 to YA 2015.
- The cash payout option is available from YA 2011 to YA 2013.
- The tax deferral option is available for the qualifying expenditure incurred during basis periods from YA 2012 to YA 2015.

Refer to issue 9 of KPMG Tax Alert March 2011 for details.

Refer to *Financial Reporting Matters* – March 2011 for the recommended accounting treatment.

In the Singapore Budget speech 2011, the Minister for Finance announced significant enhancements to the Productivity and Innovation Credit (PIC) Scheme where the enhanced tax deduction or allowance for the same six qualifying activities is increased to an unprecedented level. These activities include acquisition/leasing of prescribed automation equipment, acquisition of intellectual property rights, registration of intellectual property rights, research & development, and training and design.

Specifically, the enhancements cover the following five main areas.

1. The quantum of tax deduction/ allowance is increased to 400% (from 250%) of qualifying expenditure for the first $400,000 (up from $300,000) spent on each qualifying activity.
2. The PIC benefits are now available to R&D carried out overseas provided it is related to an existing trade or business. Under the original scheme, the enhanced deduction only applies to R&D carried out in Singapore.
3. Businesses are allowed to combine the $400,000 expenditure cap per year for YA 2013 to YA 2015 to a new ceiling of $1,200,000 over the three YAs. The combined expenditure cap for YA 2011 and 2012 which is in the original scheme is accordingly increased from $600,000 to $800,000.
4. Cash payout option: The cash payout is increased to $30,000 (up from $21,000) as businesses can opt to receive a non-taxable cash payout of 30% on the first $100,000 of qualifying expenditure. For YA 2011 and 2012, the cash payout can be claimed on the combined cap of $200,000 and accordingly increased to $60,000 (up from $42,000).
5. Tax deferral option: For every dollar of qualifying PIC expenditure incurred in the current financial year, businesses have the option to defer a dollar of tax payable in the current YA. The amount of tax to be deferred would be the lower of tax payable assessed for the current YA and the qualifying PIC expenditure incurred in the current financial year, capped at $100,000. The tax deferred will be due for payment when the first assessment for the following YA is raised. If no tax is due, the tax deferred for the previous YA will be due for payment (to the IRAS), three months after the current financial year end. Businesses would therefore be able to enjoy their PIC benefits one year in advance.

Land Intensification Allowance (LIA)

Effective for:

- Qualifying capital expenditure incurred on or after 23 February 2010 up to date of completion of construction or renovation / extension of approved LIA building can be claimed.
- Approvals for the LIA will be granted from 1 July 2010 to 30 June 2015.

Refer to issue 5 of KPMG Tax Alert February 2011 for additional qualifying conditions and related details.

Administered by the Singapore Economic Development Board, the Land Intensification Allowance (LIA) is an incentive that allows companies to claim for qualifying capital expenditure incurred in the construction of a qualifying building or structure.

An initial allowance (IA) of 25% of qualifying capital expenditure will be granted in the YA relating to the period in which the capital expenditure is incurred, as well as an annual allowance (AA) of 5% of qualifying expenditure. In general, this means that the full cost of a qualifying building or structure may be fully claimed over 15 years under the LIA.

In general, qualifying capital expenditure refers to:

- cost of feasibility studies on the layout of buildings or structures
- design fees
- cost of preparing plans for obtaining approval
- piling, construction and renovation/extension costs
- demolition costs
- legal and professional fees
- stamp duty.

Land Intensification Allowance (LIA) – *(Continued)*

Refer to *Financial Reporting Matters* – September 2011 for the recommended accounting treatment.

A qualifying building or structure has to be built on land that is zoned as Business 1 or 2 (excluding Business 1 or 2 White zones) under the Urban Redevelopment Authority of Singapore (URA) Master Plan as at the date the development application is made to the URA. At least 80% of the total floor area of the approved LIA building or structure must be used by a single user for carrying out the qualifying activity. The building or structure must also meet the Gross Plot Ratio benchmark relevant to the qualifying activities of the single user.

In general, the principal activities of the user of an approved LIA building or structure must fall within specified activities such as food and beverages among others.

Phasing out of Industrial Building Allowance (IBA)

Effective date:

- The IBA would be phased out from 23 February 2010, subject to transitional rules.

It was announced in the Singapore Budget 2010 that the IBA would be phased out. This change signalled a shift in policy for the Singapore Government from encouraging mere industrialisation to a focus on intensifying industrial land use for higher value-add activities.

After 22 February 2010, companies will not qualify for the IBA except for specified scenarios under the transitional rules.

Scenario 1
For purchases of industrial buildings (IB), the purchase cost including legal fees, stamp duties relating to title of building will qualify when either an option to purchase is granted or the agreement to purchase is signed on or before 22 February 2010.

Scenario 2
For construction of a new IB, construction costs that are incurred up to the earlier of date of issue of Temporary Occupation Permit (TOP) or last day of the basis period for YA 2016 will qualify, assuming the following criteria are met:

- when the development application to build the IB is submitted to the URA by 31 December 2010 and
- either an option to purchase is granted or the agreement to purchase/lease is signed or application to bid/buy/lease land is submitted on or before 22 February 2010.

Scenario 3
For extension/alteration/conversion works, construction costs incurred up to the earlier of date of issue of TOP or last day of the basis period for YA 2016 will qualify when a qualified contractor is engaged on or before 22 February 2010 and the development application is submitted to the URA by 31 December 2010. In the case of existing non-IB to be used as IB, construction/purchase/residue of expenditure of the existing building can qualify for the IBA.

Scenario 4
For renovations, costs incurred up to the earlier of either the end of renovation project or the end of the basis period for YA 2016 can qualify, provided a renovation contractor is engaged on or before 22 February 2010. In the case of existing non-IB to be used as IB, construction/purchase/residue of expenditure of existing building can qualify for the IBA.

The Merger & Acquisition Scheme (M&A)

Effective for:

- Qualifying M&A deals executed between 1 April 2010 to 31 March 2015.

Refer to issue 21 of KPMG Tax Alert October 2011for details.

Refer to page 20 of this publication for the recommended accounting treatment.

The Merger & Acquisition (M&A) allowance is granted to the acquiring company in the following manner.

- It is capped at five percent of the value of acquisition (to be claimed over five years on a straight-line basis) subject to a maximum amount of $5 million for each YA. It covers all qualifying acquisitions executed in the basis period for each YA up to an aggregate purchase consideration of $100 million per YA.

- The claim for the M&A allowance cannot be deferred.

Transaction costs such as valuation and due diligence costs cannot be included in the computation of the M&A allowance. Such costs remain as not deductible for taxation purpose.

Stamp duty relief is granted to the acquiring company on any contract or agreement for the sale of equitable interest in ordinary shares or on the transfer documents for acquisition of ordinary shares under an M&A deal. The amount of relief is capped at $200,000 for each financial reporting period.

Foreign Tax Credit (FTC) pooling system

Effective date:

- The new FTC pooling system will take effect from YA 2012

Refer to issue 18 of KPMG Tax Alert August 2011for details.

Where foreign-sourced income has been subjected to tax in the foreign jurisdiction, a Singapore tax-resident taxpayer can claim the foreign tax paid as a tax credit against the Singapore tax payable on that foreign income. The Foreign Tax Credit (FTC) pooling system is capped at the lower of the amount of foreign tax paid or Singapore tax payable on the income computed on a "source-by-source and country-by-country" basis. In other words, any excess of foreign tax paid over the Singapore tax payable on, for instance, interest income, cannot be used to set off against Singapore tax payable on royalty income even if both types of income are derived from the same country.

With effect from YA 2012, Singapore tax-resident taxpayers can elect to pool the foreign taxes paid (including underlying tax in the case of dividends, where applicable) on any foreign income. The amount of FTC claimable would be capped at the lower of total Singapore tax payable on those foreign income and the pooled foreign taxes paid on those foreign income. The pool of foreign income to be included under the FTC pooling system may be varied from year to year.

The pooling system will potentially impact the deferred tax position of a reporting entity. Reporting entities will need to prepare forecasts including the amounts, manner and timing of reversal of temporary differences, and whether it would elect to apply FTC pooling for each source of unremitted foreign-sourced income/ undistributed profits that qualifies for pooling. This excludes those sources whose remittance to Singapore is not probable in the foreseeable future.

Reporting entities will also need to estimate the tax rate that is applicable when temporary differences reverse. In each period the forecast should be updated and the balance of deferred tax should be revised as a change in estimate, if necessary.

C. New FRSs not yet effective for annual financial periods beginning on 1 January 2011

Financial statement preparers should disclose the potential impact of these standards in their 2011 financial statements.

Amendments to FRS 1 – Presentation of Items of Other Comprehensive Income

Effective: Annual periods beginning from 1 July 2012

Refer to *In the Headlines* – Issue 2011/19 for details.

The amendments to FRS 1 enhances the presentation of items of other comprehensive income (OCI) by requiring 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 respectively.

The amendments recommend the use of the title "Statement of Profit or Loss and Other Comprehensive Income" to replace "Statement of Comprehensive Income". However, an entity is still allowed to use other titles that are appropriate.

The amendments to FRS 1 are to be applied retrospectively. Earlier application is permitted.

Amendments to FRS 12 Deferred Tax: Recovery of Underlying Assets

Effective: Annual periods beginning from 1 January 2012

Refer to *Financial Reporting Matters* – June 2011 for details

Amendments to FRS 12 Income Taxes – Deferred Tax: Recovering of Underlying Assets provides an exception to the current measurement principles of deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with FRS 40 *Investment Property*. The exception also applies to investment properties acquired in a business combination accounted for in accordance with FRS 103 *Business Combinations*, provided the acquirer subsequently measure these assets under the fair value model.

In these specified circumstances, the measurement of deferred tax assets and liabilities should reflect a rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely through sale. This presumption is rebutted only if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset.

The amendments to FRS 12 are to be applied retrospectively. Earlier application is permitted.

Revised FRS 19 Employee Benefits

Effective: Annual periods beginning from 1 January 2013

Refer to *In the Headlines* – 2011/20 for details

The revised version of FRS 19 would replace the existing FRS 19 in its entirety. A key change arising from the revised FRS 19 would be that all actuarial gains and losses will now have to be recognised immediately in other comprehensive income. This removes the corridor method to defer recognition of actuarial gains and losses, and eliminates the ability to recognise all actuarial gains and losses in profit or loss.

In addition, the expected return on plan assets recognised in profit or loss will be calculated based on the rate used to discount the defined benefit obligation; for many entities, this change will reduce net profit.

The revised FRS 19 has also introduced enhanced disclosure requirements for defined benefit plans and clarified certain areas of diverse application of FRS 19.

The amendments of revised FRS 19 generally apply retrospectively, with the exception of two areas of transitional provisions. Earlier application is permitted.

Amendments to FRS 101 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters

Effective: Annual periods beginning from 1 July 2011

Refer to *Briefing Sheet* – Issue 228 December 2010 for details.

Severe Hyperinflation
The amendments add an exemption to FRS 1 that an entity can apply at the date of transition to FRSs after being subject to severe hyperinflation. This exemption allows an entity to measure assets and liabilities held before the functional currency normalisation date at fair value and to use that fair value as the deemed cost of those assets and liabilities in the opening FRS statement of financial position.

The functional currency normalisation date is the date when the entity's functional currency no longer has either, or both, of the characteristics of a currency that is subject to severe hyperinflation, or when there is a change in the entity's functional currency to a currency that is not subject to severe hyperinflation.

Removal of Fixed Dates for First-time Adopters
The amendments replace the fixed date of 1 January 2004 in paragraph B2 and D20 of FRS 101 with "the date of transition to FRSs". This allows preparers to apply the derecognition exception and fair value measurement exemption from the date of transition to FRSs since the cost for reconstructing transactions, or recalculating amounts, back to 1 January 2004 would outweigh the benefits.

Amendments to FRS 107 Disclosures – Transfers of Financial Assets

Effective: Annual periods beginning from 1 July 2011

Refer to *Financial Reporting Matters* – June 2011 for details

The amendments to FRS 107 enhance the disclosures required on transferred financial assets that remain on the books (i.e. on-balance sheet exposures). It also introduces new disclosures on transferred financial assets that were derecognised in their entirety, but for which the entity retained some form of continuing involving (i.e. off-balance sheet exposures).

The definition of transferred financial assets in the amendments to FRS 107 scopes in more transferred financial assets transactions into the disclosure requirements.

Entities are not required to provide the new or enhanced disclosures for any period that begins before the date of initial application of the amendments.

Earlier application is permitted.

FRS 110 Consolidated Financial Statements and FRS 27 Separate Financial Statements

Effective: Annual periods beginning from 1 January 2013

Refer to page 12 of this publication for details.

FRS 110 *Consolidated Financial Statements* replaces the existing consolidation requirements under FRS 27 (2009) *Consolidated and Separate Financial Statements* and INT FRS 12 *Consolidation – Special Purpose Entities*. FRS 27 (2009) survives as FRS 27 (2011) *Separate Financial Statements* to carry forward existing accounting and disclosure requirements for separate financial statements.

FRS 110 establishes 'control' as the basis for determining the entities that will be consolidated. A single control model is applied in the assessment for all investees, including special purpose entities that are currently within the scope of INT FRS 12. FRS 110 carries forward the existing consolidation procedures from FRS 27 (2009).

FRS 110 is applied retrospectively with certain transitional provisions, including no changes to historical figures required when there is no change in the control conclusion.

Early adoption is permitted provided that the entire consolidation suite is adopted at the same time. The consolidation suite of standards includes FRS 110 *Consolidated Financial Statements*, FRS 111 *Joint Arrangements*, FRS 112 *Disclosure of Interests in Other Entities*, FRS 27 (2011) *Separate Financial Statements* and FRS 28 (2011) *Investments in Associates and Joint Ventures*.

FRS 111 Joint Arrangements and FRS 28 Investments in Associates and Joint Ventures

Effective: Annual periods beginning from 1 January 2013

Refer to *In the Headlines* – Issue 2011/15 May 2011 for details.

FRS 111 *Joint Arrangements* replaces the existing accounting for joint ventures (now joint arrangements) under FRS 31 *Interests in Joint Ventures* and INT FRS 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. FRS 28 (2011) *Investments in Associates and Joint Ventures* was also issued to make limited amendments to the accounting for associates.

FRS 111 prescribes the accounting for joint arrangements in both consolidated and separate financial statements. Under FRS 111, the type of joint arrangement is determined based on the rights and obligations of the parties to the arrangement, rather than on the structure of the arrangement as currently prescribed by FRS 31.

FRS 111 also requires joint ventures to be accounted for using the equity method under FRS 28 (2011) and removes the existing accounting policy choice of proportionate consolidation under FRS 31.

FRS 28 (2011) now prohibits the retained interest to be remeasured when an investment in associate becomes an investment in joint venture, and vice versa.

FRS 111 is to be applied retrospectively with certain transitional provisions, including specific requirements to simplify restatements. Early adoption is permitted provided that the entire consolidation suite is adopted at the same time.

FRS 112 Disclosure of Interests in Other Entities

Effective: Annual periods beginning from 1 January 2013

Refer to *In the Headlines* – Issue 2011/16 May 2011 for details.

FRS 112 *Disclosure of Interests in Other Entities* integrates the disclosure requirements for all interests held in other entities into a single disclosure standard. The type and extent of disclosure information to be presented are prescribed by the standard, and are consistent across all interests held in subsidiaries, joint arrangements, associates and unconsolidated structured entities. These disclosure requirements prescribed by FRS 112 are also more extensive as compared with those in the respective existing standards.

Early adoption is permitted provided that the entire consolidation suite is adopted at the same time. Reporting entities are encouraged to provide information required by FRS 112 earlier than the effective date. Providing some of the disclosures required by FRS 112 does not compel the entity to comply with all the requirements of FRS 112 or to early adopt the entire consolidation suite.

FRS 113 *Fair Value Measurement*

Effective: Annual periods beginning from 1 January 2013

Refer to *In the Headlines* – Issue 2011/17 May 2011 for details.

FRS 113 *Fair Value Measurement* replaces the fair value measurement guidance contained in individual FRSs with a single source of fair value measurement guidance. FRS 113 does not extend the use of fair value accounting, but provides guidance on how it should be applied where its use is already required or permitted by other standards within FRSs.

To improve consistency of reporting, FRS 113 provides a definition of fair value, establishes a framework for measuring fair value and sets out the disclosure requirements for fair value measurements.

FRS 113 is to be applied prospectively.

D. Recently issued Interpretations not yet adopted in Singapore (as at 30 November 2011)

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

Effective: Annual periods beginning from 1 January 2013

Refer to *In the Headlines* – 2011/33 for details

This Interpretation provides guidance for the accounting of production stripping costs incurred in surface mining activities. Production stripping costs that benefit future periods will be capitalised, if certain criteria are met. These capitalised costs are then depreciated over the life of the identified component of ore body.

This Interpretation also provides guidance for the allocation of costs when the costs of the stripping activity asset and inventory produced are not separately identifiable.

The Interpretation applies prospectively to production stripping costs incurred on or after the beginning of the earliest period presented, with certain transitional adjustments required for existing related asset balances on the books as at the date of transition. Early adoption is permitted.

New FRS 110 Consolidated Financial Statements – Will there be more or less consolidation?

Some constituents might wonder whether the new requirements in IFRS 10 will lead to more consolidation or less. Although that is not possible to quantify, we think the requirements in IFRS 10 will lead to more appropriate consolidation; that is, entities will consolidate investees only when they control them. At the same time, they will consolidate all investees that they truly control.

- IASB

Why did the IASB issue IFRS 10?

The IASB issued the new consolidation standard IFRS 10 *Consolidated Financial Statements* in May 2011. In Singapore, the ASC issued an identical FRS 110 in September 2011. The new standard replaces the current IAS/ FRS 27 *Consolidated and Separate Financial Statements* and SIC/ INT FRS 12 *Consolidation – Special Purpose Entities* and applies to all investees.

Divergence in practice and excessive focus on 'bright lines' provided structuring opportunities

The IASB published IFRS 10 to address observed divergence in practice when entities applied the current IAS 27 and SIC 12, which could lead to different consolidation conclusions. Another criticism of IAS 27 and SIC 12 was that the requirements led to a focus on 'bright lines' and provided structuring opportunities, rather than focusing on the nature of a reporting entity's relationship with the investee.

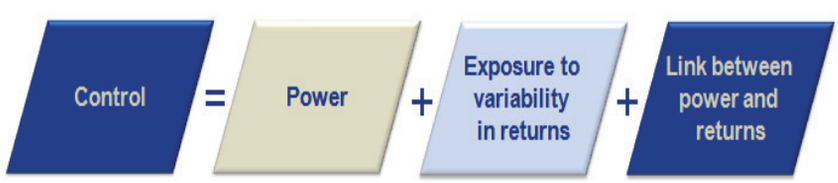
A single consolidation model based on control – including detailed explanations and extensive application guidance

Instead of having different consolidation models – IAS 27 that focuses on control and SIC 12 that focuses on risks and rewards – for different investees, IFRS 10 introduces a single consolidation model that is based on the principle of control to be applied consistently to all investees. IFRS 10 builds on the concepts and principles in IAS 27 and SIC 12, and includes detailed explanations of the control principle. It also includes extensive application guidance that details factors that an entity considers in situations in which control is difficult to assess. The IASB believed that by doing so, IFRS 10 will lead to more appropriate and consistent accounting in those situations.

Overview of the new single control model

Sometimes, the assessment of control is straightforward – the investor holding a majority of the voting rights controls the investee. In other cases, the assessment is more complex and requires a number of factors to be considered.

An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Variable returns extend beyond ownership-type benefits, and include remuneration, fees, tax benefits, economies of scale and cost savings.



To have power, it is necessary for the investor to have existing rights that give it the current ability to direct the activities that significantly affect the investee's returns, i.e. the relevant activities.

We will next look at some examples where the application of FRS 110 could result in changes to the consolidation conclusion. Many of the examples discussed below are taken/modified from the application examples in FRS 110.

De facto control – When no single investor holds more than 50% of the voting rights of an investee

FRS 110 could result in more entities being consolidated by a less-than-majority shareholder since many entities currently assess the ability to control based on a legal or contractual analysis.

Example 1 – De facto control

Company P holds 48% of the voting rights of Company S, with the rest of the voting rights held by thousands of shareholders, none individually holding more than 1% of the voting rights. None of the shareholders have arrangements to consult any of the others or make collective decisions, and co-ordination amongst the other shareholders would not be easy.

Decisions about the relevant activities of the investee require the approval of a majority of votes cast at relevant shareholders' meetings.

Analysis under FRS 27

In our experience, many entities currently assess the ability to control based on a legal or contractual analysis under FRS 27. Accordingly, **P may have concluded that it does not control S** with 48% of the voting rights.

Analysis under FRS 110

Considering the size and dispersion of shareholdings, it is likely that **P has a sufficiently dominant voting interest to meet the power criterion** without the need to consider any other evidence of power.

Even for entities that currently assess control based on de facto circumstances, the change from "how other shareholders vote" to "how many shareholders actually vote" is likely to affect the consolidation conclusion in some cases.

Example 2 – De facto control

Company P holds 35% of the voting rights of Company S, and three other investors each hold 8% of the voting rights in S. The remaining 41% of the voting rights are widely dispersed, with no other shareholder holding more than 1%.

So far, P has been directing the relevant activities of S since a sufficient number of other shareholders had voted in the same way as P.

Decisions about the relevant activities of the investee require the approval of a majority of the votes cast at relevant shareholders' meetings. Seventy five percent of the voting rights have been cast at recent relevant shareholders' meetings.

Analysis under FRS 27

Entities that currently assess the ability to control based on a legal or contractual analysis under FRS 27 may conclude that **P does not control S** with 35% of the voting rights.

Even if an entity assesses the ability to control based on de facto circumstances under FRS 27, in our experience, the current concept of de facto control does not necessarily take into account the number of shareholders that typically come to the meetings to vote, but rather considers **how many other shareholders are expected to vote in the same way as the investor**.

Analysis under FRS 110

In this case, considering the absolute size of P's holding and the relative size of the other shareholdings alone is not conclusive to determine whether P has rights sufficient to give it power.

However, at recent relevant shareholders' meetings, 75% of the voting rights have been cast, i.e. P holds 47% (35/75) of the 'active' voting rights in S. Accordingly, the **active participation of the other shareholders at recent relevant shareholders' meetings** indicates that P does not have the practical ability to direct the relevant activities of S unilaterally. It is thus concluded that **P does not control S.**

Substantive rights vs. protective rights

Protective rights are related to fundamental changes in the activities of an investee or are rights that apply only in exceptional circumstances. As such, it cannot give the holder power and therefore control over the investee.

Example 3 – Substantive rights vs. protective rights

Company A holds 60% of the voting rights of Company Z, and the remaining 40% of the voting rights are held by Company B. Decisions about the relevant activities of Z require the approval of a majority of votes cast at relevant shareholders' meetings.

However, Company B has the ability to block decisions relating to the following activities:
- amendments to Z's constitution
- liquidation of Z or commencement of bankruptcy proceedings
- share issues or repurchases; and
- sale of significant portion of Z's operating assets.

Analysis under FRS 27

Guidance on substantive vs. protective rights does not exist in FRS 27.

In our experience, most would view B's veto rights as 'protective' rights that would not overcome the presumption of control by the majority holder of voting power. Yet, others may conclude that B has sufficient power to block significant decisions of Z and thus A does not control Z.

Analysis under FRS 110

A is likely to control Z.

We expect that B's veto rights over the above activities would meet the definition of protective rights under FRS 110 since they relate to fundamental changes in the activities of Z. Protective rights are not considered in the assessment of power.

Only substantive rights held by the investor and others are considered. To be substantive, rights need to be exercisable when decisions about the relevant activities need to be made, and their holder needs to have a practical ability to exercise the rights.

Example 4 – Substantive rights vs. protective rights

Investment vehicle V is created to purchase a portfolio of real estate assets for capital appreciation, funded by borrowings and equity instruments issued to a large number of investors.

Company M holds 30% of the voting rights of V and is also the asset manager of V. M makes decisions about the acquisition and divestment of assets within portfolio guidelines, the management of portfolio assets, and the debt-equity financing mix to optimise yields.

Company T is the trustee of V and has the ability to veto M's decisions if they are not considered in the best interests of the investors as a whole.

Analysis under FRS 27

Guidance on substantive vs. protective rights does not exist in FRS 27.

Differing views may exist as to how veto rights impact the control assessment. Some may hold the view that M has control over V since T cannot override its power to govern the financial and operating policies of V without cause. Others may conclude otherwise on the basis that T's veto rights are 'participative' rights that give it sufficient power to block significant decisions of V.

Analysis under FRS 110

In certain circumstances, one may conclude that **M does not control V** in the absence of other evidence of power. T's ability to veto M's decisions over the relevant activities of V may be viewed as substantive rights under FRS 110 and is considered in the assessment of power. Such substantive rights can prevent M from controlling V, even if they give T only the current ability to block decisions that relate to the relevant activities of V.

Potential voting rights held by the investor and other parties

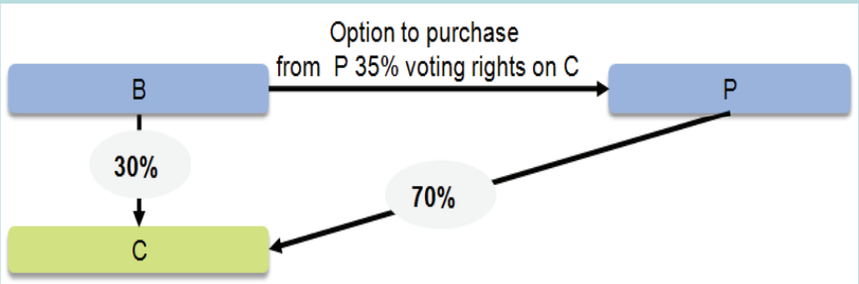
Potential voting rights are considered only if they are substantive, as is the case for all voting rights.

The purpose and design of potential voting rights are considered in the analysis. This includes an assessment of the terms and conditions of such rights as well as the apparent expectations, motives and reasons for agreeing to them. This also implies that the intent of the party who writes or purchases the potential voting rights is considered in assessing whether such rights are substantive.

Determining whether rights are substantive under FRS 110 will require more judgment than determining whether they are currently exercisable under FRS 27.

Example 5 – Potential voting rights

Company B holds 30% of the voting rights of Company C as well as an option to acquire half of Company P's 70% voting rights of C.



The option is exercisable at any time during the next two years at a fixed price that is deeply out of the money and is expected to remain so for that two-year period. P has been exercising its votes and is actively directing the activities of C.

Analysis under FRS 27	Analysis under FRS 110
B is likely to control C. The potential voting rights held by B would be considered since they are **currently exercisable**, unless they lack economic substance, e.g. the price has been set in a manner that precludes exercise or conversion in any feasible scenario.	**P is likely to control C**, because it appears to have the current ability to direct the relevant activities of C. The potential voting rights held by B are **not considered substantive** by the terms and conditions associated with the option. However, a significant change in the 'moneyness' of the options during the two-year period could lead to a conclusion that the options are substantive, which would result in P concluding that it has lost control and B concluding that it has obtained control at that point.

Assess whether there is a link between power and returns – Principal vs. agent

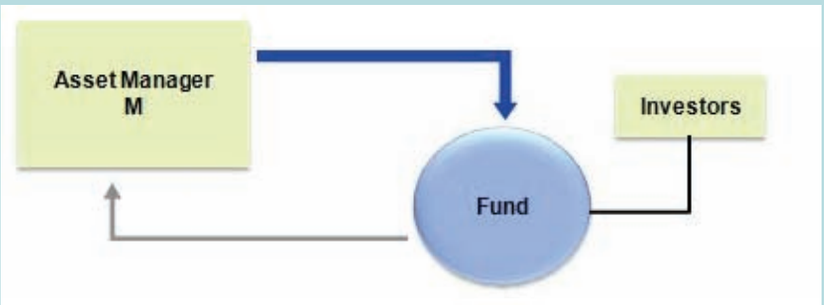
FRS 110 introduces the concept of delegated power. The decision maker needs to assess whether it is acting as a principal or as an agent on behalf of other investors when directing the activities of an investee.

If it has the power to direct the activities of an entity that it manages to generate returns for itself, then it is a principal and it consolidates the investee.

If it is engaged to act on behalf and for the benefit of other parties, then it is an agent and does not control the investee when exercising its decision-making authority.

Example 6 – Principal vs. agent

Fund manager M establishes, markets and manages a fund that provides investment opportunities to a number of investors. M must make decisions in the best interests of all investors and in accordance with the fund's governing agreements, but has wide decision-making discretion.



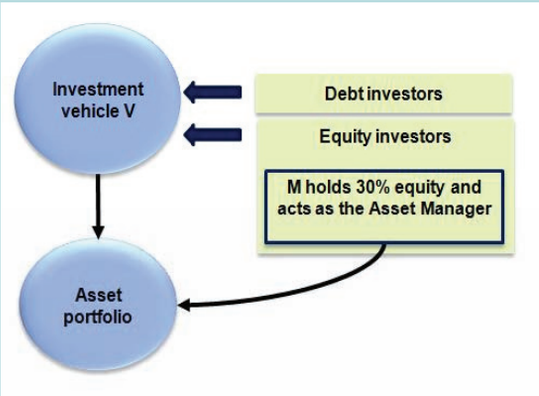
M receives a market-based fee equal to 1% of assets under management and 20% of all of the fund's profits above a 'hurdle rate' if a specified profit level is achieved.

	Principal / Agent analysis
Scenario 6A M has a 2% investment in the fund. The investors can remove the fund manager by a simple majority vote in the event of breach of contract.	M is likely to be an agent as: • the 2% investment increases exposure to variability of returns but the exposure is not sufficient to indicate that M is acting as a principal; and • M's remuneration is at market.
Scenario 6B M has a more substantial pro rata investment in the fund. The investors can remove the fund manager by a simple majority vote in the event of breach of contract.	M is likely to be a principal as: • the removal rights are not considered substantive as they are exercisable only in case of breach of contract; and • the combination of M's remuneration together with its investment could create exposure to variability of returns from the activities of the fund that is of such significance that it indicates that M is principal.
Scenario 6C M has a 20% investment in the fund. The fund has a board of directors, the members of which are independent from M and are appointed by other investors. The board of directors appoints M annually. The services performed by M could be performed by other fund managers in the industry.	M is likely to be agent as the board of directors provides other investors with a mechanism to ensure that they can remove the fund manager, i.e. substantive removal rights exist. The substantive removal rights receive greater emphasis in the analysis. This outweighs the fact that M is exposed to significant exposure to variability of returns due to its combined remuneration and 20% interest in the fund.

Special purpose entities – Change from a risks and rewards model to a control model

For special purpose entities currently within the scope of INT FRS 12, the change from a risks and rewards model to a control model is likely to change the consolidation conclusion in some cases.

Example 7 – Risks and rewards model vs. control model



Investment vehicle V is created to purchase a portfolio of financial assets, funded by debt and equity instruments issued to a number of investors.

Investor M holds 30% of the equity and is also the asset manager managing V's asset portfolio within portfolio guidelines. This management includes decisions about the selection, acquisition and disposal of the assets within those portfolio guidelines and the management upon default of any asset in the portfolio.

Analysis under FRS 27 or INT FRS 12

In practice, there could be differing views on whether V is within the scope of FRS 27 or INT FRS 12.

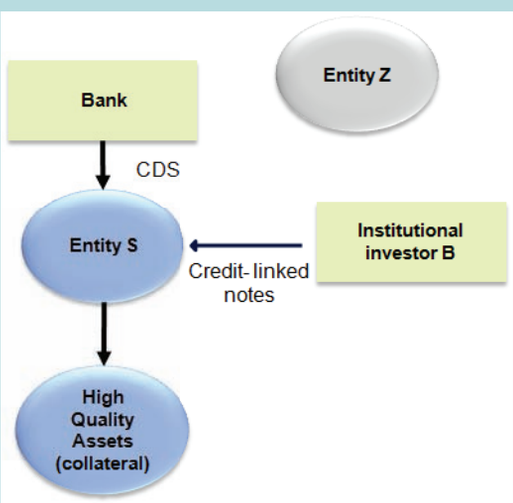
Under **FRS 27**, one would conclude that **M controls V** because it has the power to govern the financial and operating policies of V so as to obtain benefits.

Under **INT FRS 12**, some would conclude that **M does not consolidate V**, based on the fact that M does not bear the *majority* of risks and rewards.

Analysis under FRS 110

The analysis provided under FRS 110 is that **M controls V**, since M has the ability to direct the relevant activities, has rights to variable returns from the performance of the vehicle and the ability to use its power to affect its own returns.

Example 8 – Risks and rewards model vs. control model



Vehicle S is set up to provide institutional investor B with investment opportunities that expose B to Entity Z's credit risk. Z is unrelated to S and B.

S issues notes that are linked to Z's credit risk to B and invests in a portfolio of high quality financial assets. S obtains exposure to Z's credit risk by entering into a credit default swap agreement with a bank in return for a fee from the bank, with the portfolio of assets as collateral.

There are very few, if any, decisions to be made after set up. B does not have the ability to direct activities that significantly affect S's returns.

Analysis under INT FRS 12

The analysis provided under INT FRS 12 is that **B consolidates S.** This is because S was created for the benefit of B and B receives substantially all the returns and is exposed to substantially all the risks of S.

Analysis under FRS 110

The analysis provided under FRS 110 is that **B does not consolidate S.** Although B receives substantially all the returns, and is exposed to substantially all the risks of S, B has no means of managing that exposure or of accessing or directing the net assets of S. B does not have power over S and thus does not control S.

No hierarchy is provided in the model

The approach comprises a series of indicators of control, but no hierarchy is provided.

For example, the standard emphasizes the need to understand the design and purpose of an investee and stresses the need to take into account evidence of power, which are likely to be highly judgmental areas.

Therefore, FRS 110 is likely to be a difficult standard to apply across many sectors and first-time implementation efforts may be significant.

Overall, the investor considers all relevant facts and circumstances and applies judgement when assessing whether it controls an investee.

As a high-level consideration in the analysis, the investor considers the **purpose and design** of the investee, so as to identify:

- the relevant activities
- how decisions about such activities are made
- who has the current ability to direct those activities; and
- who receives returns from those activities.

Special relationships

Sometimes, there will be indications that the investor has a special relationship with the investee, which suggests that the investor has more than a passive interest in the investee. Examples of special relationship that, in combination with other rights, may indicate power, include:

(a) the investee's key management personnel are current or previous employees of the investor

(b) the investee's operations are dependent on the investor, such as funding or specialised knowledge

(c) a significant portion of the investee's activities either involve or are conducted on behalf of the investor; and

(d) the investor's exposure, or rights, to returns from its involvement with the investee is disproportionately greater than its voting rights.

Effective for annual periods beginning on or after 1 January 2013

We expect that preparers will want to begin evaluating their involvement with investees under the new consolidation standard sooner rather than later, considering that changes in the consolidation conclusion under the new standard generally will call for retrospective application.

FRS 110 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted, provided that the entire suite of consolidation standards are adopted at the same time. The standard requires retrospective application when there is a change in the control conclusion and provides simplified transitional provisions in such situations.

Example 9 – Consolidation conclusion changes on adoption

Company A has a 31 December year-end. On adoption of FRS 110 on 1 January 2013, A identifies its investees and evaluates whether it has control over each investee.

From this assessment, A concluded that it has control over investee X, which was previously not consolidated in A's consolidated financial statements.

For investee X, A has to determine the date on which it obtained control, and measure assets, liabilities and non-controlling interests at that date as if acquisition accounting had been applied. A has to consolidate X subsequent to the date of acquisition.

A should consolidate X in its 2013 consolidated financial statements and restate its 2012 comparative information. A should also restate and present the consolidated statement of financial position as at 1 January 2012 (beginning of the earliest comparative period).

Find out more

First Impressions: Consolidated financial statements and *First Impressions: Joint arrangements* are publications produced by KPMG International Standards Group.

These publications include a discussion of the key elements of the new requirements in IFRS 10, IFRS 11 and IFRS 12 and highlight areas that may result in a change of practice. Examples are provided to assist in assessing the impact of implementation.

These publications may be downloaded free of charge at http://www.kpmg.com/global/en/issuesandinsights/articlespublications/first-impressions/pages/default.aspx.

Accounting for tax allowance and stamp duty relief under the Mergers and Acquisitions Scheme

In this section, we discuss the accounting treatment for the tax allowance and stamp duty relief available under the Mergers and Acquisitions Scheme.

The Mergers and Acquisitions (M&A) scheme was introduced in Budget 2010 to encourage Singapore-based companies to consider M&A as a strategy to grow and internationalise. Under the scheme, companies can claim tax allowance and stamp duty relief to defray a portion of the share acquisition costs.

Details of the M&A Scheme were discussed in the September 2011 issue of the Financial Reporting Matters.

Benefits under the M&A Scheme

Benefits under the M&A Scheme

Under the M&A scheme, a company (Acquiring Company) that acquires the ordinary shares of another company (Target Company) during 1 April 2010 to 31 March 2015 (both date inclusive) is granted the following incentives, provided that specified qualifying conditions are met.

- M&A allowance at five percent of the value of the acquisition subject to a cap of S$5 million for each YA. The M&A allowance is allowed as a deduction against taxable income on a straight-line basis over five years from the acquisition date.
- Stamp duty relief is subject to a cap of S$200,000 per financial year.

The Acquiring Company is also eligible for the above incentives if the acquisitions are made through a direct wholly-owned subsidiary that is incorporated for the primary purpose of acquiring and holding shares in other companies (Acquiring Subsidiary).

Unclaimed M&A allowance is forfeited on the occurrence of certain specified triggering events. If the specified triggering events occur within two years from the acquisition date, the stamp duty relief will be clawed back with interest of six percent per annum.

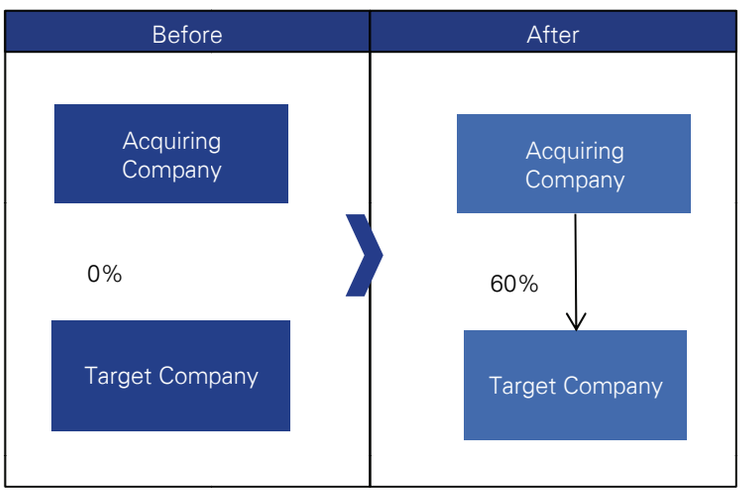
In this issue, we discuss and illustrate with an example, how an entity accounts for the M&A allowance and stamp duty relief when the qualifying share acquisition results in a business combination that is accounted for under FRS 103 *Business Combinations*.

Illustrative example – Business Combination

Facts

The financial year-end for Acquiring Company is 31 December.

On 1 April 20X1, Acquiring Company acquires 60% of the ordinary shares of the Target Company. Prior to the acquisition, Acquiring Company did not own any ordinary shares of the Target Company.



At the date of acquisition (1 April 20X1), Acquiring Company assesses that all qualifying conditions under the M&A scheme are met and events that will trigger the forfeiture of the M&A allowance and the claw back of the stamp duty relief are not probable.

The purchase consideration for the share acquisition, stamp duty payable and the incentives available to Acquiring Company under the M&A scheme are summarised below:

	S$ Million
Value of share acquisition (paid in cash)	100
Stamp duty payable (0.2% x $100M)[1]	0.2
Stamp duty relief (0.2% x $100M)	0.2
M&A allowance to be allowed over 5 years ($100M x 5%)	5 (A)
M&A allowance claim per year ($5M ÷ 5 years)	1 (B)
Tax savings arising from the M&A allowance (A x 17%)	0.85
Tax savings arising from the M&A allowance per year	0.17

[1] Stamp duty is calculated based on 0.2% of the purchase consideration or net asset value of the ordinary shares of the Target Company acquired, whichever is higher.

Consolidated financial statements

At the date of acquisition, Acquiring Company obtains control over Target Company. The acquisition is accounted for as a business combination under FRS 103.

Consolidated financial statements (continued)

The fair value of the net identifiable assets of Target Company is $150M. Target Company only has one class of equity instrument - ordinary shares. The ordinary shares entitle the holders to a proportionate share of Target Company's net assets on liquidation.

Acquiring Company chooses to recognise the non-controlling interest (NCI) in Target Company at the NCI's share of the fair value of the net identifiable assets of Target Company.

Goodwill arising from the acquisition is $10M {($100M + 40% x $150M) - $150M}.

Stamp duty is a transaction cost arising from the share acquisition. Under FRS 103, this amount is recorded in profit or loss in the consolidated financial statements.

The accounting entry recorded by Acquiring Company for the business combination is as follows:

	Debit S$ Million	Credit S$ Million
Dr Goodwill	10	
Dr Net identifiable assets acquired	150	
Dr Transaction cost (profit or loss)	0.2	
Cr NCI (40% x $150M)		60
Cr Cash		100
Cr Stamp duty payable[2]		0.2

[2] Once the share acquisition document is executed (signed), stamp duty must be paid within 14 days from the date of execution if the document is signed in Singapore; within 30 days of its receipt in Singapore if the document is signed overseas.

Separate financial statements

In the separate financial statements, the share acquisition is recorded as an investment in subsidiary. Acquiring Company accounts for the investment at cost less impairment. The cost of investment includes the acquisition cost and the stamp duty - $100.2M.

The accounting entry recorded by Acquiring Company is as follows:

	Debit S$ Million	Credit S$ Million
Dr Investment in subsidiary	100.2	
Cr Cash		100
Cr Stamp duty payable		0.2

Question

How should Acquiring Company account for the M&A allowance and the stamp duty relief in its consolidated and separate financial statements?

Analysis – M&A allowance

The M&A allowance could be regarded as an investment tax credit (ITC) on the basis that the allowance is available as a deduction against taxable income only if the Acquiring Company makes a qualifying share acquisition.

The accounting for ITC is, however, not directly addressed in FRSs. In practice, ITCs are generally accounted for using either FRS 12 *Income Taxes* or FRS 20 *Accounting for Government Grants and Disclosure of Government Assistance* by analogy.

The Acquiring Company may apply either FRS 12 or FRS 20 to account for the M&A allowance, depending on management's assessment of the approach that best reflects the economic substance of the tax incentive. Factors that might be considered in this assessment include:

Factors to consider	Comments
Are there conditions attached to the benefits available under the tax incentive scheme?	Generally, when conditions are attached, applying FRS 20 will be more appropriate.
Does the tax incentive scheme involve the receipt of cash (or tax credit refundable in cash)?	Generally, when cash or tax is refundable, applying FRS 20 will be more appropriate.
Is the utilisation of the tax benefits under the tax incentive scheme dependent on current or future taxable profits?	If the utilisation of the tax benefits is dependent on current or future taxable income, applying FRS 12 will be more appropriate.

The two possible accounting treatments are outlined below:

i) Applying FRS 12 by analogy

- The M&A allowance is presented in profit or loss as a deduction from current tax expense to the extent that an entity is entitled to claim the credit in the current reporting period.
- Any unused M&A allowance is recognised as a deferred tax asset and income if it meets the recognition criteria.

ii) Applying FRS 20 by analogy

- The M&A allowance is recognised as a receivable from the government when there is reasonable assurance that the Acquiring Company will comply with the conditions under the M&A Scheme and the M&A allowance will be received.

Analysis – M&A allowance (continued)

- In both the consolidated and separate financial statements, the allowance could be viewed as a grant relating to the acquisition of a long-term asset (grant related to asset). In the statement of financial position, the corresponding credit may be initially deducted from the acquisition cost (net presentation), or presented separately as deferred income (gross presentation). The chosen presentation format should be applied consistently to all government grants related to assets.

- The grant is subsequently recognised as income during the periods in which the residual (i.e. goodwill in the consolidated financial statements) or the investment (for separate financial statements) affects profit or loss. This would usually be the case when the goodwill in the consolidated financial statements or the underlying investment in the separate financial statements is impaired or the business acquired is disposed of.

- Where the gross presentation format in the statement of financial position is used, the amount recognised in the profit or loss subsequently can be presented either as "other income" or deduction from the related expenses. The chosen presentation format should be applied consistently to the presentation of such grants.

The accounting entries to record the M&A allowance as at 31 December 20X1 are illustrated below:

	Consolidated financial statements		Separate financial statements	
	FRS 12	FRS 20	FRS 12	FRS 20
Recognition of M&A allowance as government grant		Dr Government grant receivable $0.85M[3] Cr Goodwill or deferred income $0.85M		Dr Government grant receivable $0.85M[3] Cr Investment in subsidiary or deferred income $0.85M
Recognition on entitlement to claim the M&A allowance	Dr Current tax liability $0.17M Cr Current tax credit $0.17M	Dr Current tax liability $0.17M Cr Government grant receivable $0.17M	Dr Current tax liability $0.17M Cr Current tax credit $0.17M	Dr Current tax liability $0.17M Cr Government grant receivable $0.17M
Recognition of unused M&A allowance	Dr Deferred tax asset $0.68M[4] Cr Deferred tax credit $0.68M		Dr Deferred tax asset $0.68M[4] Cr Deferred tax credit $0.68M	

[3] M&A allowance is recognised when there is reasonable assurance that Acquiring Company will comply with the conditions in the M&A Scheme and the M&A allowance will be received (FRS 20.8).

[4] Deferred tax asset is recognised only to the extent that it is probable that future taxable profit will be available against which the unused M&A allowance can be utilised (FRS 12.34).

Analysis – Stamp duty relief

FRS 20 defines government grants as assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity.

Although government grants generally involves the transfer of cash from the government to the entity, we believe that a waiver of expenses (e.g. a liability for taxes) is also in substance a transfer of resources from the government.

The stamp duty relief meets the definition of a government grant under FRS 20 as it is in the form of a waiver of stamp duty that would otherwise be payable to the government. Furthermore, the waiver is contingent on the Acquiring Company complying with the specified conditions under the M&A Scheme.

Analysis – Stamp duty relief (continued)

The accounting treatment under FRS 20 is outlined below:

- The stamp duty relief is recognised as a receivable from the government when there is reasonable assurance that the Acquiring Company will comply with the conditions under the M&A Scheme and the stamp duty relief will be received.

Consolidated financial statements

- In the consolidated financial statements, the grant does not relate to the acquisition of a long-term asset as the related cost that the grant is intended to compensate (i.e. the stamp duty) is recognised in the profit or loss. Therefore, in the consolidated financial statements, this is a grant related to income.

- The corresponding credit is recognised in the profit or loss as "other income" or as a deduction against the related cost in the same period when stamp duty is recognised as an expense in the profit or loss. The chosen presentation format should be applied consistently to the presentation of such grants.

Separate financial statements

- In the separate financial statements, stamp duty is capitalised as part of the cost of investment in subsidiary. Therefore, the relief could be viewed as a grant relating to the acquisition of a long-term asset (grant related to asset). In which case, the accounting treatment is similar to that discussed in accounting for M&A allowance under accounting treatment ii) applying FRS 20 by analogy.

The accounting entries to record the stamp duty relief as at 31 December 20X1 are illustrated below:

	Consolidated financial statements	Separate financial statements
Recognition of stamp duty relief as government grant	Dr Government grant receivable $0.2M Cr Other income or transaction cost $0.2M	Dr Government grant receivable $0.2M Cr Investment in subsidiary or deferred income $0.2M
Recognition on entitlement to claim the stamp duty relief	Dr Stamp duty payable $0.2M Cr Government grant receivable $0.2M	Dr Stamp duty payable $0.2M Cr Government grant receivable $0.2M

The amounts recorded for this transaction as at 31 December 20X1 would be as follows:

	Consolidated financial statements		Separate financial statements	
	M&A allowance accounted for under FRS 12	M&A allowance accounted for under FRS 20	M&A Allowance accounted for under FRS 12	M&A Allowance accounted for under FRS 20
	$'000	$'000	$'000	$'000
Income statement				
Transaction cost - Stamp duty	(200)	(200)	-	-
Government grant income[5]	200	200	-	-
Profit before tax	-	-	-	-
Current tax credit[6]	170	-	170	-
Deferred tax credit	680	-	680	
Income tax credit	850	-	850	-
Profit after tax	**850**	**-**	**850**	**-**
Statement of financial position				
Goodwill	10,000	9,150[7]	-	-
Net identifiable assets of Target Company	150,000	150,000	-	-
Investment in subsidiary	-	-	100,000[7]	99,150[7]
Government grant receivable	-	680	-	680
Deferred tax asset	680	-	680	-
Current tax liability[6]	170	170	170	170
Cash	(100,000)	(100,000)	(100,000)	(100,000)
NCI	(60,000)	(60,000)	-	-
Retained earnings	(850)	-	(850)	-

[5] The government grant income relates to the stamp duty relief. This can be presented either as other income or a reduction in transaction cost.

[6] The treatment assumes that there are sufficient taxable profits to utilise current year's M&A allowance claim.

[7] The government grant is presented as a reduction in the share acquisition cost. Alternatively, the grant can be presented as deferred income.

Future Now: Integrated Reporting

In this section, we discuss a new trend emerging in reporting called 'Integrated Reporting'; what it means and how companies may capitalise on its value.

A. Integrated Reporting: A Strategic Approach to Corporate Disclosure

Although we have witnessed a significant shift by many companies on how they report their non-financial performance, Singapore has a long way to go.

In the last decade, we have witnessed a significant shift by many companies on how they report their non-financial performance. Companies have become much more proactive in managing and communicating environmental, social and governance issues. This trend is often referred to as 'Sustainability' and performance is communicated through sustainability reports which appear as stand-alone documents or as a dedicated section in the annual report.

The recent *KPMG Survey of Corporate Responsibility Reporting 2011* assessed the reporting of over 3,400 companies globally. The results showed that report penetration amongst the biggest 100 companies in 34 countries was 100% in the United Kingdom and over 90% in Japan, South Africa, France and Denmark. This figure was only 43% in Singapore. As we delve further into the quality of reports, that figure is arguably much lower.

One of the main issues that has arisen, as sustainability systems and reporting have developed and matured, is that the scale of reports has also increased to what many believe is an unmanageable level. The latest call from numerous stakeholders is to ensure that sustainability and financial reporting are better aligned to more fully demonstrate the linkages between sustainability and business performance and value. Their ultimate aim is for companies to produce 'Integrated Reports' and deliver corporate disclosure and communications that are more strategic, concise and highlight the interdependencies between financial and non-financial performance factors.

This push toward Integrated Reporting (IR) extends beyond the moral and ethical implications of being a good corporate citizen; sustainability makes business sense and is having an increasing impact on a company's ability to operate and generate a profit. The King Code of Governance for South Africa 2009, the only country where IR is mandatory, states that the market capitalisation of a listed company equals its economic value and not its book value. It further implies that any investor buying a share on any stock exchange should make an assessment based on this wider notion of economic value. The current format of most Annual Reports only provide a snapshot of the financial position of an organisation at a given moment in time, whereas the informed investor also assesses the quality of the company's risk management and whether it has considered all sustainability issues pertinent to its business .

"The assessment considers the value of matters not accounted for, such as future earnings, brand, goodwill, the quality of its board and management, reputation, strategy and other sustainability aspects."

The International Integrated Reporting Committee (IIRC), which came together in 2010, is the main catalyst for Integrated Reporting, and is a collaboration of prominent influencers. Established by the Princes Trust in the United Kingdom, it has brought together world leaders from the corporate, investment, accounting, securities, regulatory, academic, standard setting and civil society sectors to develop an alternative reporting approach.

Alongside this initiative, institutional investors, fund managers, analysts, and other capital markets participants, who underpin their investment decisions with detailed modelling, are also becoming actively involved in the journey towards Integrated Reporting. Legislators and regulators, business commentators, investor associations and other stakeholders influencing businesses' reputations and licences to operate are also increasingly interested and see value in a more balanced set of corporate metrics.

To provide the 'feedstock' for these models, and other aspects of the decision-making processes, IR recognises six capitals (see below) and the need for the right information to be delivered in the right format at the right time and with content that the markets believe in. Ultimately the aim of IR is about credible communication to relevant stakeholders, and especially the markets. It is that simple – and of course, that complex.

The six capitals

The six capitals are

- Financial capital
- Manufactured capital
- Human capital
- Intellectual capital
- Natural capital
- Social capital

What is IR?

So how is IR different than what is already expressed in traditional financial reporting and emerging sustainability reporting frameworks? Does "integration" simply mean combining both reports into one?

Integrated Reporting offers the opportunity to centre business reporting on strategy and value creation, to demonstrate how the business uses capital and the extent to which they should continue to be invested in both their business and their communities. In order to help users and preparers understand how IR differs from traditional corporate reporting, the IIRC also has contrasted eight differences between current and Integrated Reporting. A key aspect of Integrated Reporting is that it addresses those resources, our so-called '6 capitals', which the business consumes and creates. These differences are illustrated below:

Features of Integrated Reporting	Current Reporting	Future Oriented Integrated Reporting
▪ Trust	Narrow disclosures	Greater transparency
▪ Stewardship	Financial Capital	All 6 forms of capital
▪ Thinking	Isolated and siloed	Integrated and connected
▪ Focus	Past, financial	Past, present and future; interdependent and strategic
▪ Time Frame	Short term	Short, medium and long term
▪ Adaptive	Rule bound	Principles and rules based; but responsive to individual circumstances
▪ Concise	Long, disconnected and complex	Concise and material
▪ Technology Enabled	Paper based	Technology enabled

How do we do it?

Businesses can take immediate steps to begin realising these potential benefits by making business reporting-based improvements to their existing reports and evolving to a more comprehensive reporting strategy over time:

- linking the strategic and interpretive material in the narrative reporting to information in the financial statements can achieve greater clarity and provide consistency over time and across sectors
- reporting on the complete picture of the risk exposure for the business (including sustainability risks such as climate change, labour, occupational health and safety, etc)
- undertaking diagnostic analysis of existing financial reports and supplementary capital markets communications, sustainability reports and report automation
- using this analysis to develop a fit-for-purpose reporting strategy focused on improving the basis for capital allocation, streamlining reporting processes, reducing reporting costs and improving organisational clarity as to the business strategy and business model.

IR is in its early stages and is still under development. Whilst there is no standard format at present, this will emerge over time. The five Guiding Principles in preparation of an IR are strategic focus; connectivity of information; future orientation; responsiveness and stakeholder inclusiveness; and conciseness, reliability and materiality. Following a principles based approach, those companies, or any organisation, willing to experiment and innovate have the most to gain.

International developments

ED/2011/5 Proposed Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards: Government Loans*

On 20 October 2011, the IASB published an exposure draft that proposes to introduce an additional exception to the retrospective application requirements of IFRS 1 with respect to the application of IAS 20 and IAS 39 to government loans with below-market rates of interest.

Under the existing IAS 20, government loans with below-market rates of interest are required to be measured at fair value upon initial recognition in accordance with IAS 39, and that the benefit of the reduced interest should be accounted for as a government grant using IAS 20.

The exposure draft proposes that first-time adopters would only be required to apply these requirements in IAS 20 and IAS 39 prospectively to loans entered on or after the date of transition to IFRSs, unless the information needed to apply these requirements to a government loan as a result of a past transaction was obtained at the time of initially accounting for that loan.

The proposed effective date of the amendment is for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

In Singapore, the ASC has issued the equivalent proposals. The comment period has closed.

ED/2011/6 Revenue from Contracts with Customers

On 14 November 2011 the International Accounting Standards Board (IASB) issued the Exposure Draft ED/2011/6 Revenue from Contracts with Customers. This ED sets out a revised version of the proposals included in the ED of the same name published in 2010.

The ED proposes a single principles-based revenue model that would apply to all contracts with customers. The ED retains the 5-step approach to revenue recognition and the focus on the transfer of control of goods and services to customers. Revenue is recognised as performance obligations are satisfied, which may occur over time or at a point in time.

Key differences from the 2010 proposals include:

- new criteria to determine when revenue should be recognised over time and clarify how these criteria apply to construction and service contracts
- present credit losses as a separate line item adjacent to revenue, instead of adjusting revenue for expected losses
- transaction price is determined based on the probability-weighted amount or the most likely amount of variable consideration, whichever has the more predictive value
- constrain the cumulative amount of revenue recognised to the amount that the entity is reasonably assured to be entitled to receive
- limit onerous test to performance obligations that are satisfied over time and over a period greater than one year.

The effective date of the new standard will not be earlier than 1 January 2015. The ED proposes retrospective application with limited reliefs and permits early adoption.

In Singapore, the ASC has issued the equivalent proposals. The comment period will close on 13 February 2012.

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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