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FINANCIAL REPORTING MATTERS

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The Accounting and Corporate Regulatory Authority (ACRA) has stepped up efforts in reviewing financial statements to monitor compliance with the Companies Act and Singapore Financial Reporting Standards. Directors who are legally responsible for the preparation of financial statements are personally answerable to all breaches identified by ACRA under the Financial Reporting Surveillance Programme.

What should directors do to effectively discharge their legal responsibilities under the Companies Act? What happens when directors fail to fulfil their responsibilities? We help answer these questions in this issue.

On 29 May 2014, the Accounting Standards Council (ASC) announced that Singapore-incorporated companies listed on the Singapore Exchange (SGX) will apply a new financial reporting framework identical to the International Financial Reporting Standards from 2018. What are the opportunities and the challenges? Read this section to find out more.

A new global standard on revenue recognition published by the IASB and the FASB may have a significant impact on the headline revenues of companies offering bundled products and services, or whose long-term construction projects span more than one year. Read this section to find out which industries may be most impacted.

On the international front, the final version of the new accounting standard for financial instruments IFRS 9 is expected to be issued in 2014 and full convergence on lease accounting under IFRS and US GAAP seems unlikely after the IASB and FASB disagreed on key aspects of the proposals. Read the section on International developments to find out more.

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1. Financial Reporting Surveillance Programme Targets Company Directors

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The Financial Reporting Surveillance Programme introduced by ACRA in 2011 targets enforcement on company directors who fail to prepare the financial statements in accordance with the spirit of the accounting standards and other financial reporting requirements under the Companies Act.

Directors are personally answerable to all breaches and have to ensure that these breaches are rectified on a timely manner as prescribed by ACRA.

The FRSP covers both listed companies and private companies. In the event where regulatory sanctions have been imposed on a director of a listed company, the listed company may have to make the necessary announcement if it is considered material information.

Any regulatory sanctions imposed on directors could cause significant reputational impact for the individuals and may raise concerns about their ability to effectively discharge their legal duties to serve on the boards of larger public interest companies.

What is the Financial Reporting Surveillance Programme (FRSP)?

Currently, regulators in many developed capital markets such as the US, Europe and Australia have similar financial reporting surveillance programmes in place to monitor compliance with corporation or similar laws and the accounting standards. It is also not uncommon for regulators (e.g. SEC in the US) in those jurisdictions to take enforcement actions against the directors or key executives when specific laws are violated.

In Singapore, the FRSP introduced in 2011, is part of ACRA's effort to ensure that the capital market remains confident in the integrity, transparency and quality of corporate financial reporting.

The FRSP also aims to rebalance the roles of oversight over financial reporting between the auditors and the directors. Directors are expected to pay close attention to the financial statements and execute their legal duties diligently.

In a survey conducted by ACRA and ACCA last year, about half of the respondents who were the preparers of the financial statements, did not realise that preparation of financial statements are their primary responsibility rather than that of their auditors. This pales in comparison to many other developed markets, where directors assume full ownership for the preparation of the financial statements.

Similar to the programmes in other jurisdictions, the FRSP involves the review of financial statements to detect and enforce against financial reporting requirement breaches. This quality monitoring programme helps to ensure that financial reporting is in accordance with accounting standards.

To further dispel the myth that directors' roles in financial reporting are nothing more than just a compliance exercise, ACRA also issued Practice Direction No.2 of 2014 and Financial Reporting Practice Guidance No.1 of 2014 on 23 April 2014, setting out the duties of a director in relation to financial reporting, the expanded scope of review and sanction process under the FRSP.

What are directors' legal responsibilities on financial reporting?

Under the Companies Act (Chapter 50), directors of companies incorporated in Singapore and Singapore branches of foreign companies are responsible for the preparation of true and fair financial statements that are in compliance with the Singapore Financial Reporting Standards.

In addition, the Companies Act also requires the directors to maintain a system of internal accounting controls and keep proper accounting and other records to enable the preparation of true and fair profit and loss accounts and balance sheets.

The directors' legal responsibilities described above are not new and have not changed under the FRSP. The only change is that ACRA, the regulator, is now actively monitoring the quality of financial reporting to ensure that the directors are properly discharging their legal duties.

What types of financial statements will most likely be selected for review?

Directors should take note that ACRA has designed a risk-based approach in determining the financial statements for review and has placed priority on public and large private companies with:-

(a) Modified audit opinions as well as audit opinions with emphasis of matter paragraph, indicating potential non-compliance with Accounting Standards and other requirements of the Act;
(b) Significant public interest risks ;
(c) Operations that require subjective judgement in accounting for its transactions, hence increasing the risk of material misstatement;
(d) Changes in listing or trading status (e.g. newly listed, suspended or delisted); and
(e) Significant changes in key stakeholders including controlling shareholders, directors, management and auditors.

What are the areas of review focus that companies' directors can expect?

ACRA will publish the review areas annually in advance to remind directors of the areas of focus for FRSP reviews. For financial years ended between **1 January 2013 and 31 December 2013,** directors should take note of the following eight areas:

1) **New accounting standards** - There should be meaningful disclosure of the impact arising from the adoption of new accounting standards that are effective during the financial year and those that are effective in future reporting periods.

2) **Significant accounting policies** – The accounting policies should cover all material items and should reflect the substance of the business transactions, actual practices and operations of the company.

3) **Going concern** – Companies with continuing losses should have a robust assessment of their business prospects, which in turn will affect the going concern assumption underlying the preparation of the financial statements. Adequate focus should be given to the ability to comply with loan covenants and proper classification of debt (current and/or non-current), including the ability of the company to refinance or repay maturing debts.

4) **Accounting judgement and estimation uncertainties** – There should be tailored disclosures around significant judgements in applying accounting policies and sources of estimation uncertainties. This includes disclosing the nature of the transactions or the estimates and the underlying assumptions, sensitivity analysis, expected resolution and the range of possible outcomes within the next financial year. Boilerplate disclosures should be avoided.

5) **Asset value and impairment testing** – Companies with market capitalisation value falling below their net asset value should have a robust assessment of the recoverability of the carrying values of the assets. There should be adequate disclosures of changes in events and circumstances that lead to a recognition or reversal of each material impairment loss, and the significant judgements or estimation uncertainties identified in the impairment testing process.

6) **Financial risk and capital management disclosures** - Disclosures should not be simply repeated from prior year's financial statements. Instead, the extent of disclosure should be reviewed annually to ensure that they are representative of the company's risk position and sufficiently explain the nature and extent of the company's risk exposures and how these risks are managed in practice.

7) **Related party disclosures** - The disclosures should not just be quantitative but should include information about the nature of the related party relationship and the specific terms and conditions relating to each type of transactions and outstanding balances.

8) **Consolidated financial statements** - Unless exemption criteria for non-consolidation are met under FRS 27 *Separate Financial Statements*, a parent company with one or more subsidiaries is required to prepare consolidated financial statements (with comparative information similarly presented on a consolidated basis). Reasons for non-preparation due to impracticability or costs outweighing the benefits are not in compliance with accounting standards and hence unlikely to be acceptable.

What happens when directors fail to fulfill their responsibilities?

Failing to comply with the accounting and regulatory requirements may result in ACRA taking the following actions on errant directors:

i. Issuance of advisory
ii. Issuance of warning letter;
iii. Fine by offer of composition; and
iv. Prosecution leading to fines and/or imprisonment.

In addition to the above punishments, ACRA may require the company to rectify deficient financial statements, either in the next set of the financial statements or by having the current set of financial statements restated, re-audited, and re-filed with ACRA.

What should directors do to effectively discharge their legal duties?

As a first step, directors should ensure that the finance team is competent and adequately resourced.

Directors should also ensure that the internal accounting controls, financial reporting processes and systems are effective in preventing misstatements that could arise as a result of errors or fraud. The use of IT that reduces human intervention in processing raw data from initiation of transactions to recording in the financial statements (e.g. purchase order to invoicing to recording of revenue) is often the most effective way to reduce human errors during processing.

Directors are also expected to keep their accounting knowledge up-to-date, for example by attending training courses. With the evolving changes in accounting requirements, it may be a challenge for directors to keep abreast. Sometimes, it may be necessary to enlist the help of professional accounting specialists to provide technical accounting advice in relation to non-routine and complex transactions.

For areas requiring significant judgements and estimates (e.g. asset valuation, uncertain tax position), involvement of other specialists may also be advisable to help directors with their independent judgement.

Directors should note that while they can delegate to others to prepare the books and records and to seek technical advice from specialists, directors are expected to exercise care, competence and diligence in their review and to question the accounting treatments applied when the treatment does not reflect their understanding of the substance of a transaction. Directors cannot relinquish their legal responsibility to others.

In addition, while the external auditor provides an independent opinion on the financial statements, ACRA expects the directors to be responsible for the financial statements. They cannot rely on external auditors in forming their own opinion on the financial statements.

Directors may find the following guides useful:

- Financial Reporting Practice Guidance No.1 of 2014
  Areas of review focus for FY2013 financial statements under the FRSP administered by ACRA.
- Practice Direction No.2 of 2014
  Directors' duties in relation to financial reporting and review and sanction process of the FRSP administered by ACRA.
- ACRA & I: Being an effective director
  Guidebook sharing experiences, knowledge and practices of audit committee members on corporate governance practices.
- Issue 45 of KPMG Financial Reporting Matters December 2013
  Key areas to consider when finalising the financial statements for 2013 including uncertainties that could affect estimates and the top five disclosures to improve.

For more timely and topical information to assist in improving your audit committee and financial reporting process, you can refer to our KPMG Audit Committee Institute website:
http://www.kpmg.com/SG/en/kpmginstitutes/AuditCommitteeInstitute/Pages/publications.aspx

2. Full convergence with IFRS: mixed bag of opportunities and challenges

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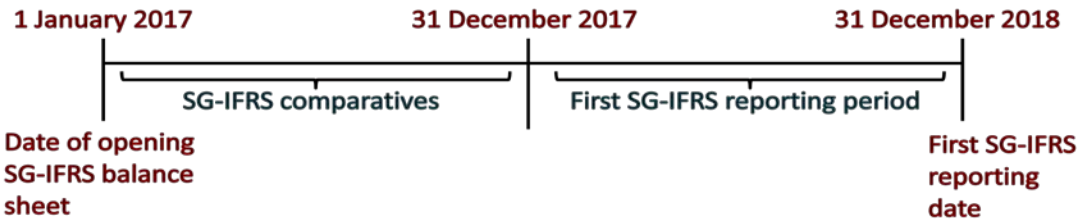
On 29 May 2014, the Accounting Standards Council (ASC) announced that Singapore-incorporated companies listed on the Singapore Exchange (SGX) will apply a new financial reporting framework identical to the International Financial Reporting Standards (referred to as SG-IFRS in this article) from 2018.

As such, for December year-end listed companies, financial year 2018 will be the first year for SG-IFRS reporting, with financial year 2017 as the comparative period. This means that comparative information for financial year 2017 and an opening balance sheet as at 1 January 2017 that are in compliance with SG-IFRS will be required.



It is expected that Singapore listed companies will have to apply the first time adoption standard similar to *IFRS 1: First-time adoption of IFRS* (IFRS 1) when transitioning to the new SG-IFRS framework.

The application of IFRS 1 may give rise to accounting adjustments even though the existing Singapore Financial Reporting Standards (SFRS) as issued by ASC, are largely similar to IFRS. This may impact the net asset base on transition and future profitability.

For example, if the guidance for transition to SG-IFRS is similar to that under IFRS 1, first time adopters may have an opportunity to make their accounting policy choices afresh under the new framework. These permitted adjustments may be made even if the SFRS numbers could be used unchanged for SG-IFRS reporting.

However, a decision to make such adjustments may involve costs relating to compiling information from past records to quantify the necessary adjustments which will need to be audited.

As the detailed transition roadmap has not been published, it is unclear whether the ASC will impose any regulatory overlay to prevent companies from optionally changing their accounting policies and using the optional exemptions under IFRS 1 to cause a restatement to the SFRS numbers.

Key principles under IFRS 1

Assuming that there is no regulatory overlay, the key principles in IFRS 1 are:

1. On transition, all assets and liabilities should be recognised in accordance with the applicable standards in SG-IFRS unless there are specific mandatory exceptions and optional exemptions from retrospective restatement available on date of transition. (refer to principle 2 below)
2. Consider whether optional exemptions from retrospective restatement as provided on first-time adoption of SG-IFRS may be applied; these may be adopted even if there is no gaap difference between SFRS and SG-IFRS. (refer to Examples of optional exemptions)
3. Select the appropriate accounting policy for SG-IFRS reporting purposes; there may be no requirement to retain SFRS accounting policies irrespective of whether any gaap difference exists.
4. In general, the adjustments relating to first-time adoption of SG-IFRS is recognised in an appropriate component of equity. It is unclear whether these adjustments will affect the distributable profits of affected companies.

Examples of optional exemptions

The following are **examples** of **optional exemptions** under IFRS 1 with the corresponding financial statements' impact and transition efforts required if the options are elected:

Particulars	Financial statements impact on		
	Opening net assets	Post-transition PL	Transition efforts
1. Resetting foreign currency translation reserve (FCTR) to zero Gains and losses on translation of financial statements of foreign operations are recognised in a separate category of equity i.e. FCTR and recycled to the income statement when that foreign operation is disposed. As such, the FCTR is required to be tracked at the level of each foreign operation so as to facilitate transfer to income statement on disposal of the said foreign operation. On transition, an entity is permitted to reset the translation gains or losses to zero by transferring the accumulated balance in FCTR to opening retained earnings. This optional exemption offers the entity: • an opportunity to start afresh to track the FCTR at the level of each foreign operation;			- (no additional transition effort required)
• in case the FCTR contains a deficit balance (i.e. loss), the entity may prefer to reset the FCTR to zero so as to protect itself from adverse impact of such losses recycled to income statement on disposal of foreign operation;	- no change	↑	
• Similarly, if FCTR is in a gain position on transition date, resetting FCTR to zero would reflect lower profits in future on disposal of a foreign operation.	- no change	↓	

Particulars	Financial statements impact on		
	Opening net assets	Post-transition PL	Transition efforts
2. Deemed cost exemption – Property, plant and equipment (PPE) and investment property carried at cost First-time adopters are permitted to fair value items of PPE and investment property (carried at cost) on the transition date and consider the revised carrying values to be the new deemed cost of the assets. This option can be exercised on an asset-by-asset basis on the transition date and is not an on-going accounting policy for revaluing the assets. This optional exemption offers the entity: • a higher carrying value of assets on transition date that enhances the equity base of the entity and may result in higher risk of future impairment;	↑		
• Higher depreciation charge on depreciable assets that will impact future profitability.		↓	
In cases where the fair value is lower than cost, the entity may wish to take this opportunity to revalue the asset downward at the date of transition. The lower cost base reduces future depreciation charges and may reduce the risk of future impairment.	↓	↑	
However, computing fair value information on transition date may require services of valuation experts.			↑
3. Investment in subsidiary, associate and joint venture On transition, a first-time adopter that adopts the accounting policy to measure investments in subsidiary, associate and joint venture at cost in its separate financial statements may have an option to measure the carrying value of investments in subsidiary, associate and joint venture on the transition date at fair value. Such revised carrying value shall be treated as a new deemed cost of the said investment. This optional exemption offers the entity: • a higher carrying value of assets on transition date that enhances the equity base of the entity;	↑		
• Higher cost base which may result in higher risk of future impairment and lower profits on disposal which impact future profitability.		↓	

Particulars	Financial statements impact on		
	Opening net assets	Post-transition PL	Transition efforts
In cases where the fair value is lower than the cost, the entity may wish to take this opportunity to revalue the asset downward at the date of transition. The lower cost base may reduce the risk of future impairment and higher profits on disposal.	↓	↑	
However, computing fair value information on transition date may require services of valuation experts.			↑
4. Accounting policy: Investment property			
An entity may have an opportunity to evaluate and adopt afresh the accounting policy on investment properties and change it from the fair value model to the cost model.			
If the new accounting policy involves measuring the investment properties at cost and the existing accounting policy is to measure the investment properties at fair value, the assets need to be written down to original cost (less depreciation and impairment) with corresponding effect to opening equity.	↓ (assuming fair value is higher than cost)	↑ / ↓	↑
The entity may adopt the deemed cost exemption which would allow all or some investment properties to be stated at fair value on transition date.	- (assuming fair value is higher than cost and deemed cost exemption is applied to all properties)	↑ / ↓	- (no additional transition effort required)
5. Restatement of past business combinations			
IFRS 1 permits the first-time adopter not to restate business combinations before the date of transition, or any date prior to that.			
If the said exemption is not adopted, all past business combinations before the date of transition (or any date prior to that) need to be restated based on the assessment of control as per *FRS 110: Consolidated financial statements* (and not FRS 27). If the date of obtaining control under FRS 110 differs from that under FRS 27, then restatement of past business combinations would require acquisition accounting from the date of obtaining control as per FRS 110. This would lead to significant costs and efforts in terms of compiling financial information from past records.	↑ / ↓	↑ / ↓	↑

Legend: ↑ represents increase; ↓ represents decrease

Need for more clarity on transition roadmap

While it is clear that Singapore incorporated listed companies must apply a framework similar to IFRS from 2018, the detailed transition roadmap has yet to be announced by the ASC and the SGX. It remains unclear whether and when the new financial reporting framework will be extended to foreign issuers, REITs, investment funds and business trusts that are listed on SGX.

Work is just beginning for Singapore incorporated listed companies

But for Singapore incorporated listed companies, the work is just beginning. With the announcement of the transition to SG-IFRS from 2018, it is now up to each company to finalise its preparations for the eventual transition. The transition to SG-IFRS needs to be planned in advance of the implementation date, preferably soon.

We have listed some examples of optional exemptions available under IFRS 1in the above table. The standard is not an easy one and there are many areas where significant changes may be required due to a lack of transition exemptions or if optional transition exemptions are not utilised effectively.

Early preparation for the transition would ensure that critical decisions are not made under time and resources pressure. Further, early preparation would also enable companies to identify unforeseen costly implementation challenges and allow time to work with the advisers and regulators on these implementation issues.

Above all, for entities that expect a significant financial impact on transition, early preparation would enable them to communicate effectively with all the stakeholders about the impact of the transition on earnings and equity.

Starting early enables companies to avoid surprises, something that stakeholders and capital markets are not fond of.

3. A new global standard on revenue recognition

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We have a new global standard on one of the most important financial reporting metrics – revenue – and it will apply to almost all companies reporting under IFRS and US GAAP.

Published by the IASB and FASB on 28th May this year, the new standard on revenue recognition may have a significant impact on the headline revenues of companies offering bundled products and services, or whose long-term construction projects span more than one year.

All companies should also assess the extent of the impact, so that they can address the wider business implications, including communication with investors and analysts. All the financial ratios may be affected, which could have an impact on share prices or access to capital. The impact may be felt right across the organisation. Changes to the timing of revenue recognition may affect the timing of tax payments and the ability to pay dividends. Staff bonuses and incentive plans might also need to be reconsidered. Early action will allow companies to develop an efficient implementation plan and inform their key stakeholders.

Directors responsible for the financial statements will need to ensure that the companies they steer understand these revisions. Otherwise, they might run the risk of non-compliance with the new standard when it becomes effective in 2017.

A single global standard

IFRS 15 *Revenue from Contracts with Customers* introduces a new revenue recognition model for contracts with customers that will replace most of the existing guidance on revenue recognition that currently exists under IFRS and US GAAP. The new standard will be mandatorily effective for financial years beginning on or after 1 January 2017. In Singapore, the ASC is expected to adopt the new standard without modification.

The new standard comes more than five years after the standard setters published the first version of their joint revenue proposals. Publishing a joint standard on revenue recognition is a major achievement for the standard setters.

For companies, the work is just the beginning

For companies however, the real work is just beginning. The new standard will have a significant impact on how and when they recognise revenue for some, but others may have a less painful transition. However, all companies will have to understand the new model and analyse its application to their contracts with customers before arriving at a conclusion.

For example, the new standard may have retained the stage-of-completion accounting for certain long-term contracts, but new criteria for determining when revenue should be recognised over time have been introduced. Some arrangements may continue to qualify for stage-of-completion accounting. For other arrangements, revenue may have to be recognised on contract completion. All arrangements will need to be reviewed in detail before a conclusion can be reached.

For those arrangements that continue to qualify for stage-of-completion accounting, the amount of revenue recognised under the new model may also be different from the current model as the two models are based on different concepts. Even if the outcome is expected to be similar, an exercise to quantify the difference is still necessary to confirm that the difference is indeed negligible.

The standard at a glance – one model, two approaches, five steps

The standard contains a single model that applies to contracts with customers. There are two approaches to recognising revenue. Revenue at a point in time, when control of the good or service is transferred to the customer , or over time, in a manner that best reflects the company's performance.. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. At a glance, this is how the five-step model is applied:

What are the industries that will be affected?

Globally, the impact of the new standard varies across different industries. We have summarised the industries that will be affected below:

	Step				
	1	2	3	4	5
Aerospace and defence	✓		✓		✓
Asset managers			✓		
Building and construction			✓		✓
Contract manufacturers					✓
Health care (US)	✓		✓		
Licensors (media, life sciences, franchisors)	✓*	✓			✓
Real estate	✓	✓			✓
Software		✓		✓	✓
Telecommunications (mobile networks, cable)		✓		✓	
* In particular, life sciences.					

If your company has operations in the above industries, you should start analysing how the new standard will affect you by performing a detailed analysis now. Doing so will help you assess the potential impact on your business and identify potential opportunities.

Companies that do not operate in the industries listed above are advised not to assume that their accounting for revenue is not affected by IFRS 15, as the new standard completely overhauls the way revenue is estimated and measured. A thorough analysis is needed before concluding that you are not affected.

The new standard is likely to be welcomed by real estate developers in Singapore

On issuance, this new standard will replace the existing guidance on revenue recognition including INT-FRS 115 *Agreements for the Construction of Real Estate* and the Accompanying Note.

The new standard re-affirms the general consensus among developers in Singapore that progressive recognition of revenue faithfully reflects the financial performance of developers under certain circumstances.

The new revenue standard now allows for progressive recognition of revenue if the following criteria, among others, are met:

(1) It is probable that the consideration is collectible;

(2) The developer cannot direct the same unit to another customer; and

(3) Throughout the term of contract, the developer has an enforceable right to payment for performance completed to date.

Developers will need to demonstrate that they have an enforceable right to receive payment for performance completed to date. This will require a detailed analysis of the contractual terms in the sale and purchase agreements with customers, and the legal framework and legal practices in the jurisdictions of your operations.

For example, the right to payment on sale of DBSS (Design, Build and Sell Scheme) and EC (Executive Condominium) developments in Singapore is not enforceable throughout the term of the contract as it is contingent on whether the buyer meets the eligibility criteria under the HDB rules. Therefore, it is expected that DBSS and EC developers will continue to recognise revenue on contract completion.

It is likely that revenue for sales of certain overseas development projects will be recognised progressively under the new standard. In some cases, careful drafting of certain contract terms may be required to achieve the progressive recognition of revenue under the new standard.

When drafting contracts, developers should also take note that the new standard may require the financing element of progress payments received in advance or in arrears to be accounted for separately. This will result in a difference between the amount of revenue recognised and the actual cash received from buyers.

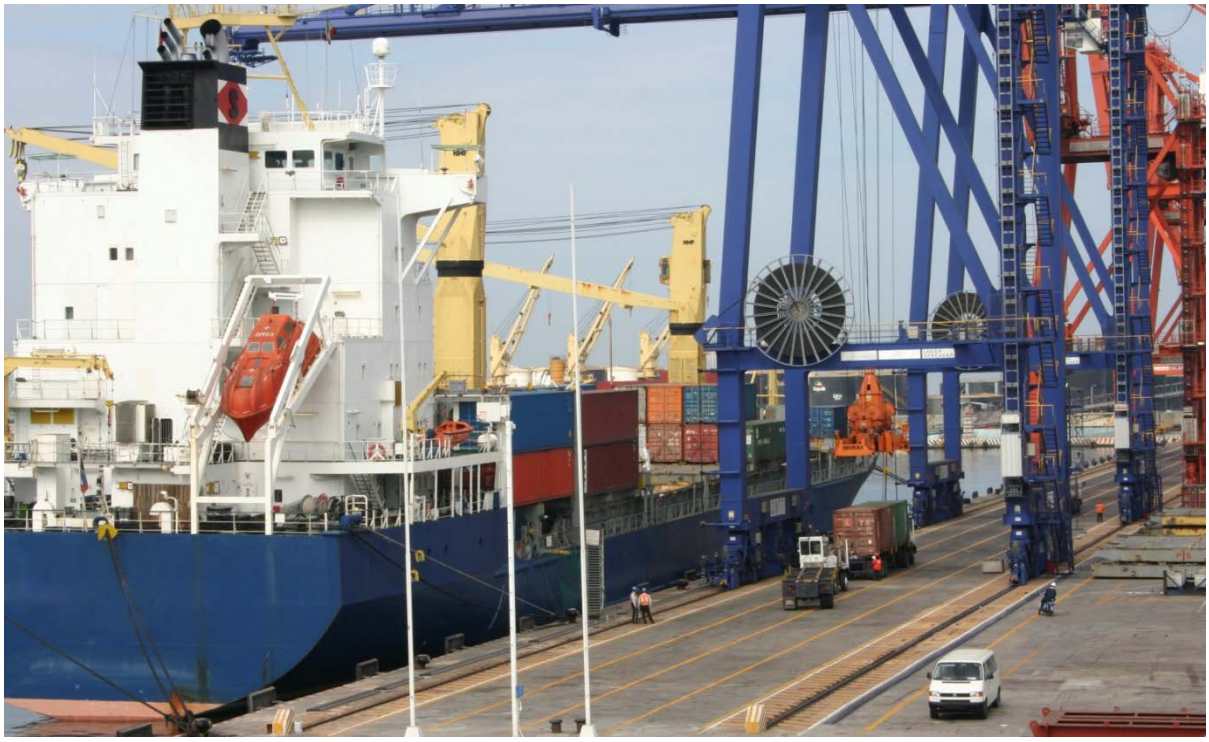
Another positive change for the real estate industry is that sales commissions paid to marketing agents on the basis of successful outcomes can now be capitalised, subject to certain conditions.

Changes that are expected for the telecommunication companies in Singapore

It is widely known that telcos are among those likely to be significantly affected by the new standard. New guidance on unbundling would require telcos to allocate revenue to various components, such as handsets and ongoing telecom services in a bundled arrangement based on their relative stand-alone selling prices.

Although there are variations in accounting practice globally, this would result in more revenue being allocated to the handset as compared to the current practice in many cases.

Revenue recognition is therefore expected to be accelerated under the new standard, while the timing of cash inflows remains unchanged. This new revenue model will result in a significant difference between when revenue is recorded and when actual cash is received from customers.



Changes that are expected for marine builders in Singapore

The new standard may allow marine builders in Singapore to continue with the current practice of recognising revenue over time for some arrangements. However, the accounting for some arrangements may need to be revisited and revised to better reflect the performance obligations satisfied over time.

For example, recognition of contract revenue may need to be deferred until delivery of the vessels if the customers are enjoying vendor financing arrangements and/or if the marine builders are building generic vessels that are largely interchangeable with other vessels constructed by the builder and the builder may be able to substitute the vessels across different contracts with customers.

Marine builders who wish to continue with the progressive recognition of revenue under the new standard will have to consider redrafting certain contract terms and change certain existing business practices.

There are a few other critical judgement areas that financial statement preparers in the marine building industry should also take note of:

1) Marine builders may find it challenging to gather support that future revenue reversals are highly improbable for variations and claims. This means that recognition of revenue from variations and claims may be delayed upon adoption of the new standard.

2) If consideration is paid in a shipbuilding contract in advance, IFRS 15 requires the marine builder to determine whether the contract includes a significant financing component and, if so, adjust for the time value of money. However, a practical expedient is available where the interval between the transfer of the promised goods and services and payment by the customer is expected to be less than12 months at contract inception.

Extensive disclosure requirements

The new standard includes extensive disclosure requirements applicable to all companies. The new disclosures are onerous and may require disclosure of information that could be commercially sensitive.

Examples of new disclosures include:

- A reconciliation of contract asset and contract liability balances.
- Transaction price allocated to performance obligations that are unsatisfied or partially satisfied (for example,. future order books for which the company has signed contracts with customers for future deliveries) including when the unsatisfied or partially satisfied performance obligations are expected to be recognised as revenue.
- The closing balances of assets recognised from the costs to obtain or fulfill a contract with a customer by category (for example, costs to obtain contracts, pre-contract costs andsetup costs).

Understanding the extent of disclosures in advance will provide companies with sufficient time to redesign existing systems to capture the additional information required to be disclosed and to assess the impact on the business if the disclosures include commercially sensitive information.

What you need to do about IFRS 15

The new standard takes effect in January 2017, although preparers reporting under IFRS can choose to apply it earlier. While the effective date may seem a long way off, affected companies need to make important decisions on when and how to transition to the new standard soon.

The standard offers a range of transition options. At one end of the spectrum, preparers can choose to apply IFRS 15 retrospectively and adjust each comparative period presented in the 2017 financial statements. At the other end of the spectrum, preparers can recognise the cumulative effect of applying IFRS 15 at the date of initial application (i.e. 1 January 2017 for calendar year-end companies) and make no adjustments to its comparative information. A series of optional practical expedients are also available which may ease full retrospective transition.

The chosen transition options can have a significant effect on revenue and cost trends. For preparers who consider comparable trend information valuable may plan to elect the retrospective transition method.

One option for such companies is to implement the necessary system changes such that it can account for its contracts on a real time basis and provide the necessary disclosures under IFRS 15 from the beginning of the earliest comparative period presented in 1 January 2016

This means that these companies have just over a year to implement the system changes. Other companies wishing for early adoption of the IFRS 15 by just a year, using the full retrospective transition method may mean that their redesigned systems must be up and running by 1 January 2015, a date less than six months away.

In addition, applying the new standard will require a detailed review of contracts. In some cases, companies may wish to reconsider certain contract terms and business practices to achieve or maintain a particular revenue profile. This will also require significant time and effort.

It is important for all companies to understand the extent of the impact, so that they can address the wider business implications, including communications with investors and analysts. Budgets may also have to be re-visited to take into account the proposed changes of the new standard. Additionally, revisions may have to be made to executive compensation packages linked to revenue numbers.

An early decision will allow companies to develop an efficient implementation plan and inform their key stakeholders.

In due course, shareholders will need to be informed as they need to understand the change, particularly with reference to the company's revenue and profit projections, which will have an impact on the share price and could affect access to capital.

To find out more about the new revenue standard, you can download the following publications:

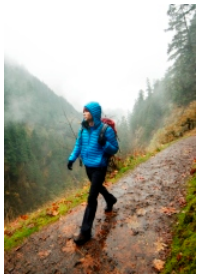
In the Headlines – May 2014: Revenue a new global standard

First Impressions: Revenue from contracts with customers

Transition to the new revenue standard
What's the best transition option for your business

Accounting for revenue is changing
What's the impact on telecommunication companies?

4. International developments



Amendments answer long-standing question

There has long been a question over whether the business combinations standard applies when an entity acquires an interest in a joint operation that meets the definition of a business.

In response to the diversity in practice, the IASB has issued *Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11).* These amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that meets the definition of a business. In Singapore, the ASC has not issued the equivalent amendments.

Read In the Headlines: May 2014: Business combination accounting for interests in a joint operation to find out more.

"The amendments bring clarity to an area in which there has been long-running debate, and will result in more consistent accounting for the acquisition of interests in a joint operation."

Mike Metcalf
KPMG's global IFRS business combinations and consolidation leader

Restricting the use of revenue-based amortisation

Amendments introducing a new judgemental threshold designed to severely restrict the use of revenue-based amortisation for intangible assets will cause some companies to change their accounting policy.

The amendments introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue. While this is not an outright ban, it creates a high hurdle for when these methods may be used for intangible assets.

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

Read In the Headlines: May 2014: Restricting the use of revenue-based amortisation to find out more.

"The amendments introduce severe restrictions on the use of revenue-based amortisation for intangible assets. We are likely to see a number of companies changing their accounting policy as a result."

Mike Metcalf
KPMG's Global IFRS business combinations and consolidation leader

Call for amortisation of goodwill – KPMG report highlights stakeholder support for re-thinking treatment of goodwill under IFRS

KPMG interviewed a sample of stakeholders to find out what they thought about goodwill impairment testing – its relevance, its effectiveness, the difficulties and the disclosures.

Although interviewees identified that goodwill impairment testing is relevant in assessing how well an investment has performed, they noted that its relevance to the market is in confirming rather than predicting value. In addition, the degree of subjectivity involved limits its effectiveness, and the high number of judgements and assumptions make it a complex and time-consuming exercise.

Find out more in KPMG's report *Who cares about goodwill impairment?*, which is timed to coincide with the IASB's outreach as part of its post-implementation review of the accounting for business combinations.

2014 Guides to condensed interim financial statements

After a year of significant change due to a number of newly effective standards, 2014 brings less change, allowing companies to spend more time improving the presentation of their financial statements by focusing on information that is relevant to the users.

To help you get started, KPMG's 2014 *Guides to condensed interim financial statements* take account of several amendments to IFRSs and a new interpretation that are effective for the first time for annual periods beginning on 1 January 2014.

The illustrative disclosures provides examples showing what the disclosures might look like, and the disclosure checklist helps you to identify which disclosures may be required.

Making financial statements more relevant

In response to growing concerns about 'disclosure overload', the IASB has proposed clarifications to its standard on the presentation of financial statements.

The proposals to amend IAS 1 *Presentation of financial statements* are a welcome first step – even if only a small one, in a bigger disclosure initiative, through which the IASB aims to improve presentation and disclosures in financial reporting.

The clarifications would not require any significant change to current practice, but should facilitate improved reporting. In the meantime, those that choose to can start achieving those improvements under existing standards.

Read KPMG's In the Headlines – March 2014: Making financial statements more relevant to find out more about the proposals.

Comments are due to the IASB by 23 July 2014. In Singapore, comments to the ASC closed on 18 June 2014.

> "These proposed amendments are a welcome first step, even if only a small one, in a bigger disclosure initiative."
>
> David Littleford
> KPMG's Global IFRS presentation leader

Accounting for dynamic risk management activities

Although current IFRS provides macro hedge accounting models for dynamic risk management activities, these contain restrictions that limit their ability to reflect some common dynamic risk management activities.

In response to this issue, the IASB has published a discussion paper on a new approach for macro hedge accounting. The project – which involves fundamental accounting questions and is not simply a modification to existing hedge accounting models – seeks to address the difficulties of faithfully representing a company's risk management activities in its financial statements that is transparent and operational.

Comments are due to the IASB by 17 October 2014. In Singapore, the ASC has requested for comments by 5 September 2014.

Read KPMG's In the Headlines – May 2014: Accounting for dynamic risk management activities to find out more.

> "This is the opportunity for everyone to say what they think a transparent, operational and decision-useful accounting solution should look like."
>
> Enrique Tejerina
> KPMG's Global IFRS financial instruments deputy leader

Continuing forward

Despite reaching divergent views on fundamental aspects of their lease accounting proposals in March 2014, the IASB and the FASB continued their redeliberations on the leases project during the second quarter of 2014 – with the goal of minimising any further differences.

They discussed various aspects of the project, including the key question of how to define a lease.

Although the Boards agreed on most issues, they differed on some points – e.g. the reassessment of variable lease payments by lessees. This will further reduce the comparability of lessee accounting under IFRS and US GAAP.

Read KPMG's IFRS Newsletter: Leases for a summary of recent developments.

> "Despite the significant divergence on key aspects of their lease proposals earlier this year, the Boards appear determined to finalise this long-running project – even if it results in non-converged standards."
>
> Kimber Bascom
> KPMG's global IFRS leasing standards leader

Challenges ahead in accounting for funding valuation adjustments

Market practice for pricing derivatives is evolving. Having accepted the overnight index swap rate as the new norm for discounting collateralised derivatives, the market has shifted its attention to uncollateralised positions – and this newsletter highlights some of the key points to consider when including funding valuation adjustments in fair value measurements.

Meanwhile, the IASB has tentatively decided that IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2018. It expects to issue the remaining chapters of IFRS 9 in mid-2014*.

Read KPMG's IFRS Newsletter: The Bank Statement – Challenges ahead in accounting for funding valuation adjustments discusses these topics in more detail.

> "After accepting discounting using the overnight index swap rate as the new normal for collateralised derivatives, the market has shifted its attention to uncollateralised positions. At its heart, funding valuation adjustment is an attempt to value a derivative considering all of the associated cash flows, including collateral requirements. "
>
> Colin Martin
> KPMG's Head of UK assurance services, Banking

*The IASB has recently changed the publication date for IFRS 9 from Q2 to Q3 2014. It is expected that the standard will be published towards the end of July 2014.

Clarifications will aid consistent application

When the IASB asked for comments on its insurance contracts proposals last year, some respondents voiced concerns about significant diversity in practice over the recognition of the contractual service margin in profit or loss.

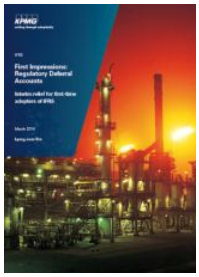
Responding to these concerns in its May 2014 board meeting, the IASB clarified that, for non-participating contracts, the service represented by the contractual service margin is insurance coverage, while also clarifies the appropriate allocation pattern.

The IASB also redeliberated the scope exemption for certain fixed-fee service contracts and decided to clarify the guidance on significant insurance risk and accounting for contracts acquired through portfolio transfers or business combinations.

A final standard is still expected in the first half of 2015.

Read KPMG's IFRS Newsletter: Insurance – Clarifications will aid consistent application for a summary of recent developments.

> "This month's decision focusing the allocation pattern for the contractual service margin on the passage of time is intended to promote consistent application of the final standard."
>
> Joachim Kölschbach
> KPMG's Global IFRS insurance leader



Interim relief for first-time adopters with rate-regulated activities

The first specific guidance on accounting for the effects of rate regulation under IFRS was issued in January, with the publication of an interim standard – IFRS 14 Regulatory Deferral Accounts. First-time adopters of IFRS will be able to continue using previous GAAP to account for regulatory deferral account balances while the IASB completes its comprehensive project in this area.

For rate-regulated entities that have deferred transition to IFRS, particularly in Canada, the interim standard will have come as welcome news. Elsewhere, however, all eyes will be on the comprehensive project.

KPMG's First Impressions: Regulatory deferral accounts considers the requirements of the new standard, and explains its key concepts.

Are you prepared for the newly effective standards?

Companies with 30 June 2014 financial year ends will be preparing their annual financial statements considering the consequential effects of newly effective and forthcoming standards. Among others, the new consolidation suite of standards and the revised standard on employee benefits now apply.

Companies with a financial year end after 30 June 2014 need to consider the amendments to IFRS 2 *Share-based Payment* and IFRS 3 *Business Combinations* included in the 2010–2012 annual improvements. This is because the changes are effective for grant dates and dates of acquisition, respectively, on or after 1 July 2014.

Looking further ahead, IFRS 15 *Revenue from Contracts with Customers* was issued on 28 May 2014. For many companies, the new standard will not just change the amounts and timing of revenue, but may require changes to systems and processes. It is effective for financial years ending on or after 31 December 2017 and is available for early adoption.

Read KPMG's In the Headlines – IFRS: New standards for a summary of the newly effective and forthcoming standards.

Proposals seek to clarify application issues for investment entities

New requirements allowing investment entities to use fair value accounting came into effect from 1 January this year, but early adoption had already highlighted a series of application issues. In response, the IASB has issued proposals on applying the consolidation exception to investment entities.

Although not stated explicitly, the key question for those providing feedback is whether an investment entity should consolidate intermediate holdings between itself and its underlying investment portfolio. Comments are due to the IASB by 15 September 2014.

Read KPMG's In the Headlines to find out more about the proposals.

> "Should an investment entity consolidate intermediate holdings between itself and its underlying investment portfolio? That's the real question."
>
> Mike Metcalf
> KPMG's Global IFRS business combinations and consolidation leader

Model for non-participating contracts substantially finalised

The IASB's model for non-participating insurance contracts is now substantially complete, with the Board reaching decisions on the remaining aspects of this part of its project.

In its June meeting, the Board addressed concerns about the practical difficulties in determining discount rates when there is a lack of observable data, and decided on an exception to the subsequent measurement of reinsurance contracts to better reflect their economic relationship with the underlying insurance contracts. It also provided clarifications and guidance on the level of aggregation of insurance contracts.

The Board's focus will now shift to participating contracts. The staff have received directional guidance from the Board in this area, so that they can develop alternatives to be discussed in future meetings.

Read KPMG's IFRS Newsletter: Insurance for a summary of recent developments.

> "Having substantially finalised the model for non-participating contracts, the Board's last critical challenge remains the accounting for participating contracts."
>
> Joachim Kölschbach
> KPMG's Global IFRS insurance leader

Common abbreviations

ASC	Accounting Standards Council in Singapore
ACRA	Accounting and Corporate Regulatory Authority
CPF	Central Provident Fund
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
ISCA	Institute of Singapore Chartered Accountants
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standard
INT FRS	Interpretation of Financial Reporting Standard
IRAS	Inland Revenue Authority of Singapore
LM	Listing Manual of the Singapore Exchange
MAS	Monetary Authority of Singapore
MOF	Ministry of Finance
PCAOB	Public Company Accounting Oversight Board
REIT	Real Estate Investment Trust
SGX	Singapore Exchange
XBRL	eXtensible Business Reporting Language

Note: All values in this publication are in Singapore Dollars, unless otherwise stated.

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