

Financial Reporting Matters

September 2016 Issue 55

MICA (P) 113/01/2016

CONTENTS

01



THE NEW AUDIT REPORT – WHY GOING CONCERN MATTERS

For financial years ending on or after 15 December 2016, management has to make an explicit statement on their responsibility for assessing the entity's ability to continue as a going concern and whether the going concern basis of accounting is appropriate.

06



PREPARING FOR 2018 CONVERGENCE WITH SG-IFRS: EXPERIENCE AND LESSONS LEARNT FROM CONVERGENCE WITH IFRS IN INDIA

Companies in India have adopted the new Indian accounting standards, which are substantially converged with International Financial Reporting Standards. Read this article to find out their experience.

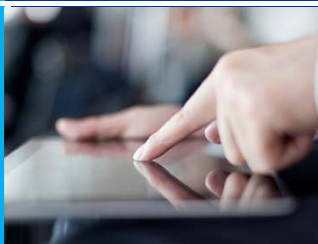
13



STARTING EARLY ON MEETING NEW SUSTAINABILITY REPORTING STANDARDS

SGX has officially launched the requirements and guidelines that will ask listed companies here to conduct an annual review on their sustainability issues and practices. Companies must report - or explain their decision to not do so - within five months after the end of a financial year, but a grace period of up to 12 months will be given to the publishing of the first report.

16



INTERNATIONAL DEVELOPMENTS

On the international front, the IASB has issued a narrow scope amendment to the share-based payment standard. Read this article to be updated on recent developments.



The new audit report - why going concern matters

The new audit report brings forth changes not only for listed, but all entities. One of the new focus areas will be the appropriateness of the going concern assumption, which will require management to make an explicit statement on their responsibility for assessing the entity's ability to continue as a going concern and whether the going concern basis of accounting is appropriate.

Background

For financial years ending on or after 15 December 2016, audit reports in Singapore and elsewhere will look different. Apart from the most significant change of including key audit matters for listed entities¹, all other entities will be affected by the changes too. In order to increase the transparency for readers of the financial statements, audit reports will now include explicit statements on:

- the responsibilities of management for assessing the entity's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate as well as disclosing, if applicable, matters relating to going concern².
- the responsibilities of the auditors to conclude on the appropriateness of management's use of the going concern basis of accounting and, based on audit evidence obtained up to the date of the audit report, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (hereinafter referred to as "Material Uncertainty").

¹ ISCA Glossary of terms; Listed Entity: An entity whose shares, stock or debt are quoted or listed on a recognised stock exchange, or are marketed under the regulations of a recognised stock exchange or other equivalent body.

² See SSA 700 (Revised), paragraph 34(b)

In addition, the auditors have the responsibility to ensure that disclosures made in the financial statements regarding management's critical judgement and assessment of the entity's ability to continue as a going concern for example, when management made significant judgements in reaching an overall conclusion that no Material Uncertainties exist, are adequate.

The going concern assumption

Going concern assumption means that financial statements are prepared assuming that a business or entity will continue to operate in the foreseeable future.

Accounting standards require management to assess the entity's ability to continue as a going concern and whether the going concern basis of accounting is appropriate for the preparation of the financial statements³. This requirement is not new and the assessment includes the identification of Material Uncertainties.

The standard further indicates that the degree of consideration will depend on the facts in each case, such as a history of profitable operations and ready access to funding, in which case it is easier to conclude whether the use of the going concern basis is appropriate.

The inclusion of explicit statements in the new audit report on the respective responsibilities of management and auditors on the assessment of the entity's ability to continue as a going concern and the appropriateness of the going concern basis of accounting in the audit report will bring more focus by auditors on management's process and documentation on going concern assessment and the adequacy of disclosures in the financial statements regarding management's judgement and assessment of going concern.

The going concern assessment

There is no one-size-fits-all approach to a going concern assessment. Rather, the width and depth of such an assessment will depend on the respective circumstances.

The Financial Reporting Council (FRC), an organisation overseeing the regulatory activities of the accountancy professional body in the UK, has recently published several points for consideration on the going concern basis of accounting and reporting⁴. The below paragraphs consider the guidance in the FRC publication which could shed some light on factors to consider in certain scenarios as your management goes through the assessment.

Identifying going concern risks and uncertainties

Liquidity and solvency risks are the most obvious and common reasons, giving rise to uncertainty about going concern. These risks can materialise in various ways, such as⁵:

- Substantial operating losses or significant deterioration in the value of assets;
- Negative operating cash flows;
- Adverse key financial ratios;
- Net liability or net current liability position;
- Inability to pay creditors on due dates; or
- Inability to comply with the terms of loan agreements (covenants).

³ See FRS 1 paragraphs 25-26

⁴ Financial Reporting Council (FRC): Guidance on the Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risks; Guidance for directors of companies that do not apply the UK Corporate Governance Code, April 2016

⁵ For further examples see SSA 570 (Revised) paragraphs A3-A6

However, when assessing the principal risks and uncertainties, a wider range of financial and non-financial factors should also be considered, such as operational, competitive, market or regulatory factors.

For example, a company that is heavily reliant on a single customer may identify this as a principal risk to the business. If the customer ceases to purchase the company's products or services, or is unable to pay its debts to the company, the company might be unable to meet its liabilities, which in an extreme case may result in the company becoming insolvent. The assessment of the customer relationship therefore becomes critical to the going concern assessment of the entity itself.

Developing management's plan

The going concern assessment is usually built on existing budgeting and forecasting processes, as these are long-established techniques in business management.

The assessment should comprise projected cash inflows and outflows alike, including those for the settlement of liabilities, loan repayments, payment of tax and pension liabilities and other commitments.

In addition, if a significant going concern risk is identified, management will consider if such risks can be mitigated. Examples of mitigation actions include plans to raise equity, borrow money or restructure debt, sell assets or businesses, and cuts or delays in expenditure. However, these plans have to be realistic and achievable in view of the entity's circumstances, and must be consistent with the general economic environment and other factors relating to financial reporting e.g. impairment of assets. Entities may need to consider and evaluate different scenarios and the impact on the forecast and the assessment respectively.

Management should also document their assessment and conclusion including the factors considered and the information used. This documentation will likely be required by the auditor as audit evidence and it will also serve as a good basis to defend management's assessment if challenged by regulators or stakeholders.

How far into the future should the going concern assessment reach?

The assessment of a going concern is inherently judgemental and requires consideration of uncertain future outcomes of events and conditions. The degree of uncertainty increases as we look further into the future. For this reason, it is important to determine the appropriate time horizon for the assessment (i.e. how far into the future should the assessment reach?).

The accounting standards require the assessment to cover at least twelve months from the end of the reporting period, but this is to be understood as a minimum requirement; if information for longer periods is available, this should not be disregarded.

The auditor is required to assess and challenge management's assessment. This includes considering facts and circumstances that may go beyond the time horizon selected by management as appropriate for their assessment. The auditor will use information from its other audit work, their knowledge of the entity and its environment and may also enquire of management on their knowledge of factors to consider. Any mitigating factors such as the commitment of shareholders to provide additional funds will also be taken into consideration when determining whether a Material Uncertainty exists over the entities ability to continue as a going concern.

Material Uncertainties need to be disclosed – but when are uncertainties ‘material’?

A conclusion that a Material Uncertainty exists is consequential as it triggers a disclosure requirement under the accounting standards. The determination of whether a Material Uncertainty exists will depend on the facts and circumstances of each entity.

Unfortunately, there is no golden rule to determine the circumstances that would lead to a conclusion that there is a Material Uncertainty⁶. Factors to consider when making this determination may include:

- the magnitude of the potential impacts of the uncertain future events or changes in the entity’s conditions, and the likelihood of their occurrence;
- the realistic availability and likely effectiveness of mitigating actions to avoid or reduce the impact; and
- whether the uncertain future events and changes in conditions are unusual.

For instance, an entity in the Oil and Gas industry is heavily reliant on the prolongation of a certain bank facility which expires in less than 12 months from the reporting date. As of the authorisation date of the financial statements, there is significant uncertainty as to whether refinancing will be available given the difficult market conditions that the entity is in. This could thus give rise to a Material Uncertainty that needs to be disclosed in the financial statements. Auditors may emphasise such instances in the audit report.

After all, the financial statements have to give a true and fair view. If an entity continues to be in a loss making position but there is proven evidence of support from the shareholders, no Material Uncertainty exists; however, disclosure of the ongoing support may be necessary in the financial statements to give a true and fair view⁷.

In some cases, management may have made significant judgements in reaching an overall conclusion that no Material Uncertainties exist. Depending on the significance of such judgements, they may need to be disclosed. Continuing the example of the entity in the Oil and Gas industry above, if the entity’s directors have active discussions with the bank and the bank has given indications that the extension of the bank facility is likely, management might conclude that the prolongation of the critical bank facility is likely and therefore no material uncertainty exists. In such case, it may still be appropriate to describe the circumstances on the basis of disclosing material judgements⁸.

Is a going concern assessment still required in the future?

Unfortunately, yes. But as mentioned above, the extent of the exercise is determined by prevailing circumstances, so in a given scenario of financial and operating strength and positive outlooks, the assessment can be much more straightforward than in challenging industries or market conditions or other circumstances as described above. For example, when there is a history of profitable operations and ready access to financial resources, management may make the assessment by referring to risk management forecasts and budgets.

⁶ See FRS 1 paragraph 25

⁷ See FRS 1 paragraph 15

⁸ See FRS 1 paragraph 122

What to do when the outlook is bleak?

At the other end of the spectrum, management may conclude that the survival of the entity is dependent on certain future events (not) to materialise. Apart from assessing and documenting all relevant facts, these circumstances typically constitute Material Uncertainties which require additional disclosures as set out above.

In the past, where adequate disclosure about the Material Uncertainty was made in the financial statements, the auditor expressed an unmodified opinion and would likely highlight the Material Uncertainty in an Emphasis of matter paragraph in the audit report. Going forward, the auditor would express an unmodified opinion and the Material Uncertainty would be addressed in the audit report under a separate section "Material uncertainty related to going concern"⁹.

In more extreme cases, management may conclude that the going concern assumption is no longer appropriate, be it that the business is no longer considered viable or the entity is going into voluntary liquidation. In this case, the financial statements are prepared on a non-going concern basis e.g. liquidation basis and this basis and the reason are disclosed in the financial statements. The auditor may consider it appropriate or necessary to include an Emphasis of matter paragraph in the audit report to draw the user's attention to that alternative basis of accounting and the reasons¹⁰.

Summary

After all, the new audit report brings forth changes for every entity, not just the listed ones. One of the new focus areas will be the appropriateness of the going concern assumption, which would generally mean that management has to perform and document a more comprehensive assessment of the matter, subject to oversight by the board of directors.

The period assessed should at least cover twelve months from the reporting date; however, available information covering a longer period should not be disregarded. Appropriate disclosures should be provided when there are Material Uncertainties.

This article is contributed by:



REINHARD KLEMMER
Partner,
Head of Professional Practice



CHRISTOF STEUBE
Senior Manager,
Department of Professional Practice

⁹ See SSA 570 (Revised) paragraph 22

¹⁰ See SSA 570 (Revised) paragraph A27



Preparing for 2018 Convergence with SG-IFRS: Experience and lessons learnt from convergence with IFRS in India

Companies in India are all geared up to present their financial results and statements in line with the requirements of accounting standards which are largely aligned with International Financial Reporting Standards (IFRS). In this article, we provide an overview of the convergence process and some of the lessons learnt in India.

Background

Companies in India have traditionally been required to prepare financial statements according to the requirements of the Indian Generally Accepted Accounting Principles (Indian GAAP).

There are significant differences between Indian GAAP and IFRS in the areas of business combinations, consolidation, financial instruments etc.

It is in this context that India initiated the process of convergence with IFRS in 2007 by stating its intent to converge with effect from 1 April 2011. The detailed roadmap of a phased implementation was issued by the Ministry of Corporate Affairs (MCA) in early 2010 and the final converged Indian Accounting Standards (Ind AS) were issued in February 2011.

However, closer to the date, the convergence with IFRS was deferred primarily on account of the following:

- Unaddressed ambiguities with respect to impact on taxation;
- Non-alignment with other regulations such as the Companies Act;
- Impending issuance of additional critical standards under IFRS; and
- Insufficient time for readiness and implementation by the Indian corporate sector which was attributed to the delayed issuance of Ind AS and lack of regulatory clarity.

The convergence process was reintroduced in February 2015 when MCA notified the revised roadmap, along with the suite of Ind AS. Companies in India could adopt Ind AS voluntarily for accounting periods beginning on 1 April 2015, with comparatives restated. Mandatory application takes place over two phases for accounting periods beginning on 1 April 2016 and 1 April 2017, with companies with a minimum net worth of INR5 billion in Phase One.

There is a separate roadmap for banks, insurance companies and non-banking finance companies (also in a phased implementation from 1 April 2018), due to the additional regulatory considerations for these entities.

Overview of the convergence process

While India has chosen the approach of converging with IFRS, Ind AS are to a large extent similar to the existing version of IFRS being applied internationally. However, the MCA has chosen to make a few exceptions and create 'carve-outs' from existing IFRS standards. Thus, if the financial statements prepared under Ind AS are impacted by a carve-out, the financial statements may not be considered to be compliant with IFRS. Key carve-outs include the following:

- Additional exemption on first time adoption for property, plant and equipment whereby companies may grandfather their previous Generally Accepted Accounting Principles (GAAP) carrying value as of date of transition. This has been the preferred choice amongst majority of Indian companies as far as property, plant and equipment is concerned.
- No equivalent guidance for IFRIC 15 *Agreements for Construction of Real Estate*; thereby permitting real estate companies to apply percentage of completion method for revenue recognition (subject to some conditions).
- Choice of capitalisation of the entire foreign exchange fluctuation on existing long term borrowings to fixed assets. This treatment is in line with existing Indian GAAP and hence was introduced to maintain continuity.
- Straight lining of operating lease rentals only in cases where the escalation is not in line with inflation. This was introduced keeping India's economic environment in mind.

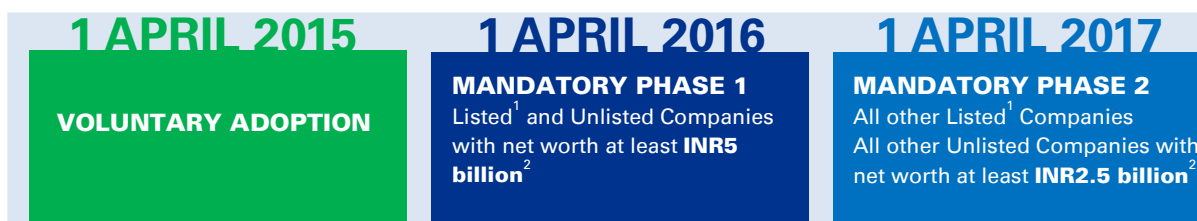
In addition to the carve-outs discussed above, Indian companies are required to apply the equivalent of IFRS 9 (2014). It is pertinent to note that this means that Indian companies would be amongst the first few jurisdictions to apply this standard. The thought process behind this approach was to save companies from moving to two different versions of the financial instruments standard within a short period of time. The approach of having a separate roadmap for banks and other financial institutions (which will be discussed in the paragraphs below) also meant that they would have time before moving to the IFRS 9 (2014) equivalent standards.

The initial thought was to adopt the equivalent of IFRS 15 *Revenue from Contracts with Customers* directly. However, given that the requirements of IFRS 15 are still being interpreted/clarified, requiring Indian companies to apply this in advance may result in

subsequent incremental efforts. Hence, the MCA has decided that companies should adopt the equivalent of IAS 18 *Revenue*.

Considering the need to address various issues raised on urgent basis, the ICAI has formed the Ind AS Transition Facilitation Group (ITFG) to provide clarifications on issues arising due to applicability and/or implementation of Ind AS.

IFRS Convergence for listed companies and high net worth companies (other than banks/NBFCs/insurance companies)



- 1 Listed companies whose equity and/or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India
- 2 Includes holding, subsidiary, joint venture or associate companies of these companies

According to the roadmap for IFRS convergence, by the financial year 2017 and 2018, it is expected that all listed companies in India and all unlisted companies with net worth above the INR2.5 billion threshold (other than banks/ Non-Banking Financial Company (NBFC)s/insurance companies) would be applying accounting standards converged with IFRS.

Separate convergence timeline for banks, insurance companies and other financial institutions

Banks, insurance companies and other financial institutions are required to adopt Ind AS with effect from 2018 to 2019 only. However, respective regulators for both banks and insurance companies have set up committees to evaluate the impact of adoption of Ind AS (including the financial instruments and insurance standards).

Banks and insurance companies are also required to submit proforma Ind AS financial statements from September 2016 onwards. This will help the regulator understand the impact of Ind AS adoption in advance and help smoothen the actual transition from 2018 to 2019. This will also help banks evaluate the impact of the financial instruments standards and especially the expected loss model prescribed for determining impairment of financial assets.

Some convergence challenges

While IFRS internationally are considered primarily for consolidated financial statements, companies in India are required to apply Ind AS for both separate and consolidated financial statements. This also means that the adoption of Ind AS would have an impact on direct and indirect taxes and corporate law compliances which are covered below.

Listed companies are also required to present the quarterly results with comparatives from the first quarter of the year (*i.e.* 30 June 2016) in which Ind AS standards are adopted. One of the key areas of discussion is the requirement to get the comparative period numbers reviewed/audited within the stringent timelines prescribed.

Impact on other regulations

With Ind AS being made mandatory for separate financial statements, one of the important questions to be addressed was the impact of Ind AS adoption on taxation. In addition to being one of the key reasons of deferral in 2011, companies were specifically concerned about the tax implications given that IFRS/Ind AS involves recognition of unrealised gains/losses (which is not the case under Indian GAAP).

Income Tax Act

- The process of addressing the impact of Ind AS on the Income Tax Act began in advance – draft reports were submitted by the committee set up for this purpose in 2012.
- Broad approach was to keep the income tax regulations unchanged (irrespective of accounting framework being adopted by companies).
- A set of Income Computation and Disclosure Standards (ICDS) were issued to supplement the Income Tax Act. These were effective 1 April 2015 onwards so that companies have complete clarity on this aspect.
- Companies in India are also required to pay Minimum Alternate Tax (MAT) determined based on accounting profits in special situations (such as brought forward tax losses).
- The tax authorities have presently chosen to determine MAT based on Ind AS profits and have also introduced specific rules for adjustments on first time adoption.
- Representations have been made on this given the shift from a prudence approach under Indian GAAP to recognition of unrealised fair value gains under Ind AS.

Other regulations

- Amendments were introduced between 2011 and 2015 to the accounting requirements and other related sections of the Companies Act to align areas such as current-non current presentation of balance sheet, depreciation etc. under Indian GAAP.
- However, matters such as distributable profits etc. are in the process of being discussed.
- Indirect tax regulations presently remain unchanged.

Takeaways

India's journey to convergence with IFRS has been a relatively long one with the first attempt in 2011 being deferred. It is only appropriate to consider some of the important takeaways in light of the overall process of convergence including the 2011 attempt.

Clarity on taxation matters has been on top of mind of CFOs of companies who are moving to IFRS or IFRS equivalent standards. It is therefore important to provide clarity on this aspect well in advance of the date of transition as the tax impact is one of the important inputs for structures/transactions. This has also been one key differentiator for India between the 2011 and 2015 approach to the convergence process. Issuing these standards more than one year in advance have also helped in this process.

While the objective of moving to IFRS equivalent is to ensure comparability of financial statements across geographies, the Indian regulators have recognised the need to make certain India specific exceptions in light of the economic environment (e.g. straight lining of lease rentals) or to ensure a smoother transition (e.g. deemed cost of fixed assets). Some of these exceptions or carve-outs have been introduced in the form of choices thereby enabling corporates to be aligned completely with IFRS if they choose to do so. This approach has made the Ind AS much more acceptable to the Indian companies.

Similarly, the approach to proposed changes to the IFRS framework which are already known has also been a key differentiator. For example, adopting IFRS 9 (2014) ahead of its global application means that Indian companies have been saved from the effort of

transitioning twice within a short span of time. This coupled with the phased approach for financial services entities have settled concerns around this area.

Traditionally, Indian companies have viewed this process as an accounting change. As they get closer to their first financial results under the IFRS framework, there is an increased realisation on the consequential impact on processes, systems, people (including team members in non-financial reporting roles) and communicating with external stakeholders such as investors, bankers, analysts, etc.

Concluding paragraph

The adoption of Ind AS would entail a significant change in the financial reporting framework used by Indian companies to report their financial results. As a consequence, there are several perspectives on how things could have been approached and dealt with. Each jurisdiction would need to have its own approach based on various factors such as the structure of financial reporting regulations, extent of differences between existing GAAP and IFRS, approach to financial reporting changes by companies in general. The next few months will provide us with a unique perspective on how the various stakeholders respond to this change.

Singapore's perspective

Similar to India's experience, the road to full IFRS convergence is not just smooth sailing in Singapore.

In 2009, the ASC had set, as its strategic direction, the aim of working towards full convergence of the Singapore Financial Reporting Standards (SFRS) with IFRS for Singapore listed companies by 2012.

However, in 2012, the ASC deferred the convergence plan primarily due to a few key outstanding issues that needed to be resolved with the IASB before full convergence could be implemented. Several key projects (financial instruments, revenue and leases) undertaken by the IASB were still in progress at that time and were not expected to take effect before 1 January 2015.

The convergence process resumed when the ASC announced in May 2014 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) for financial years ending 31 December 2018 onwards. As of the date of this article, the new framework has not been issued, but the framework is expected to be identical to IFRS. Non-listed Singapore-incorporated companies are allowed to voluntarily apply the new framework at the same time as listed companies. This allows Singapore subsidiaries of listed groups to apply the same framework as their listed parent.

Overview of the convergence process

Affected companies are expected to apply the transition standard, IFRS 1 *First-time adoption of IFRS*, to transition to SG-IFRS. In addition to applying IFRS 1, affected companies would also be adopting IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* at the same time. As the transition provisions in IFRS 1 override the transition provisions in IFRS 9 and IFRS 15, affected companies would need to consider the impact arising from applying IFRS 1 instead of those contained in the respective new standards.

Impact on regulations

There are however, still a number of important questions to be addressed that will shed light and provide greater clarity on the convergence process.

- The convergence plan currently only applies to Singapore-incorporated listed companies and does not extend to other listed vehicles such as REITs and Unit Trusts. Insofar as REITs and Unit Trusts are concerned, these vehicles are regulated by the Monetary Authority of Singapore (MAS), and MAS has not made any announcement regarding its views on full IFRS convergence for these vehicles. Questions remain as to whether full convergence would be required or allowed for these entities. If full convergence is not achieved, listed companies consolidating some of these vehicles may require these vehicles to maintain separate accounting records under SG-IFRS for group reporting purposes.
- Listed local banks may currently be applying MAS Notice 612 *Credit Files, Grading and Provisioning* to recognise collective impairment provisions for its loans and receivables at one percent of the loans and receivables net of collaterals and after deducting any individual impairment provisions (the 'simplified method'). It is uncertain whether MAS would adopt the IFRS 9 expected loss model as a single impairment model post 2018 or continue to allow the use of the simplified method. If MAS continues to allow the use of the simplified method, full convergence may not be achieved.
- While it is clear that companies with equities listed on the SGX must converge with IFRS in 2018, it is less clear whether the same would apply to companies with debt listed on SGX. Clarity over the scope of convergence would allow affected companies sufficient time to prepare for the change.
- As SFRS is largely similar to IFRS (and SG-IFRS) and the expectation is that it will continue to be aligned to IFRS (and SG-IFRS) in future, questions remain about ASC's plan for SFRS. The critical question on many stakeholders' mind is whether ASC will continue to maintain this framework, and, if yes, for how long? Clarity over the future plan for SFRS is potentially a key input for non-listed holding companies with listed subsidiaries and associates to make the important decision with regards to their voluntary adoption of SG-IFRS in 2018.
- Similar to India's experience, clarity on tax matters are always on top of mind of CFOs. It is important to provide clarity on this aspect well in advance of the date of transition as the tax impact is often a key input to structures and transition decisions such as the application of optional exemptions under IFRS 1. As it stands, it is unclear how IRAS will treat the transitional adjustments for tax purposes. It is also unclear if the same tax treatment proposed by IRAS in their recent tax consultation papers on SFRS 115 and SFRS 109 would apply equally to companies using IFRS 1 to transition to the new framework and applying IFRS 15 and IFRS 9 post 2018.

Conclusion

While many global players see the benefits of having a consistent set of accounting standards applied across the globe, there are numerous hurdles to overcome in order to smoothen the path to convergence. One of the key hurdles to full convergence is that a set of global standards may not cater to the specific needs of a country or may not address the unique economic environment in that country. Even though Singapore has taken the stand to be fully aligned with IFRS, other countries may choose to resolve this with carve-outs or transitional expedients.

One thing for certain is that for Singapore companies with subsidiaries in India, applying one set of accounting language across the group may not be possible given the different transition dates, the carve-outs and the phased implementation of IFRS in India. Maintaining dual reporting would likely continue despite substantial efforts by companies in both countries to converge.

With the date of transition now less than four months away, one can learn from India's experience that the convergence process is beyond just an accounting change. The consequential impact on processes, systems, people is potentially significant and communicating with external stakeholders such as investors, bankers, analysts is important. In addition, greater clarity on the regulatory matters as discussed above would help smoothen the transition process.

There is no more time to spare to start preparing for transition. The comparative information under SG-IFRS will be for the financial reporting year 2017, which is starting for calendar year reporting entities in 4 months. Management and stakeholders are well advised to get their arms around the new requirements and their implications on the financial reporting process including the reported numbers.

This article is contributed by:



CHAN YEN SAN
Partner, Department of
Professional Practice



ARCHANA BHUTANI
Partner, Department of
Professional Practice India



SIM ENG ENG
Senior Manager,
Department of Professional Practice



AJIT VISWANATH
Director,
Accounting Advisory Services



Starting early on meeting new sustainability reporting standards

This article was first published in The Business Times on 5 July 2016.

The Singapore Stock Exchange released its final sustainability reporting guidelines on 20 June 2016. While first time reporters now have 12 months after their 2017 financial year to publish their report, the next few months will be critical for the Board, senior management and the company to obtain a clear understanding around the implications and consider the strategy and processes needed to achieve a quality SGX-compliant report.

Under fresh requirements announced recently by the Singapore Exchange (SGX), all listed companies will need to disclose their sustainability practices or explain why they have not done so. Taking effect from Dec 31, 2017, these changes have been applauded by sustainability-minded stakeholders.

The SGX has joined the list of other exchanges that are early movers in implementing the change. The Johannesburg Stock Exchange, the Stock Exchange of Hong Kong, Bursa Malaysia, the Australian Securities Exchange and the Toronto Stock Exchange are among those requiring their listed companies to report on sustainability in some form.

Given the unique role stock exchanges can play in capital allocation, and their mandate to promote good corporate governance and market stability, many are following this trend.

Furthermore, investor interest in material non-financial disclosures has also been growing over the last few years, as demonstrated by the growth of investor networks such as the Principles for Responsible Investment (PRI).

This growth in non-financial data reporting can also be measured by the increase in companies using the Global Reporting Initiative (GRI) guidelines over the last decade.

By 2015, GRI was being used by 72 per cent of the 4,350 global companies surveyed in a KPMG study.

Many publicly listed companies in Singapore reporting on sustainability using the GRI guidelines are asking how the new SGX requirements affect their reports. While the SGX requirements are closely aligned with the most recent G4 iteration of the GRI, there are some noteworthy differences.

Perhaps the most apparent difference is that in GRI, a statement on sustainability and a verification of material aspects is needed from the "most senior decision maker", which is often the CEO or a member of the board.

Unlike the GRI, SGX requires the board itself, not just a representation of the board, to state that they have "considered sustainability issues as part of its strategic formulation, determined the material ESG factors and overseen management and monitoring of the material ESG factors".

What it means for the Board?

The board will need to consider if the company's sustainability vision and strategy align with its business vision and strategy.

In addition, they should verify that sustainability governance is fully integrated into existing governance structures.

The boards would also want to put in place robust reporting lines to ensure effective management and monitoring of ESG risks and opportunities.

It is well accepted that sustainability good practice includes fully embedding sustainability into the company's business.

By ensuring the integrity and competitive positioning of sustainability information published, boards can use their reports to communicate their management of risks and long-term value.

Companies will only maximise the value that sustainability can bring to the business if it is fully integrated and this SGX component ensures that this is done.

A second notable difference is that the SGX requirements ask companies to disclose their performance targets for the "forthcoming year" for every ESG factor identified as material.

Under GRI, targets are touched on, but not in great detail and are not required for every material aspect for the upcoming 12 months.

The introduction of targets encourages companies not only to disclose, but commit to an action plan to manage their impacts year on year. This again safeguards the benefits that reporting provide by ensuring that companies act on risks and opportunities identified in a timely and effective fashion.

Another difference is in the frequency of reporting.

GRI rules do not stipulate the frequency of reporting, whereas SGX requires an annual report that is produced within 5 months of the end of the company's financial year (companies have been given the option of extending this deadline to 12 months for their first SGX-compliant report).

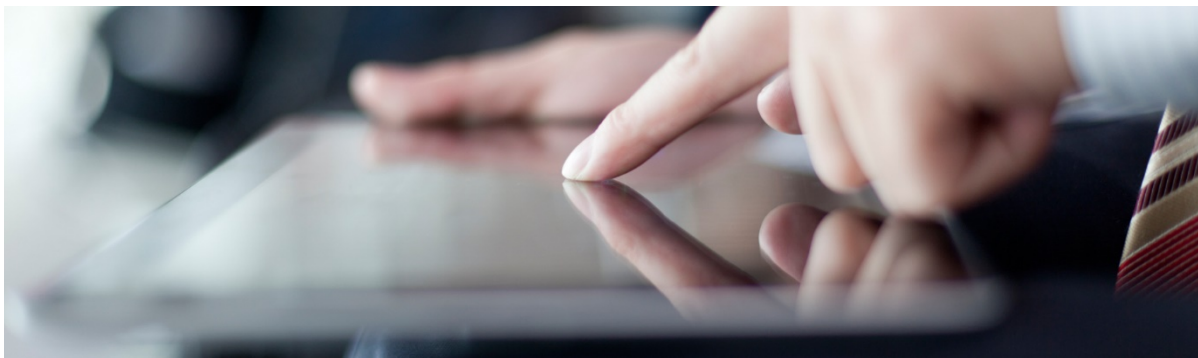
By completing this annual health-check, companies can continue to monitor their performance, identify any new opportunities and avoid any new risks. Urging annual reporting remains in line with SGX's aspiration to get the most out of sustainability reporting.

While the end of 2017 seems far away, starting early not only promotes timely compliance, but will provide companies with more time to understand how the new processes involved can better serve their business interests.

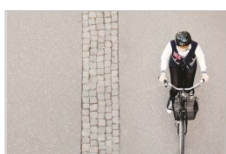
This article is contributed by:



IAN HONG
Partner, Sustainability
Advisory and Assurance



International Developments



Clarifying share-based payment accounting

Resolving some long-standing ambiguities in share-based payment accounting, the IASB has published amendments to IFRS 2 Share-based Payment.

The amendments will improve consistency in the following three accounting areas:

- Measurement of cash-settled share-based payments;
- Classification of share-based payments settled net of tax withholdings; and
- Accounting for a modification of a share-based payment from cash-settled to equity-settled.

Once a company applies the amendments, the timing and amount of expense recognised for new and outstanding awards could change.

The amendments are effective for annual periods beginning on or after 1 January 2018. Early adoption is permitted.

Read our [web article](#) to find out more.



IFRS 9 – Global accounting networks’ guidance for banks

For banks, implementing the new impairment requirements of *IFRS 9* Financial Instruments may be complex and expensive. With the effective date now only 18 months away, audit committees need to engage now to fulfil their key oversight role.

The Global Public Policy Committee – which comprises representatives from BDO, Deloitte, EY, Grant Thornton, KPMG and PwC – has published a [joint paper](#) that seeks to help audit committees meet their responsibilities.

The paper is addressed to audit committees of systemically important banks, but the principles also apply in a proportionate way to other banks and financial institutions.

Our [quick guide](#) summarises the implementation challenges and key focus areas of the paper, and poses ten key questions for audit committees to focus their discussions with management.



New financial instruments standard – Impacts on corporates

How corporates account for financial assets will change from 1 January 2018, when the new financial instruments standard comes into effect.

The challenges reach beyond accounting and may require changes to systems and processes. So if you have not begun, it is time to engage and assess the impact of IFRS 9 for your business.

To help you with this assessment, read our [IFRS 9 for corporates](#).



Revenue – Optimising your transition to the new standard

As the effective date of IFRS 15 is fast approaching, one key decision needs to be made soon – how and when to transition to the new standard. Identifying the optimal approach depends on a range of issues, so the answer may not be straightforward.

Our publication [Revenue – Transition options](#) will help you to choose the best option for your business.



New revenue standard – Rising to the implementation challenge

The past two years have seen companies wrestle with implementation issues arising from the new revenue standard.

During that period, we have gained extensive insight and hands-on experience in the US and globally. And we are delighted to share our experience in this second edition of [Revenue – Issues In-Depth](#).

Many have been surprised at the length and complexity of the assessment and implementation phases. If your client has not begun implementing the new revenue standard, it is time for them to engage and meet the expectations of stakeholders and regulators.

This publication will help you navigate the complexities of the new revenue standard.



Revenue recognition – It is time for insurers to engage

The new revenue standard – effective from 1 January 2018 – is likely to affect the way insurers account for non-insurance revenue. But it is more than just an accounting change.

[This publication](#) reflects the final version of IFRS 15 and focuses on the impacts of the new requirements on arrangements specific to insurers, such as those that include insurance and non-insurance components.



Insurance – Fine-tuning the forthcoming standard

The balloting process for the forthcoming insurance contracts standard has given rise to various sweep issues.

At its June meeting, the Board discussed considerations affecting measurement of, and adjustments to, the contractual service margin (CSM), insurance finance income and expenses, and accounting for reinsurance contracts.

The Board is continuing its balloting process for the new standard and expects to discuss the effective date in the third quarter of 2016. The final standard is expected towards the end of 2016.

Find out more in this month's [newsletter](#).

“The Board is fine-tuning the forthcoming insurance contracts standard, and is proposing a principles-based allocation of insurance finance expenses to profit or loss.”

JOACHIM KÖLSCHBACH
KPMG's Global IFRS Insurance Leader



New standard on insurance contracts – It is time to engage

The final insurance contracts standard is expected to be issued around the end of this year. Implementing the new requirements will be very complex, so it is time to engage.

Our latest publication – Accounting for insurance contracts is changing – can help you assess the extent of the impact, so that you can address the wider business implications and meet the expectations of stakeholders and regulators.

There is a version for [life insurers](#) and [general insurers](#). Our one-page [visual guide](#) to the new insurance contracts standard is also available.

Further, read our [newsletter](#) to find out more about the IASB's completed discussions on the differing effective dates of IFRS 9 and the forthcoming insurance contracts standard.

“The Board finished its redeliberations of the amendments to IFRS 4 and expects to issue them in September.”

JOACHIM KÖLSCHBACH
KPMG's Global IFRS Insurance Leader



Financial instruments with characteristics of equity – Discussions continue

As part of its ongoing discussions on financial instruments with characteristics of equity, the Board has made further progress in exploring the implications of attributing profit or loss and OCI to derivative equity claims.

Find out more in this month's [newsletter](#).

“Attributing profits to equity claims based on relative fair values may require more complex calculations and yield less intuitive results.”

CHRIS SPALL

KPMG's Global IFRS Financial Instruments Leader



KPMG survey – Room for improvement in business reporting

Corporate reports need to provide more in-depth discussion of strategy, backed by relevant operational KPIs, according to a new global survey from KPMG's Better Business Reporting team. Now in its second edition, the survey analyses the reports of 270 listed companies from across 16 countries, highlighting weaknesses and good practices in the presentation of business strategy and performance.

The survey flags a number of opportunities for improvement, including:

- Giving investors the information they need;
- Keeping the report content clear and relevant;
- Providing a longer term view using operational KPIs;
- Providing practical KPIs that align with strategy;
- Providing deeper analysis of strategy; and
- Focusing on risks most relevant to business value and growth strategies

To find out more, read KPMG's [Survey of Business Reporting](#).



Non-GAAP measures – Moving 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 requirements. But there seems to be a consensus building globally. The final statement issued this month by IOSCO, the international association of regulators, brings its approach further in line with the guidelines issued a year ago by ESMA, the European regulator.

The question for investors is whether the level of consistency, transparency and reliability is sufficient and, more generally, how GAAP needs to change to address investors' demands.

Read our [web article](#) to find out more.



Better communication – The IASB’s focus for the coming years

With many of its major projects completed, and IFRS widely adopted across the globe, the IASB has decided to prioritise ‘better communication’ in the coming years.

The plans that Hans Hoogervorst [outlined](#) at the IASB conference in Zurich are encouraging, as there are widely shared concerns about the communication effectiveness of today’s financial statements.

The improvements contemplated in the speech should ultimately lead to financial statements that better address investor demands for relevant and reliable information. A tick-box approach to financial reporting can result in large quantities of poorly organised data, drowning out valuable information and failing to depict a company’s performance clearly to investors.

The IASB is also looking at its role in the broader context of corporate reporting, and whether its remit should extend to non-financial reporting. We explore this subject in our thought leadership on [Better Business Reporting](#).

For more information, visit our web pages on the [future of IFRS](#) and [IFRS disclosures](#).

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.

Contact us

Reinhard Klemmer

Partner

Head of Professional Practice

T: +65 6213 2333

E: rklemmer2@kpmg.com.sg

Chan Yen San

Partner

Department of Professional Practice

T: +65 6213 2106

E: ychan@kpmg.com.sg

KPMG LLP

16 Raffles Quay #22-00

Hong Leong Building

Singapore 048581

T: +65 6213 3388

F: +65 6225 0984

kpmg.com.sg

This publication has been issued to inform clients of important accounting developments. While we take care to ensure that the information given is correct, the nature of the document is such that details may be omitted which may be relevant to a particular situation or entity. The information contained in this issue of Financial Reporting Matters should therefore not be taken as a substitute for advice or relied upon as a basis for formulating business decisions. Materials published may only be reproduced with the consent of KPMG LLP.

© 2016 KPMG LLP (Registration No. T08LL1267L), an accounting limited liability partnership registered in Singapore under the Limited Liability Partnership Act (Chapter 163A) and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.