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FINANCIAL REPORTING MATTERS

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On 24 July 2014, the International Accounting Standards Board (IASB) issued the final version of the new financial instruments accounting standard, IFRS 9. This marks the culmination of the IAS 39 replacement project that was launched in 2008 in response to the financial crisis. Read this section to find out what the future entails for financial instruments accounting.

The IASB and the Financial Accounting Standards Board (FASB) issued a new global standard on revenue recognition - IFRS 15. The new standard may have a significant impact on the headline revenues of real estate developers that have long-term development projects spanning more than one year. Read this section to find out how real estate developers may be affected by this new standard.

FRS 112 *Disclosure of Interests in Other Entities* is effective for 31 December 2014 annual financial statements. FRS 112 includes extensive disclosure requirements for investments in subsidiaries, joint arrangements and associates, and unconsolidated structured entities. Read this section to find out what are the frequently asked questions about the new disclosure requirements.

On the international front, cost accounting will be the new norm for bearer plants (e.g. palm trees) under International Financial Reporting Standards (IFRS). IASB, after having completed IFRS 9, is currently working hard to finalise the accounting standard for insurance contracts. Read the section on International developments to find out more.

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1. IFRS 9 - The future of financial instruments accounting

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On 24 July 2014, the IASB issued the final version of the new financial instruments accounting standard, IFRS 9. This is in response to the financial crisis that led to the launch of this project back in 2008. This final version, once effective on 1 January 2018, will replace IAS 39 *Financial Instruments: Recognition and Measurement*.

With the issuance of the completed IFRS 9 *Financial Instruments,* implementation efforts for the finalised standard can finally begin in earnest now.

Globally, insurers and banks are expected to be significantly affected by IFRS 9. The new standard will have a massive impact on how banks will account for credit losses on their loan portfolios. Provisions for bad debts will be bigger and more volatile. Regulatory capital ratios may also be significantly affected.

For insurers, the overall effect could not be assessed at this point in time until the insurance standard is finalised.

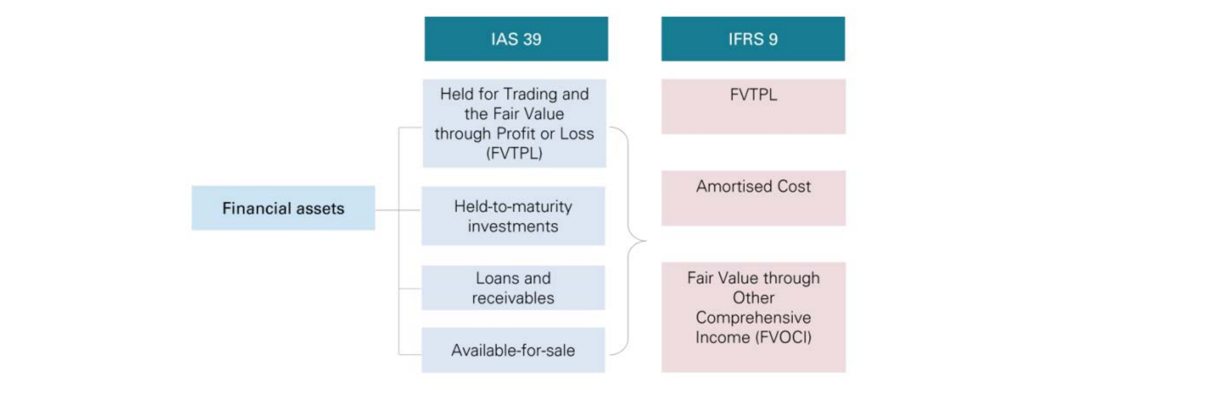
Corporates holding equity investments currently classified as available-for-sale may see more volatile earnings upon the adoption of IFRS 9. IFRS 9 eliminates the previous exception in IAS 39 to measure certain investments in unquoted equity instruments at cost and requires such investments to be measured at fair value.

In Singapore, the Accounting Standards Council (ASC) is expected to adopt the final version of IFRS 9 without modification with effective from 2018. All companies – especially in the financial sector, will need to start assessing the possible impacts and begin planning for transition to the finalised standard. Similarly, companies need to understand the time, resources and changes to systems and processes that are needed.

Classification and measurement of financial assets

IFRS 9 retains the mixed measurement model under IAS 39. However, the four categories of financial assets under IAS 39 are replaced with three primary measurement categories under IFRS 9.

Diagram 1: Classification of financial assets under IAS 39 and IFRS 9



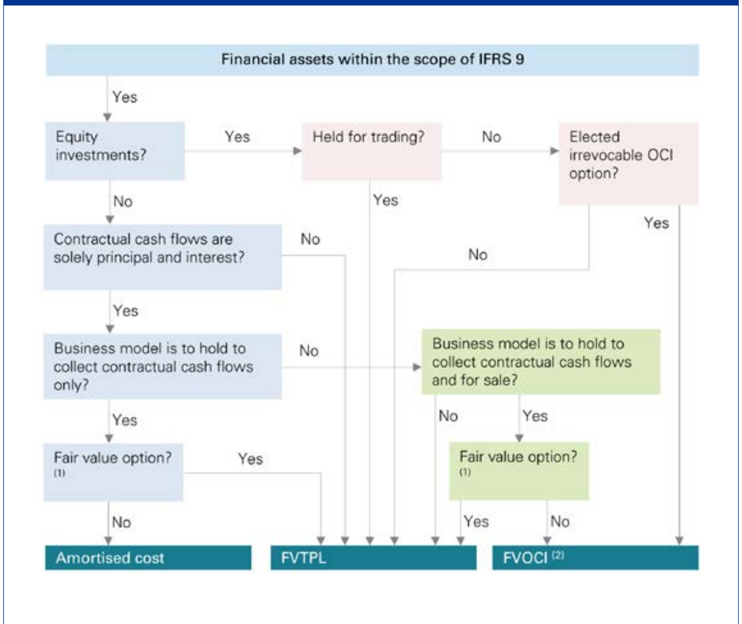
Although the permissible measurement categories under IFRS 9 appear similar to IAS 39, the criteria for the classification of financial assets into the appropriate measurement category are significantly different.

The classification under IFRS 9 depends on the entity's business model and the contractual cash flow characteristics of the financial assets; whereas under IAS 39, management intent was the key criterion.

In addition, for non-trading equity investments, an entity may irrevocably present subsequent changes (including foreign exchange gains and losses) in other comprehensive income (OCI). These are never reclassified to profit or loss even upon disposal.

The flowchart below summarises the classification of financial assets into permissible measurement categories under IFRS 9, along with the presentation and designation options.

Diagram 2: Process of determining the classification of financial assets under IFRS 9



(1) An entity has an irrevocable option to designate the financial asset at FVTPL on initial recognition if, and only if, such designation eliminates or significantly reduces a measurement or recognition inconsistency. Further, an entity is also allowed to designate certain credit exposures at FVTPL if a credit derivative that is measured at FVTPL is used to manage the credit risk of all, or a part, of the exposure.

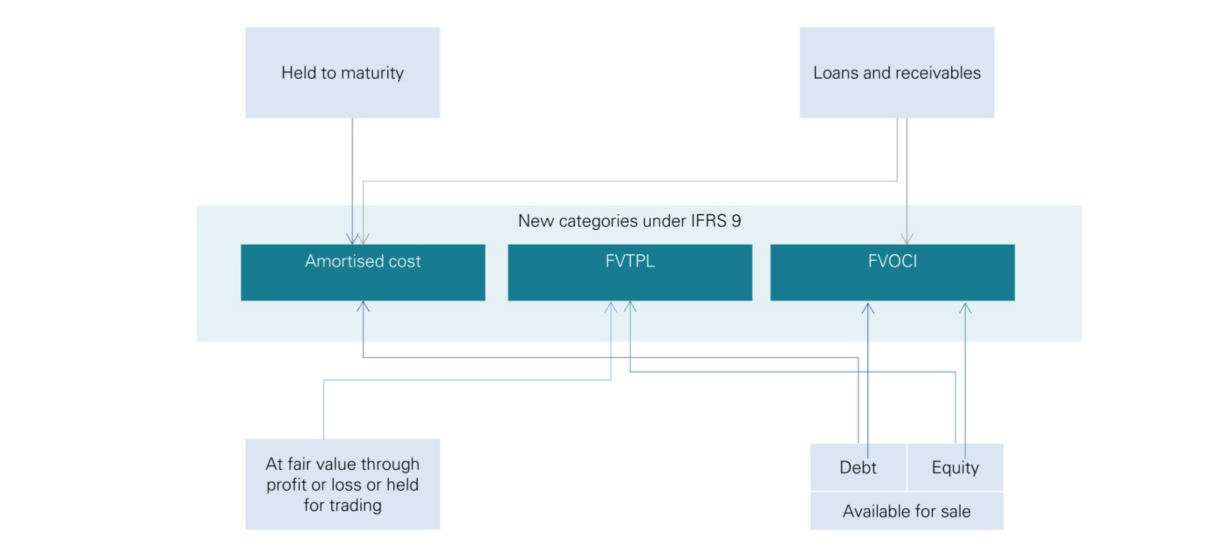
(2) (a) Debt instruments - Fair value gains and losses are recognised in OCI. Interest income using the effective interest method, expected credit losses and reversals; and foreign exchange gains and losses are recognised in profit or loss in the same manner as financial assets measured at amortised cost. When the financial asset is derecognised, the cumulative gains or losses previously recognised in OCI are reclassified from equity to profit or loss.

(b) Equity instruments - The irrevocable OCI option is available instrument by instrument. Dividends are generally recognised in profit or loss. Fair value gains and losses (including foreign exchange gains and losses) are recognised in OCI. When the financial asset is derecognised, the cumulative gains or losses previously recognised in OCI are not permitted to be reclassified to profit or loss. There is also no impairment recognised in profit or loss.

Mapping of IAS 39 to IFRS 9

The following diagram provides an overview of the potential IFRS 9 classification for the different categories of financial assets under IAS 39. This overview assumes that held for trading non-derivative financial assets are all part of a trading portfolio.

Diagram 3: Potential IFRS 9 classification for the different categories of financial assets under IAS 39



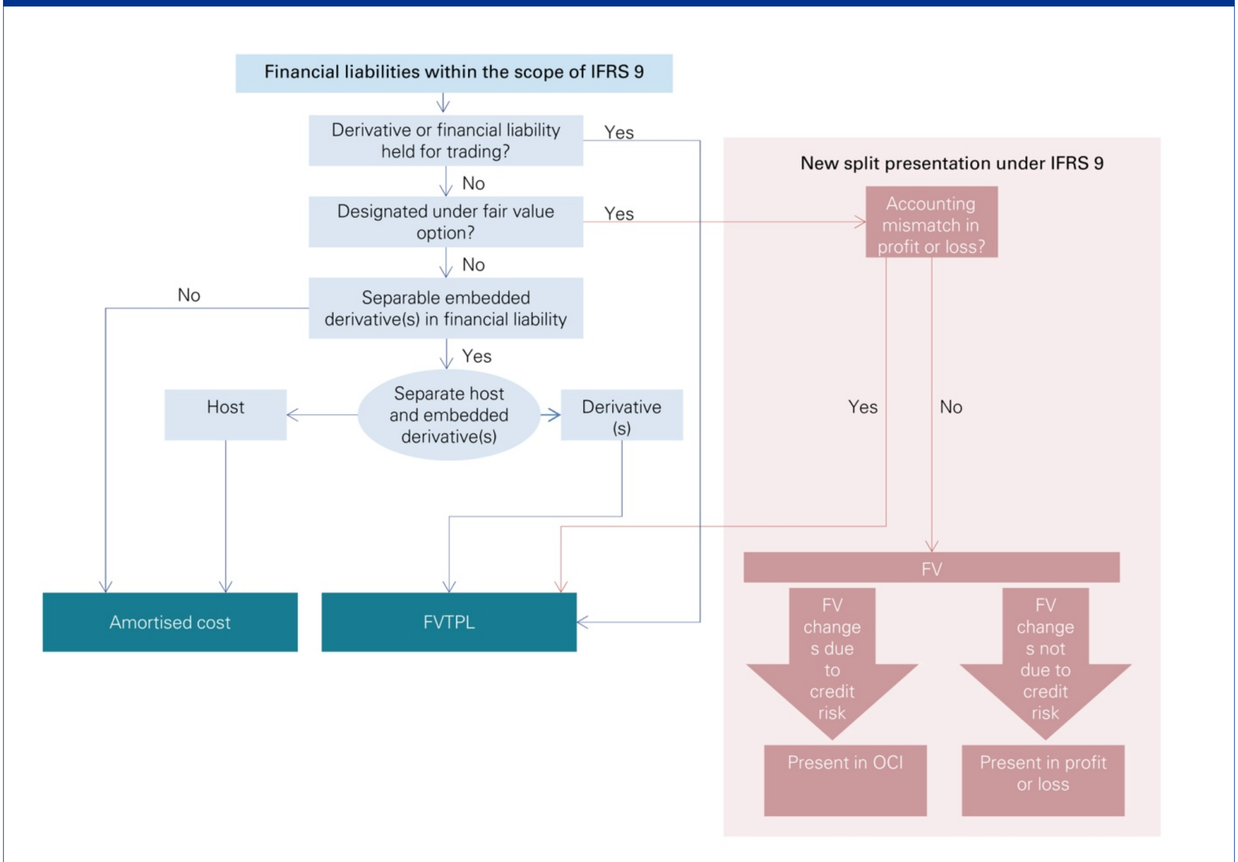
Classification and measurement of financial liabilities

The classification and measurement of financial liabilities remain largely unchanged from IAS 39, whereas for the presentation of gains and losses on financial liabilities that are designated at FVTPL on initial recognition.

For financial liabilities, the change in the fair value that is attributable to changes in own credit risk is recognised in OCI, unless such presentation will create or enlarge an accounting mismatch in profit or loss as per Diagram 4. The remaining amount of the change in the fair value is recognised in profit or loss. Amounts recognised in OCI cannot be reclassified to profit or loss in the future.

The following diagram provides an outline of the requirements for the classification and measurement of financial liabilities under IFRS 9. It does not cover financial guarantee contracts, loan commitments and financial liabilities that arise from a transfer of a financial asset that does not qualify for derecognition or when the continuing involvement approach applies.

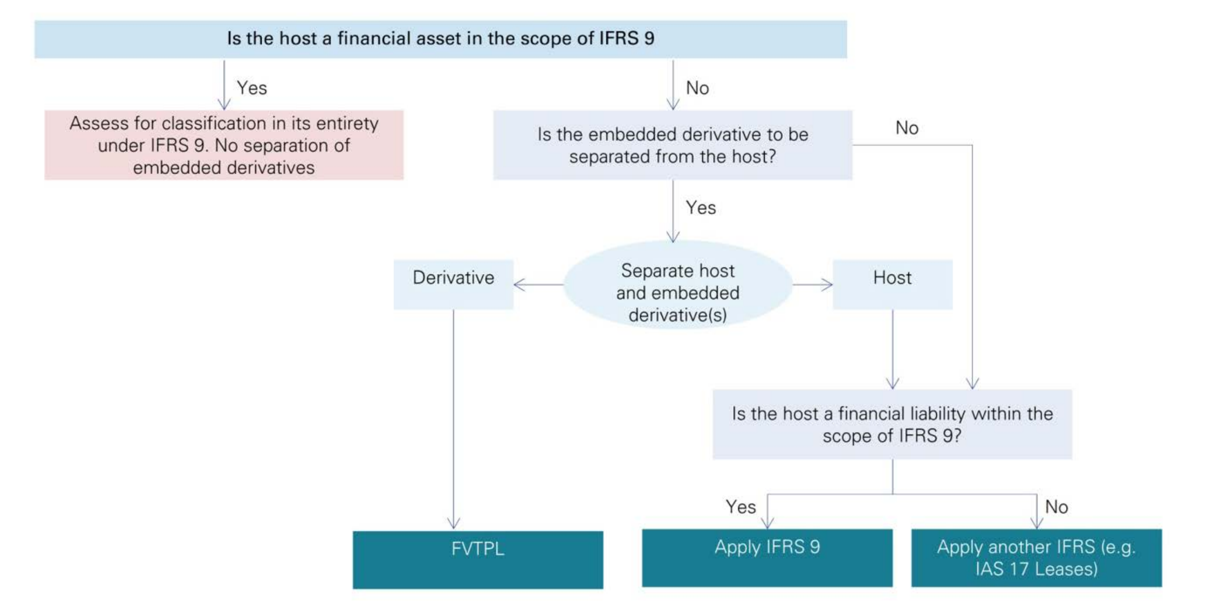
Diagram 4: Classification and measurement of financial liabilities under IFRS 9



Embedded derivatives – to separate or not?

The accounting treatment for embedded derivatives is dependent on whether the host is a financial asset within the scope of IFRS 9 or not.

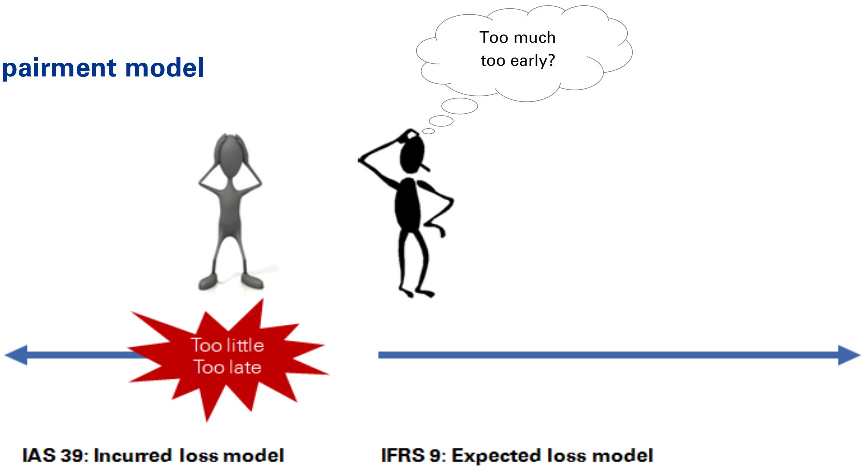
Diagram 5: Classification of hybrid financial assets under IFRS 9



Hybrid financial assets with a host that is a financial asset within the scope of IFRS 9 are classified in their entirety and are not subject to the complex bifurcation requirements. Embedded derivatives are no longer separated from financial asset hosts. Instead, the entire hybrid instrument is assessed for classification as shown in Diagram 2. In general, most hybrid financial assets that are separated under current requirements are likely to be classified as FVTPL.

For embedded derivatives in a hybrid contract with a host other than financial asset within the scope of IFRS 9 (e.g. financial liability, lease contract), the assessment of whether the embedded derivative requires separation is still required. This assessment is similar to IAS 39.

Forward looking impairment model



IFRS 9 provides a forward looking impairment model with "expected credit loss" and replaces the existing "incurred loss" model in IAS 39. This means that a loss event is no longer needed to occur before an impairment loss is recognised. The intent is to address concerns of "too little, too late" with respect to the level of provisioning during the global financial crisis.

A single impairment model under IFRS 9

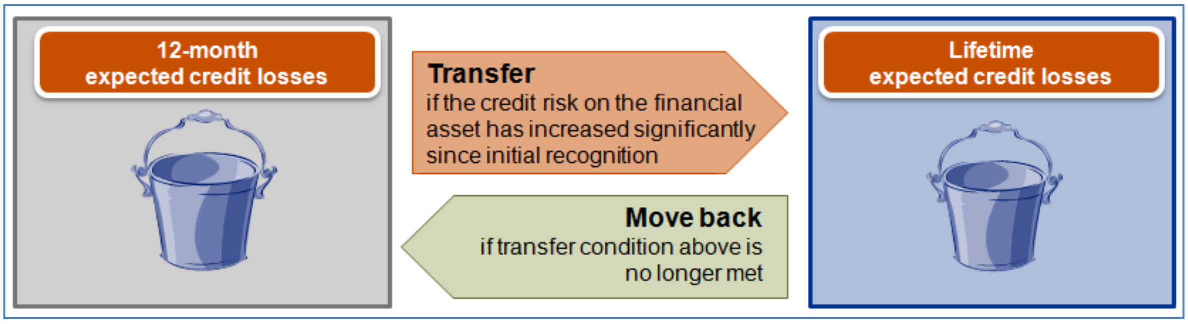
The new expected loss model will apply to all financial assets that are:

- debt instruments such as loans, trade receivables, bonds and debt securities measured at either amortised cost or FVOCI.
- issued financial guarantee contracts within the scope of IFRS 9. These financial guarantee contracts are not measured at FVTPL and loan commitments are not measured at FVTPL.
- lease receivables that are within the scope of IAS 17 and contract assets that are within the scope of IFRS 15.

Under IFRS 9, equity investments are not required to be assessed for impairment as they are measured at either FVOCI, where gains and losses are no longer reclassified to profit or loss or at FVTPL.

Dual measurement approach

In summary, the expected loss model under IFRS 9 uses a dual measurement approach as shown in the diagram below.



12-month expected credit losses	Lifetime expected credit losses
'12-month expected credit losses' are the present value of all cash shortfalls that result from default events that are possible in the next 12 months (or a shorter period if the expected life is less than 12 months).	'Lifetime expected credit losses' are the present value of all cash shortfalls that result from all possible default events over the life of the financial instrument.

If the credit risk of a financial asset has not increased significantly since its initial recognition, the financial asset attracts a loss allowance equivalent to 12-month expected credit loss.

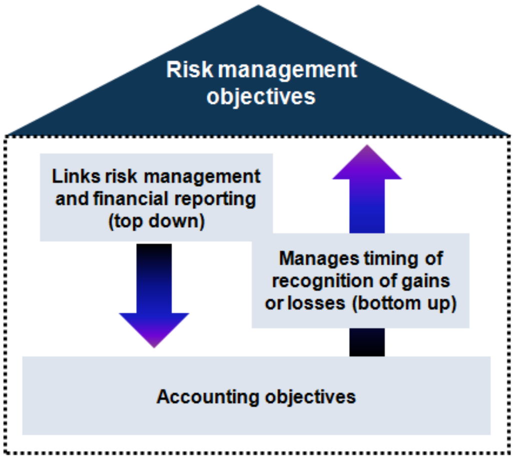
If the credit risk of a financial asset has increased significantly, it will attract a loss allowance equivalent to lifetime expected credit loss, thereby increasing the amount of impairment recognised.

While IFRS 9 does not define what it meant by"significant", it includes a rebuttable presumption that credit risk has increased significantly since the initial recognition of a financial asset when contractual payments are more than 30 days past due.

As an exception to the general requirements, if a financial instrument is determined to have low credit risk at the reporting date, it may be assumed that the credit risk of the financial instrument has not increased significantly since initial recognition.

IFRS 9 contains a simplified approach that is available for certain trade and lease receivables and for contract assets where credit losses can be provided based on days past due. For purchased or originated credit-impaired financial assets, special rules may apply.

Better alignment of hedge accounting with entity risk management



IFRS 9 includes new general hedge accounting requirements that align hedge accounting more closely with risk management. These new requirements do not fundamentally change the types of hedge accounting relationships (fair value, cash flow and foreign operation net investment) or the requirement to measure and recognise hedge ineffectiveness. However, more economic hedging strategies employed by risk managers are expected to qualify for hedge accounting.

Positive changes from IAS 39

The table below summarises the significant positive changes from IAS 39.

	IAS 39	IFRS 9
Life span of hedging relationships	• **Designation** – To qualify for hedge accounting, the hedge has to be highly effective retrospectively and prospectively, in the range of 80% to 125%. • **Continuation** - Hedge accounting must be terminated if the hedge is no longer effective within the arbitrary 85% to125% bright lines. • **Discontinuation** - Hedge accounting can be terminated voluntarily.	• **Designation** - Hedge qualification will be based on qualitative, forward-looking hedge effectiveness assessments, rather than the arbitrary 85% to125% bright lines currently in IAS 39. • **Continuation** - Hedging relationships may need to be rebalanced, without terminating hedge accounting, due to certain changes in circumstances. • **Discontinuation** - Voluntary termination of otherwise qualifying hedging relationships will be prohibited.
Additional qualifying exposures	• Hedging of risk component of a non-financial item (except for foreign currency risk of a non-financial item) is prohibited. • Hedging of group of items that constitute a net position and layer components in fair value hedge are prohibited. • Hedging of derivatives is prohibited.	• Risk components of non-financial items (e.g. commodity price risk, freight rate) and non-contractually specified inflation may be hedged risks. • Net positions and layer components of items may be hedged items. • An aggregated exposure (a combination of a non-derivative exposure and a derivative) may be a hedged item.
Additional changes from current practice	• Fair value option model for managing credit risk and for certain own-use contracts is not available under IAS 39. • Cash instruments may not be designated as a hedging instrument except as a hedge of foreign currency risk. • Time value of purchased options is generally excluded from hedge relationship and recognised in profit or loss.	• New fair value option model for managing credit risk. • Alternative fair value option model for certain own-use contracts. • Cash instruments may be hedging instruments in additional circumstances. • Time value of purchased options, forward element of forward contracts and foreign currency basis spreads may be deferred or amortised.

Additional time, resources and new judgements are needed for the transition to IFRS 9.

IFRS 9 is mandatorily effective for annual periods beginning on or after 1 January 2018. This means that for a calendar year-end company, the standard is effective on 1 January 2018.

How will IFRS 9 affect you?	
Classification and Measurement	• Judgement should be used when assessing a business model and the assessment should consider all relevant available evidence based on objective information. • Determining whether the solely payments of principal and interest (SPPI criterion) is met may require extensive review of existing contractual terms of financial assets.
Impairment	• Significant judgement should be exercised in estimating expected credit losses and the point in time at which the credit risk has increased significantly since the initial recognition of a financial asset. • The new impairment requirements are likely to significantly impact the systems and processes of banks, insurance companies and entities in the financial services industry. • The initial application of the new impairment model is likely to have a negative impact to the affected entities' equity and profit or loss.
Hedge Accounting	• The new hedge accounting model provides for more hedging opportunities. An entity may need to re-assess current risk management objectives and current systems to determine if it can take advantage of the new hedge accounting requirements.

To find out more about IFRS 9, you may download the following publications:

In the Headlines – Financial instruments: The complete standard

First Impressions: IFRS 9 Financial instruments

In the Headlines – Hedge accounting moves closer to risk management

First Impressions: Hedge accounting and transition

Impact of new financial instrument standard on insurance companies

2. IFRS 15 – The new revenue recognition standard: How does it impact real estate developers?

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On 28th May 2014, the IASB and the FASB published a new standard on revenue recognition – IFRS 15. The new standard may have a significant impact on the headline revenue figure of real estate developers that have development projects spanning more than one year.

In the June 2014 issue of *Financial Reporting Matters*, we provided a broad overview of the new revenue recognition standard. In this article, we assess the broad implications of the new revenue standard on real estate developers.

While the standard has not been adopted in Singapore as of the date of this article, the Accounting Standards Council (ASC) is likely to issue an equivalent standard in Singapore before the end of this year.

Upon 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*.

Current practice

Currently, real estate developers in Singapore apply INT-FRS 115 *Agreements for the Construction of Real Estate and the Accompanying Note* to account for sales of development properties. The application of the existing accounting standard results in different revenue recognition profiles for different development projects.

Revenue recognition profile for different projects under the current revenue recognition standard						
	Singapore developments					Overseas developments
	Standard residential develop-ment	Executive Condo-minium (EC)	Design, Build and Sell Scheme (DBSS)	Commercial Properties	Mixed develop-ments	
Current Revenue recognition method (1)	POC	COC	COC	COC	POC	COC

(1) Exceptions may apply based on specific facts and circumstances

POC: Percentage of completion method

COC: Completed contract method

Can revenue be recognised over the development phase?

An important question for developers on adoption of the new revenue recognition standard is whether the progressive recognition of revenue (i.e. POC method) for sales of development properties is preserved under the new standard.

New revenue recognition standard

The new revenue standard specifies a new set of criteria for progressive recognition of revenue.

An performance obligation is satisfied over time if either:

1	Customer simultaneously receives and consumes the benefits as the entity performs.
2	The customers controls the asset as the entity creates or enhances it.
3	The entity's performance does not create an asset for which the entity has an alternate use and there is a right to payment for performance to date.

Going forward, subject to the usual collectibility assessment, developers will recognise revenue over time for sale of development properties. The developer cannot sell the same unit to another customer (i.e. the developer has no alternate use of the asset) and if the developer has the right to enforce payment for construction to date.

Right to payment for work completed to date

In assessing the existence and enforceability of the right to payment for the work completed to date, the standard requires a developer to consider the applicable legislation and contractual terms.

For multi-unit developments, this means in practice that the developer must have the right to enforce the contract and complete the construction for the full contractual payment. If the buyer has the ability to walk away from the contract even if he has to forfeit any down payment, the developer does not have the rights required under IFRS 15.

This analysis could include an assessment of whether:

- the developer has a right to sue the buyer for specific performance of the contract notwithstanding that the right is not specified in the contract with the customer;
- there is any legal precedent indicating the right to payment for performance completed to date in similar contracts and;
- the developer's customary practice of not enforcing a right to payment may have resulted in that right being rendered unenforceable in that legal environment.

The table below shows likely impacts on various real estate development schemes in Singapore:

Considerations	Standard residential	EC	DBSS	Mixed
Collection is probable	✓	✓	✓	✓
Developer is not able to direct sell unit to another buyer (no alternative use)	✓	✓	✓	✓
Right to payment is enforceable	✓ (any legal precedent?)	✗[1]	✗[1]	✓ (any legal precedent?)
Progress payments/billings or right to payment approximate the selling price of the WIP transferred to date	✓	✗[1]	✗[1]	✓[2]
Conclusion	POC	COC	COC	POC

1 Progress payment will be refunded to the buyer if buyer fails to meet the eligibility conditions under the HDB rules on TOP date.

2 If the units are sold under the progressive payment scheme.

Standard residential and mixed developments

For standard Singapore residential and mixed developments, the key to the assessment is to establish that developers continue to have an enforceable right to require buyers to perform under the contract even if the developer may have historically chosen to take back the property and not to enforce the contractual terms strictly.

DBSS and EC

It is expected that revenue on Design, Build and Sell Scheme (DBSS) and Executive Condominium (EC) projects will continue to be recognised on contract completion (i.e. COC method), as the right to payment on sale of DBSS and EC developments in Singapore is contingent on whether the buyer meets the eligibility criteria under the HDB rules at the date of obtaining the Temporary Occupancy Permit (TOP date).

Overseas development and others

Sales of overseas development projects would need to be assessed in a similar manner. Revenue arising from development projects may qualify for progressive recognition (POC method) under the new standard only if they meet the new criteria. In other cases, careful drafting of certain contract terms may be required to achieve progressive recognition of revenue under the new standard.

Adjustment for significant financing component

The standard requires entities to adjust the transaction price for any significant financing component if there is a difference between cash selling price and the agreed consideration.

Advance payments may constitute financing arrangements

It is not uncommon for real estate developers to receive payments in advance before the point of expected performance by the entity. Currently, the amount of revenue recognised is not adjusted for the financing benefit on payments received in advance.

Under the new revenue recognition standard, such advance payments may be adjusted for significant financing components, unless the purpose of obtaining such advance is for reasons other than financing, for example to ensure commitment of the parties to the contract.

It is expected that the calculation for the significant financing component may be quite complex if the revenue is recognised over the development phase and progressive payments are collected.

Can sales commission to marketing agent be capitalised?

Another positive change for real estate developers is that sales commissions paid to marketing agents on the basis of successful outcomes can now be capitalised to match the revenue, if they are recoverable from the buyers. Currently, these are expensed as incurred.

In summary

The new revenue standard may be seen as good news for real estate entities, as it provides new criteria for recognition of revenue over time. The new revenue standard is effective for accounting periods beginning on or after 1 January 2017. Real estate developers should therefore look at their current contractual arrangements and assess whether their revenue recognition profile might change. Early stakeholder communication and education is advisable.

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?

Issues In-Depth: Revenue from contracts with customers

3. Disclosing interests in other entities in your 31 December 2014 annual financial statements

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FRS 112 *Disclosure of Interests in Other Entities* is effective for reporting entities for annual financial periods beginning from 1 January 2014. FRS 112 combines the disclosure requirements relating to an entity's interests in subsidiaries, joint arrangements and associates. FRS 112 also introduces new disclosure requirements for interests in structured entities (e.g. securisation vehicles, tax-driven leasing vehicles, funding vehicles) that are not consolidated by the reporting entities.

FRS 112 is similar to IFRS 12, except that FRS 112 is effective one year later from 1 January 2014.

Key changes introduced by FRS 112 include new disclosures relating to unconsolidated structured entities and information about each subsidiary that has material non-controlling interest-holders.

Although FRS 112 is a disclosure standard, it provides no examples to illustrate its disclosure requirements.

In this section, we discuss some commonly asked questions and provide a list of KPMG resources available to assist you in drafting the disclosures.

Commonly asked questions

Why is there a need for a new disclosure standard on an entity's interests in other entities?

FRS 112 is one of the IASB's key responses to the global financial crisis that started in 2007 to address users' requests to improve the transparency about the risks to which a reporting entity is exposed from its involvement with structured entities, including those that it has sponsored.

In addition, the IASB also wanted to integrate and make consistent the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities and present those requirements in a single IFRS.

FRS 112 replaces the previous disclosure requirements contained in FRS 27 *Consolidated and Separate Financial Statements*, FRS 28 *Associates* and FRS 31 *Joint Ventures.* The disclosure requirements for separate financial statements are contained in the revised FRS 27 *Separate Financial Statements*.

Which entities need to apply FRS 112?

Any entity that applies FRS and has interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates or unconsolidated structured entities is required to apply FRS 112.

Question 1: Scope of FRS 112 – Separate financial statements

Entity A is exempted from preparing consolidated financial statements as it meets the exemption criteria in FRS 110 *Consolidated Financial Statements*. Accordingly, Entity A only presents separate financial statements in which its investments in subsidiaries, associates and joint ventures are accounted for at cost. Is Entity A required to apply the disclosure requirements in FRS 112?

Answer:

FRS 112 does not apply to an entity's separate financial statements except if the entity has interests in unconsolidated structured entities. Instead, the entity will have to disclose the information required by the revised FRS 27 in its separate financial statements.

If an entity has interests in unconsolidated structured entities or if any of its subsidiaries, associates or joint ventures are structured entities, it has to also provide the necessary disclosures relating to unconsolidated structured entities in FRS 112 in its separate financial statements.

Question 2: Scope of FRS 112 – Venture Capital Organisation that does not qualify as an investment entity

Entity B holds 30 percent in an investee and has significant influence over the investee. Entity B is a venture capital organisation (VCO) and chooses to account for this investment in associates at fair value through profit or loss, instead of equity accounting. Entity B is not an investment entity. Is Entity B required to apply the disclosure requirements in FRS 112?

Answer:

Yes. Entity B is required to provide the disclosures required by FRS 112 relating to its investments in associates (e.g. summarised financial information), except for the following disclosures:

(1) if applicable, the different reporting period of financial statements used for equity accounting reason; and
(2) any unrecognised share of losses when applying the equity method.

The IASB decided that such entities are simply permitted to use a different measurement basis (ie fair value) for their investments, and therefore should comply with the disclosure requirements in FRS 112.

For entities that are VCOs, they were previously only required to make one specific disclosure (i.e. significant restrictions on the associates' ability to transfer funds to the investor). The adoption of FRS 112 would result in a significant increase in disclosure for VCOs, for example, summarised financial information of each material associate if the VCOs do not qualify as investment entities.

In addition, such entities continue to be required to include the disclosures in FRS 107 *Financial Instruments: Disclosures* and FRS 113 *Fair Value Measurement* since the investments in associates are accounted for at fair value through profit or loss.

Question 3: Scope of FRS 112 - Investment entities

Entity C is an investment fund and holds controlling stakes in various investees. It determines that it is an investment entity under FRS 110. Accordingly, it applies the consolidation exception and accounts for its investments in controlled entities at fair value through profit or loss. Is Entity C required to apply the disclosure requirements in FRS 112?

Answer:

Yes. However, for an investment entity, FRS 112 includes specific paragraphs (paragraphs 9A to 9B, and paragraphs 19A to 19G) that set out the disclosure requirements for such entities . They include disclosures in respect of the investment entity's status and interests in unconsolidated subsidiaries.

These disclosures are not the same as those required to be made by non-investment entities (including VCOs that are non-investment entities – see Question 2). For example, an investment entity is not required to provide summarised financial information about its associates and joint ventures when they are accounted for on a fair value basis and information about material non-controlling interests.

In addition, investment entities are required to include the disclosures in FRS 107 and FRS 113 since the investments in subsidiaries, associates and joint ventures are accounted for at fair value through profit or loss.

When do entities need to apply FRS 112? Is comparative information required to be presented?

FRS 112 is required to be applied by entities from annual periods beginning on or after 1 January 2014.

Consistent with the transitional relief provided under FRS 110 and FRS 111, FRS 112 limits the requirement to present all of the disclosures contained in FRS 112 to the immediately preceding period only.

Question 4: Adopting FRS 112 for the first time

Entity D has various investments in subsidiaries, associates and joint ventures. Resulting from the adoption of the consolidation suite in its 31 December 2014 annual financial statements, it concluded that it has control over an investee previously accounted for as an associate, and changes its accounting to consolidate this investee.

It presents a third statement of financial position as at 1 January 2013 as required. In its annual financial statements for the year ending 31 December 2014, is it required to present the comparative information for both 31 December 2013 and 1 January 2013?

Answer:

No, Entity D is only required to present comparative information for the year ended 31 December 2013. Accordingly, for the financial statements for the year ending 31 December 2014, the entity is required to present the disclosures for the year ending 31 December 2014, and for the comparative year ended 31 December 2013.

We would advise entities to begin the information-gathering process early. In particular, entities could start by collating the comparative information for the year ended 31 December 2013.

Additional relief for unconsolidated structured entities

FRS 112 also provides additional relief for interests in unconsolidated structured entities. Such disclosures may be provided only from the date that an entity applies FRS 112.

Question 5: Adopting FRS 112 for the first time – Unconsolidated structured entities

Entity E has various investments in subsidiaries, associates and joint ventures. Resulting from the adoption of the consolidation suite in its 31 December 2014 annual financial statements, it has determined that additional disclosures need to be included relating to its interests in unconsolidated structured entities.

In its annual financial statements for the year ending 31 December 2014, is it required to present the comparative information for 31 December 2013 and 1 January 2013?

Answer:

No, Entity E could choose to take advantage of the transitional relief and thus is only required to provide the disclosures for the year ending 31 December 2014 relating to its interests in unconsolidated structured entities.

Question 6: Adopting FRS 112 for the first time – Interim financial statements

Entity F is listed on the stock exchange, and has a 31 December financial year-end. It will announce its interim financial statements for the period ending 30 September 2014.

Are all the FRS 112 disclosures required to be provided in its interim financial statements for the period ending 30 September 2014?

Answer:

No. There were no consequential amendments made to FRS 34 *Interim Financial Reporting*, to establish minimum disclosure requirements in condensed interim financial statements specifically related to FRS 112.

However, some of the existing minimum disclosure requirements in FRS 34 could require certain disclosures required by FRS 112 to be made, such as:

(1) Explanation of events and transactions that are significant to the understanding of the changes in the financial position and performance of the entity since the end of the last annual reporting date.
(2) Explanation of changes in policy and a description of the nature and effect of the changes.
(3) Effect of changes in the composition of the group, including business combination and obtaining or losing control of subsidiaries and long-term investments.

Entities should consider these requirements in determining the disclosures to be made in their interim financial statements.

Aggregation and materiality

FRS 112 requires the entities to disclose information relating to each subsidiary with material NCI, each material associate and each material joint venture; isn't there too much detailed information?

An entity may aggregate the disclosures required for interests in similar entities, if aggregation is consistent with the disclosure objective and does not obscure the information provided.

As a minimum, FRS 112 requires information to be disclosed separately for interests in:

(a) Subsidiaries

(b) Joint ventures

(c) Joint operations

(d) Associates; and

(e) Unconsolidated structured entities.

In determining whether to aggregate information, an entity considers qualitative and quantitative information about the different risks and return characteristics of each entity. This is in consideration for aggregation and the significance of each entity to the reporting entity. The method of aggregation should be disclosed.

FRS 112 gives the following examples of aggregation levels: by nature of activities, industry or geography.

We believe that determining when and how to aggregate information will be a significant challenge for many entities. As seen from the discussion and illustrations above, FRS 112 sets out extensive disclosure requirements.

Getting the right balance in not providing too much detailed information and achieving the disclosure objective of providing relevant information is likely to require significant management's judgement.

> *We share the widely held view that often disclosures do not contain useful information. Many aspects of the disclosure problem have to do with behavioural factors. For example, many preparers will err on the side of caution and throw everything into the disclosures. They do not want to risk being asked by the regulator to restate their financials. After all, no CFO has ever been sacked for producing voluminous disclosures, while restatements may be career-limiting.*
>
> *Furthermore, sometimes it is just easier to follow a checklist, rather than put in the effort to make the information more helpful and understandable. Such risk aversion, although understandable, can lead to a ticking-the-box mentality. The communicative value of financial statements suffers as a result.*
>
> *~ Hans Hoogervorst (Chairman of IASB), IFRS Conference Singapore, 29 May 2014*

Question 7: Aggregation

Entity G has three associates, each of them is considered material to the group. The three associates are all engaged in residential property development projects. Associate X's project is in China, Associate Y's project is in Singapore and Associate Z's project is in Vietnam.

Would it be appropriate for Entity G to disclose the aggregate summarised financial information of the three material associates (rather than separate disclosure for each material associate)?

Answer:

Although the three associates are all engaged in residential property development projects, the risks exposed by each associate are likely to be different as these associates operate in different countries where the risks and return characteristics could be significantly different. In such a case, it would be appropriate to disclose the summarised financial information for each associate.

Other factors to consider include the type of properties (e.g. industrial properties or residential projects, luxurious residential projects or mass-market residential projects).

Whether the risks and return characteristics are significantly different could also depend on how diverse the business activities within the reporting group are. For example, another entity that has the same three associates as above, but also has associates that are engaged in hotel operation, and other associates that are engaged in office rentals might consider it appropriate to aggregate the 3 associates in the residential property development business. If information is aggregated, FRS 112 requires the reporting entity to disclose how it has aggregated its interests in similar entities.

If Entity G also complies with the disclosure requirements under FRS 108 *Operating Segments*, it might want to consider how its aggregation consideration can be applied to the aggregation of disclosures on its material associates.

Question 8: Additional disclosures to meet the disclosure objectives

Entity H discloses all the specified information required to be disclosed in FRS 112. Does this mean that the disclosure is adequate?

Answer:

No. An entity cannot assume that disclosure of its interests in other entities is adequate even if it follows all the disclosure requirements in FRS 112. To ensure meaningful disclosure, FRS 112 requires an entity to disclose any additional information to meet the objectives of FRS 112.

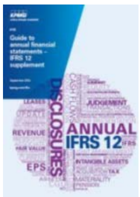
An entity meets the objective of FRS 112 by providing information that enables users to evaluate:

(1) The nature of, and risks associated with its interests in other entities; and
(2) The effects of those interests on its financial position, financial performance and cash flows

We expect that regulators will be considering an entity's compliance with this "catch-all" requirement for disclosure in their financial statements reviews. An entity might want to consider discussing with the management and audit committee to evaluate whether the disclosures made under FRS 112 requirements are sufficient to meet the objective of the standard.

Examples of illustrative disclosure

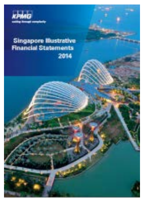
To assist you in drafting the disclosures, you may refer to the following publications.



Guide to annual financial statements – IFRS 12 supplement

Guide to annual financial statements - Illustrative disclosures September 2014

Guide to financial statements: Disclosure checklist



Singapore Illustrative Financial Statements 2014

4. International developments

Cost accounting for bearer plants

In response to constituent feedback that the fair value model is not appropriate for measuring bearer plants – e.g. grapevines or palm trees bearing fruit – the IASB has amended its standards on property, plant and equipment and agriculture.

Under the amendments, an entity can elect to measure bearer plants at cost. However, the produce growing on bearer plants will continue to be measured at fair value less costs to sell under the standard on agriculture.

The amendments simplify the measurement of bearer plants and will be welcomed by many companies and investors – particularly in Asia – who consider the current fair value accounting for bearer plants as being subject to too much uncertainty.

The amendments are effective for annual periods beginning on or after 1 January 2016. Early adoption is permitted.

Read KPMG's In the Headlines to understand what the amendments mean for your business.

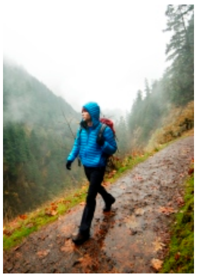
> "Many companies and investors in Asia will welcome the amendments, because they believe there is little value in the more complex fair value model currently applied."
>
> Reinhard Klemmer
> Head of Professional Practice, KPMG in Singapore

Taking some pain out of IFRS 4: Harnessing Solvency II to create efficiencies

European insurance CFOs have a number of significant reporting changes to navigate over the coming years. They are facing some of the most stringent regulatory changes ever to be unleashed on the insurance sector in Solvency II, which is due to come into force in 2016. They are also shifting their financial reporting to a new insurance accounting standard (IFRS 4 Phase II), which could be in force by 2018.

At the same time, the new accounting standard for financial instruments (IFRS 9) will become mandatory by 2018. The next few years may not be easy.

To help companies identify potential efficiencies and cost savings, the article 'Taking some pain out of IFRS 4: Harnessing Solvency II to create efficiencies' looks at how insurers can leverage the work they are doing on Solvency II and/or IFRS 4 Phase II.



Wider use of equity method in separate financial statements

In some countries, local regulations require companies to present separate financial statements using the equity method to account for investments in subsidiaries, associates and joint ventures. However, IFRS does not currently permit this.

In response to requests from constituents, the IASB has issued amendments to IAS 27 *Separate Financial Statements* to allow equity accounting for investments – not only in associates and joint ventures, but also in subsidiaries. This may lead to more companies applying IFRS in their separate financial statements, but is also likely to increase diversity in reporting practice.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2016. Early adoption is permitted.

Read KPMG's In the Headlines to understand what the amendments could mean for your business.

> "To bring about this change, countries like Brazil – for which equity accounting in separate financial statements is of great significance for local statutory reporting – worked harder together with the IASB. These amendments will be very welcome in these countries."
>
> Ramon Jubels
> KPMG's IFRS network leader in Latin America

A practitioner’s perspective on new hedging possibilities and challenges

The Q2 2014 editorial focuses on the new possibilities, challenges and judgements that practitioners will face in implementing the new general hedge accounting requirements.

Meanwhile, the IASB has published a discussion paper on a new approach to macro hedging and issued the new standard on revenue recognition, which will be effective from 2017.

Also this quarter, our benchmarking section looks at disclosures on credit and debit valuation adjustments. This issue will also discuss some of the accounting implications for issuers of contingent convertible capital instruments.

For more details, you may read KPMG’s IFRS Newsletter: The Bank Statement.

> “Financial institutions expecting to benefit from the flexibility offered by the IFRS 9 general hedging model should be aware of some potential complexities.”
>
> Anders Torgander
> Accounting Advisory Services, KPMG in Sweden

Accounting for dynamic risk management activities

On 17 April 2014, the IASB published its discussion paper DP/2014/1 Accounting for Dynamic Risk Management: a Portfolio revaluation Approach to Marco Hedging (the DP) as the first due process for its project on macro hedge accounting.

The DP explores one possible approach to accounting for dynamic risk management – a continuous process that involves risk identification and analysis, and the mitigation of net open risk positions arising from managed portfolios. The project involves fundamental accounting questions and is not simply a modification to current hedge accounting models – so the IASB has not proceeded straight to issuing an exposure draft.

This publication explains the background to the macro hedge accounting project, before walking through the discussion paper, focusing on the proposed portfolio revaluation approach and the items respondents may consider in writing their comment letter.

Comments are due to the IASB by 17 October 2014.

Read KPMG’s New on the Horizon for detailed analysis of the DP.

Deferred taxes – One step closer to clarity

In response to a question that arose during the financial crisis – whether a deferred tax asset is recognised on unrealised losses on debt instruments – the IASB has issued proposed amendments to IAS 12 *Income Taxes*. The proposals feature detailed examples, showing that the answer to the question is 'yes', if certain conditions are met.

The amendments also attempt to address the much broader issue of how to determine future taxable profit for the asset recognition test. The wider implications of the proposals will therefore need to be assessed as part of the response to the IASB. Comments are due to the IASB by 18 December 2014.

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

> "The revised proposals are a welcome step towards addressing the fundamental question of what future taxable profit is. One thing is clear – it is not the bottom line on your tax return"
>
> Thomas Schmid
> KPMG's global IFRS income taxes leader

Insurance – Fine-tuning the non-participating contracts model

In its July meeting, the IASB (the Board) fine-tuned the non-participating contracts model by confirming which rate would be used for subsequent measurement of the contractual service margin, and considering the requirements for changes in the accounting policy to present the effects of changes in discount rates in profit or loss or in other comprehensive income.

The Board's last critical challenge remains the accounting for participating contracts. The Board directed the staff to further explore an effective yield approach for determining the interest expense to be presented in profit or loss, to be discussed at future meetings. Once the Board has addressed participating contracts, it will consider whether any of its decisions would impact non-participating contracts.

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

To help companies prepare for the newly completed financial instruments standard (IFRS 9), KPMG developed a series of prompts for thinking through what the new requirements could mean for your business.

> "Having fine-tuned the model for non-participating contracts, the Board's focus will now shift to the accounting for participating contracts, with these deliberations expected to be finalised later in 2014."
>
> Joachim Kölschbach
> KPMG's global IFRS insurance leader

Proposals rule out premiums for quoted investments

There has been diversity in practice regarding the unit of account used to measure the fair value of investments in subsidiaries, joint ventures (JVs) and associates: the investment as a whole or the individual shares making up the investment.

In an attempt to introduce clarity, the IASB has published an exposure draft dealing with such investments that are quoted in an active market – i.e. Level 1 instruments in the fair value hierarchy under IFRS 13 *Fair Value Measurement*.

These proposals are particularly important for investment funds, venture capitalists and similar organisations, but entities across all sectors could be affected. If finalised as proposed, they could result in lower fair value measurements, with a consequential impact on profit or loss, if a control or similar premium is disregarded.

Read KPMG's In the Headlines to understand what the proposals could mean for your business.

"Measuring the fair value of an investment based on quoted price is a straightforward approach – but does it provide the best answer for users of financial statements?"

Chris Spall
KPMG's global IFRS financial instruments leader

Long-standing conflict on transactions with JVs addressed

When a parent loses control of a subsidiary in a transaction with an associate or joint venture, there is a conflict between the existing guidance on consolidation and equity accounting as to the amount of gain recognition.

In response to this conflict and the resulting diversity in practice, the IASB has issued amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*.

The amendments require the full gain to be recognised when the assets transferred to an associate or joint venture meet the definition of a 'business' under IFRS 3 *Business Combinations*.

Read KPMG's In the Headlines to understand what the amendments could mean for your business.

"This addresses a long-standing conflict on transactions with JVs, by creating a new dividing line – namely whether a business has been sold – with an occasionally surprising approach to step-ups."

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

Reporting the financial effects of rate regulation

Although some national accounting bodies provide specific guidance on accounting for the effects of rate regulation, IFRS does not contain any equivalent comprehensive guidance.

The IASB has now published a discussion paper to help it decide whether to develop proposals that would apply to all entities subject to rate regulation. While the topics discussed in the DP will not affect rate-regulated companies immediately, they could significantly affect IFRS in the future.

Read KPMG's In the Headlines to find out more about the DP. Comments are due to the IASB by 15 January 2015.

> "Reporting on rate-regulated activities has been a hotly debated issue for years. As a basis for future discussion, this consultation seeks a common understanding of rate regulation."
>
> Mark Vaessen
> KPMG's global IFRS network leader

A step towards global transparency

GAAP rarely tells the whole story of a company's performance. To bridge the gap, companies and investors communicate through key performance indicators, alongside the GAAP numbers. A few KPIs are the subject of agreed, usually sector-specific definitions; but many are not.

To date, varied regulatory approaches to non-GAAP measures have resulted in inconsistent global requirements. But there seems to be a consensus building globally that this inconsistency needs to be addressed.

The International Organisation of Securities Commissions (IOSCO) has now issued a proposed statement for comment on its expectations for the presentation of non-GAAP financial measures. This follows proposals issued by the European regulator ESMA in February 2014, which highlighted the growing importance of this topic.

Read KPMG's In the Headlines to find out more about IOSCO's proposed statement. IOSCO has requested comments from all stakeholders by 5 December 2014.

> "A global consensus on the regulation of non-GAAP information will benefit all stakeholders in the financial reporting process. The IOSCO statement is a step forward."
>
> Mark Vaessen
> KPMG's global IFRS network 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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