KPMG

# Financial Reporting Matters

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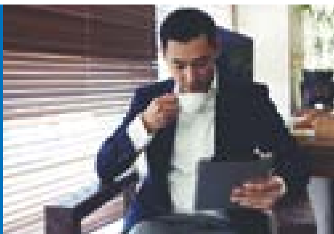

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# Full convergence to IFRS in 2018 is here to stay

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ASC, SGX and ACRA sent a host of reminders late last year to Singapore-incorporated companies listed on the Singapore Exchange (SGX). Companies were reminded to prepare for the upcoming full convergence with IFRS and the advent of the two new major accounting standards, revenue and financial instruments, in 2018. These announcements reaffirm ASC's policy decision to fully converge with IFRS in 2018. SGX has also communicated that all SGX-listed companies and Business Trusts currently reporting under FRS will be required to adopt the new financial reporting framework identical to the IFRS. This is regardless of their place of incorporation. REITs listed on SGX, however, will continue to report under the recommendations of Statement of Recommended Accounting Practice 7 *Reporting Framework for Unit Trusts* (RAP 7) issued by ISCA.

For the affected entities, the clock is ticking. In less than 9 months, they will face a significant change in financial reporting. Not only are they required to apply a new financial reporting framework identical to the IFRS (referred to as SG-IFRS in this article), they also have to implement two new major standards on revenue and financial instruments – all in 2018. In this article, we address some of the frequently asked questions on this topic.

## Are Singapore Financial Reporting Standards (FRS) identical to SG-IFRS?

NO! There are numerous differences between FRS and IFRS.

Examples of key differences are:

- **different** mandatory **effective dates,** for example for the consolidation suite (FRS 110, FRS 111, FRS 112, FRS 27 and FRS 28);
- **additional guidance** such as the accompanying note to INT-FRS 115;
- inclusion of **additional recommended accounting practices issued by ISCA** such as RAP 8; and
- **non-adoption** of IFRIC 2 in FRS

**If there are no differences between FRS and SG-IFRS in the specific case, can the entity assert compliance with SG-IFRS without applying SG-IFRS 1?**

YES. The entity **can choose not to apply SG-IFRS 1** and instead make the assertion that it fully complies with SG-IFRS in its published financial statements in 2017 (Approach 1). **The entity also has a choice of applying SG-IFRS 1 as the definition of a first-time adopter is predicated on an entity stating explicit compliance with SG-IFRS for the first time (Approach 2)**

**Taking Approach 1 is not a necessarily an easier option as compared to Approach 2.** To assert full compliance with SG-IFRS, a company has to go through the process of determining whether its existing accounting policies are in line with SG-IFRS and whether all past transactions (e.g. business acquisitions, restructuring exercises) are accounted for under SG-IFRS including certain superseded standards (e.g. previous versions of FRS 103 and predecessor of FRS 103 – FRS 22). The efforts taken could be similar to that of a first-time adopter.

If Approach 1 is taken, then the company will be deemed an existing preparer of IFRS. The implication of being an existing preparer of IFRS is that the company does not need to consider those provisions in the first-time adoption standard anymore. Instead it applies those transitional provisions in the new revenue and financial instruments standards. This means that the company can apply the cumulative approach when it adopts SG-IFRS 15 in 2018. It continues to be able to opt for the exemption from preparing comparatives when it adopts SG-IFRS 9. But the company will also have to forego all the opportunities arising from the options SG-IFRS 1 provides to first-time adopters.

## How will full convergence in 2018 affect the adoption of the new accounting standards on revenue and financial instruments?

With the transition to SG-IFRS, Singapore-incorporated companies listed on the SGX are considered to be first-time adopters of SG-IFRS. Accordingly, they have to apply the provisions in SG-IFRS 1 *First-time Adoption of SG-IFRS* when they prepare their first set of SG-IFRS financial statements.

**When a first-time adopter of SG-IFRS also adopts SG-IFRS 15 *Revenue from Contracts with Customers*, it has a choice to use either the full retrospective approach or the cumulative effect approach. Is this correct?**

NO! A first-time adopter of SG-IFRS cannot apply the cumulative effect approach to transit to SG-IFRS 15. This approach allows the cumulative effect of applying SG-IFRS 15 to be recognised directly in opening equity at the date of initial application of SG-IFRS 15 with no adjustments to the comparative information. But as a first-time adopter of SG-IFRS, SG-IFRS 1 has specific provisions regarding how a first-time adopter should apply SG-IFRS 15 and retrospective application with certain expedients is required.

The transitional provisions in SG-IFRS 15 are not applicable as the provisions in SG-IFRS 1 take precedence. Under SG-IFRS 1, **a first time adopter of SG-IFRS can only adopt the retrospective approach.**

This means a first-time adopter of SG-IFRS with a December year end will have to apply SG-IFRS 15 retrospectively and adjust each comparative period presented in the 2018 financial statements. The good news is that the first-time adopter of SG-IFRS is able to elect the practical expedients available in SG-IFRS 15 when adopting the standard.

**When a first-time adopter of SG-IFRS also adopts SG-IFRS 9 *Financial Instruments*, does SG-IFRS 1 have any specific exemption to restate comparatives?**

YES! In this case, SG-IFRS 1 has specific provisions that allow a first-time adopter of SG-IFRS **NOT** to restate comparatives when applying IFRS 9 for the first time for its first set of SG-IFRS financial statements.

Hence, a first-time adopter of SG-IFRS with a December year end that chooses this exemption recognises the cumulative effect of IFRS 9 adoption in equity as at 1 January 2018. The cumulative effect is calculated as the difference between:

- the carrying amount before the adoption of SG-IFRS 9; and
- the new carrying amount calculated in accordance with the standard at 1 January 2018.

The diagram below shows a December year end Singapore-incorporated Company listed on the SGX that presents one year of comparative financial information in its 2018 financial statements. It elects to use the exemption in SG-IFRS 1 not to restate comparatives when adopting SG-IFRS 9. Therefore, the comparatives are those as previously reported under FRS 39. As there is no such exemption for the changes to the revenue standard, the comparatives are restated according to SG-IFRS 15.

1 January 2017

31 December 2017

SG-IFRS comparatives

First SG-IFRS reporting period

Date of opening SG-IFRS balance sheet

1 January 2018

31 December 2018
First SG-IFRS reporting date

SG-IFRS 15

SG-IFRS 15

FRS 39

SG-IFRS 9

Equity adjustment
- first time adoption of SG-IFRS
- SG-IFRS 15

Equity adjustment on adoption of SG-IFRS 9

## Opportunity to review continued relevance of accounting policies and apply various transition options

**Given that FRS are largely similar to IFRS, can a first-time adopter of SG-IFRS change its accounting policies in the first SG-IFRS financial statements?**

YES! SG-IFRS 1 requires a first-time adopter to select its SG-IFRS accounting policies in the first set of SG-IFRS financial statements and there is no requirement in SG-IFRS 1 to retain the current FRS accounting policies.

In the Q&As developed by ISCA in collaboration with ASC, companies are given the caution that choosing a different accounting policy on transition to SG-IFRS may raise additional scrutiny. Therefore, preparers should always consider what accounting policy best reflects their business model and their particular facts and circumstances and choose the most appropriate accounting policy – which may well be the one already applied under FRS.

The transition to SG-IFRS offers both opportunities and challenges. The application of SG-IFRS 1 may give rise to accounting adjustments even though the existing FRS framework is largely similar to SG-IFRS. For example, a first-time adopter could take this opportunity to refresh its accounting policies under the SG-IFRS framework. It can also choose to apply numerous optional exemptions available under SG-IFRS 1. These permitted adjustments may be made even if the FRS numbers could be used unchanged for SG-IFRS reporting purposes.

Some exemptions need to be applied in order to allow for the carry-over of the existing FRS numbers to SG-IFRS as the basic concept of SG-IFRS is to apply the currently effective standards retrospectively to all past transactions even if the effective date of the same FRS was only later, for example 2014 for FRS 110 *Consolidated Financial Statements*. The interests of stakeholders and how they would benefit from a change in the accounting policies should always be key considerations.

In addition, a decision to make such adjustments may involve costs relating to the compilation of information from past records to quantify the necessary adjustments. These adjustments will need to be audited and should be considered in the cost-benefit analysis of any such change.

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

| Optional exemptions | Financial statements impact on | | |
|---|---|---|---|
| | **Opening net assets** | **Post-transition P&L** | **Transition efforts** |
| **Resetting foreign currency translation reserve (FCTR) to zero**<br><br>Gains and losses on translation of financial statements of foreign operations are recognised in a separate category of equity i.e. FCTR and recycled to the income statement when that foreign operation is disposed.<br><br>As such, FCTR is required to be tracked at the level of each foreign operation so as to facilitate the transfer to the income statement on disposal of the said foreign operation.<br><br>On transition, the first-time adopter is permitted to reset the translation gains or losses to zero by transferring the accumulated balance in FCTR to opening retained earnings. | | | |
| This optional exemption offers the first-time adopter: | | | |
| • an opportunity to start afresh to track the FCTR at the level of each foreign operation; | | | no additional transition effort required |
| • in case the FCTR contains a deficit balance (i.e. loss), the entity may prefer to reset the FCTR to zero so as to protect itself from the adverse impact of such losses being recycled to the income statement on disposal of foreign operations; | No change | | |
| • Similarly, if FCTR is in a gain position on transition date, resetting FCTR to zero would result in lower profits upon disposal of a foreign operation , but would increase retained earnings and be potentially distributable. | No change | | |
| **Deemed cost exemption – Property, plant and equipment (PPE) and investment property carried at cost**<br><br>First-time adopters are permitted to fair value items of PPE and investment property (carried at cost) on the transition date and use these fair values as the new deemed cost of the assets.<br><br>This option can be exercised on an asset-by-asset basis on the transition date and is not an on-going accounting policy for revaluing the assets. | | | |
| This optional exemption results in:<br>• a higher carrying value of assets on transition date that enhances the equity base of the entity and may result in higher risk of future impairment; and | | | |
| • higher depreciation charge on depreciable assets that will impact future profitability,<br><br>if the fair value exceeds the carrying value. | | | |
| In cases where the fair value is lower than cost, the entity may wish to take this opportunity to revalue the asset downward at the date of transition. The lower cost base reduces future depreciation charges and may reduce the risk of future impairment. | | | |
| However, computing fair value information on transition date may require additional effort and the use of services of valuation experts. | | | |
| To avoid the use of hindsight, fair value information as of the transition date (1 January 2017) needs to be available and be kept on file from that date onwards. | | | |

| Optional exemptions | Financial statements impact on: Opening net assets | Post-transition P&L | Transition efforts |
|---|---|---|---|
| **Accounting policy: Investment property** | | | |
| An entity may refresh their accounting policy on investment properties and change it from the fair value model to the cost model or vice versa. | | | |
| If the new accounting policy is measuring the investment properties at cost and the existing accounting policy is to measure the investment properties at fair value, the assets need to be written down to original cost (less depreciation and impairment) with corresponding effect to opening equity. | ▼ (assuming fair value is higher than cost) | ▲▼ | ▲ |
| The entity may adopt the deemed cost exemption which would allow all or some investment properties to be stated at fair value on transition date in which case the impact will only be on future depreciation expense.<br><br>Such change should only be considered if it more appropriately reflects the changed business model of the reporting entity. | — (assuming fair value is higher than cost and deemed cost exemption is applied to all properties) | ▲▼ | no additional transition effort required |
| **Restatement of past business combinations** | | | |
| SG-IFRS 1 permits the first-time adopter not to restate business combinations before the date of transition, or any date prior to that. | | | |
| If the said exemption is not adopted, all past business combinations before the date of transition (or any date prior to that) need to be restated based on SG-IFRS 3 and the assessment of control as per SG-IFRS 10 (and not FRS 27). If the date of obtaining control under SG-IFRS 10 differs from that under FRS 27, then restatement of past business combinations would require acquisition accounting from the date of obtaining control as per SG-IFRS 10. This would lead to significant costs and efforts in terms of compiling financial information from past records, but could potentially result in significant additional goodwill amounts being recognised. | ▲▼ | ▲▼ | ▲ |

Legend: ▲ represents increase; ▼ represents decrease
*(Extracted from Financial Reporting Matters June 2014 Issue 47)*

## Conclusion

The adoption of SG-IFRS together with the adoption of the new revenue and financial instruments standards in 2018 represents a significant change in the Singapore financial reporting landscape. Assessing all options available to a company and taking the best way forward requires a complex analysis of past accounting treatments and a thorough assessment of the most appropriate financial reporting policies and the benefits and costs associated with applying the numerous transition options available in SG-IFRS 1. The change does not only affect the finance department but touches many aspects of the business. Senior management needs to be involved to drive the change process as decisions taken now will impact the company's performance in the future.

Such wide-ranging decisions will also require the involvement of the Audit Committee (AC) and the Board. Senior Management will need to get prepared for the discussion with the AC and the Board.

ACRA, in its Financial Reporting Practice Guidance No. 1 of 2016 issued on 8 December 2016, set out its areas of review focus under the Financial Reporting Surveillance Programme (FRSP) for FY2016 financial statements. It also reminded companies that it expects the Management of Singapore-listed companies to complete the impact assessment for first-time adoption of IFRS before the FY2016 financial statements are authorised for issue. Therefore, we advise Senior Management to hold this crucial discussion with the AC and the Board now.

# Budget 2017 – measures for businesses

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**On 20 February 2017, the Minister for Finance delivered the Budget Statement for the financial year 2017. Budget 2017 introduces polices to help Singapore stay agile and adaptive to the rapid changes of our external environment. It provides both near term continuation of measures to support businesses as well as targeted measures for different sectors to strengthen their capabilities to move forward together in becoming an innovative and connected economy. In this section, we give an overview of the key changes in tax measures that affect businesses.**

**For calendar year-end listed entities benefiting or affected by the new or revised policies, the effects of these policies would likely only be reflected in the financial statements in 2017 or onwards.**

"This year's Budget didn't deliver fireworks, but what's more important is that Minister Heng has brought fuel to the flame, and the fire is being stoked with measures supporting education, internationalisation and digitalisation, and a review of the tax system for the long term."

**- Ong Pang Thye, Managing Partner, KPMG in Singapore**

## Income tax measures for businesses

Budget 2017 announced the following tax measures to continue helping businesses to cope with rising costs and supporting innovation in an uncertain economy:

- Enhancing and extending the Corporate Income Tax (CIT) Rebate for Year of Assessment (YA) 2017 and YA 2018
- Introducing an Intellectual Property Development Incentive (IDI)
- Introducing a safe harbour rule for cost sharing agreements for Research and Development (R&D) projects

Key highlights of these tax measures are set out below.

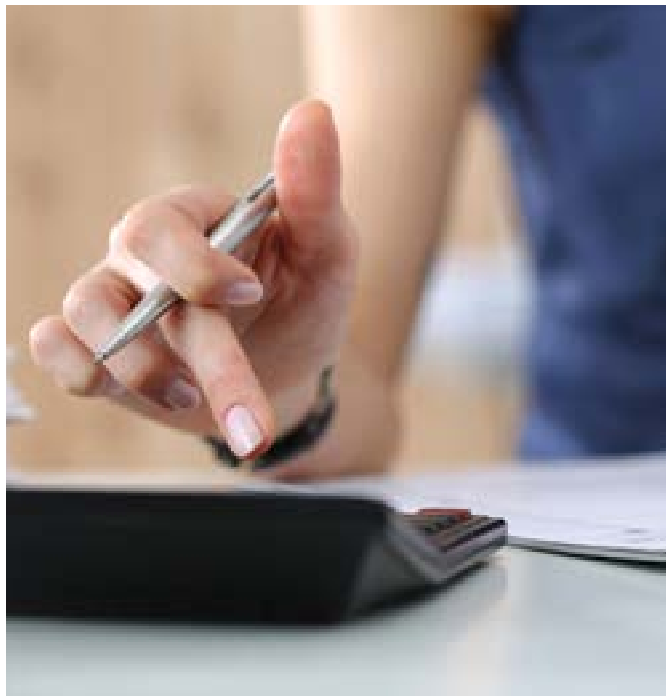
### Enhancing and extending the CIT Rebate for YA 2017 and YA 2018

The CIT rebate will be enhanced by raising the rebate cap from $20,000 to $25,000 for YA 2017 (with the rebate rate unchanged at 50% of tax payable).

In addition, the CIT rebate will be extended for another year to YA 2018, at a reduced rebate rate of 20% of tax payable and capped at $10,000.

"The Government's decision to increase corporate tax rebate to $25,000 will certainly be welcomed by corporates in Singapore. However, this may not sufficiently help businesses, as many are still grappling with rising business costs on all fronts."

**- Alan Lau, Tax Partner, KPMG in Singapore**



"The extension of the corporate income tax rebate is welcome, but it does not provide any relief to loss-making businesses."

**- Harvey Koenig, Tax Partner, KPMG in Singapore**

### Introducing IDI

This new incentive aims to encourage exploitation of intellectual property (IP) arising from R&D activities of taxpayers in Singapore. Currently, IP income arising from qualifying activities (e.g. royalty income and licence fees) is incentivised under different incentive programmes such as the Pioneer-Services/ Headquarters Incentive and the Development and Expansion Incentive (DEI)-Services/ Headquarters.

Under the Pioneer-Services Incentive, qualifying companies enjoy full corporate income tax exemption on qualifying profits for up to 15 years. Companies that are granted the DEI-Services/ Headquarters enjoy a concessionary tax rate ranging from 5% to 10% on their incremental income derived from qualifying activities.

With the introduction of IDI regime, IP income will be removed from the scope of Pioneer-Services/ Headquarters and the DEI-Services/ Headquarters incentives for new incentive awards starting 1 July 2017. Existing incentive recipients will continue to enjoy their existing incentive awards till 30 June 2021.

"The introduction of a separate incentive regime for intellectual Property (IP) income sounds similar to the "patent box regime" adopted by many European countries. This will help Singapore to compete at a global level and attract innovation and IP to Singapore."

**- Ajay Sanganeria, Tax Partner, KPMG in Singapore**

IDI will provide concessionary income tax rates on income from qualifying patents and other IP rights. The tax rate that will apply is yet to be announced, but we would expect it to be aligned to the rates offered under the DEI, which is currently at 5 or 10 percent in typical cases. The IDI scheme will follow the "modified nexus" approach endorsed by the OECD under Action 5 (Countering Harmful Tax Practices More Effectively, Taking into Account Transparency and Substance) of the Base Erosion and Profit Sharing (BEPS) project. This approach for IP regimes seeks to directly link IP regime benefits to the taxpayer company's contribution to the development of the IP in question. Under this approach, preferential tax treatment under the incentive will be granted to taxpayers for income arising from IP where the actual R&D activities are undertaken by the taxpayers themselves or outsourced to unrelated parties.

Please refer to our Tax Alert Issue 16 on IDI for more details.

The EDB will release further details of the change by May 2017, including the qualifying criteria.

"The measures to strengthen SMEs capability to innovate is a good start and builds on the strength of our agencies. However this is only the beginning as many SMEs are only commencing their innovation journey. They will need even more help along the way to navigate issues such as working with innovation partners, protecting their intellectual property and commercialising their ideas. SMEs should look to schemes such as the Capability Development Grant and R&D tax incentives to fund their innovation projects."

**- Harvey Koenig, Tax Partner, KPMG in Singapore**

## Introducing a safe harbour rule for cost sharing agreements for R&D projects

This new scheme helps to ease compliance by allowing taxpayers to opt to claim tax deduction under section 14D of the Income Tax Act for 75% of the payments made under an R&D cost sharing agreement (CSA) incurred for qualifying R&D projects, without the need to provide the breakdown of the expenditure covered by the CSA payments.

Currently, taxpayers claiming CSA payments are subject to section 15 restriction rules whereby certain categories of expenditure are not allowable. With the change, claiming of R&D CSA payments made on or after 21 February 2017 will not be subject to detailed examination if taxpayers elect for the 75% rule.

IRAS will release further details of the change by May 2017.

## Other key changes for Businesses

Other targeted measures that have been tweaked to strengthen support for digitalisation, innovation and internationalisation include:

- Enhancing the Global Trader Programme (GTP) by extending the concessionary tax rate to the following income:
  - income derived from qualifying transactions with any counterparty (i.e. requirement for qualifying transactions to be carried out with qualifying counterparties is removed);
  - physical trading income arising from commodity purchased for the purpose of consumption in Singapore or for the supply of fuel to aircraft or vessels within Singapore; and
  - income attributable to storage in Singapore or value added activity (e.g. refining, blending, processing or bulk-breaking) carried out in Singapore.

These changes will facilitate and encourage more trading and value added activities in Singapore and will apply to qualifying income derived by approved global trading companies on or after 21 February 2017. However, the substantive requirement to qualify for the GTP will be increased for new or renewal incentive awards approved on or after 21 February 2017. IE Singapore will release further details of the change by May 2017.

Please refer to our Tax Alert Issue 19 on GTP for more details.

- Extending and refining the scope of the Aircraft Leasing Scheme to continue supporting the Singapore aviation leasing industry. The scheme will be extended for another five years till 31 December 2022 and the scope of qualifying ancillary activities for approved aircraft lessors will cover the provision of finance in the acquisition of aircraft or aircraft engines by any lessee (i.e. no longer confined to airline companies) with effect from 21 February 2017. The concessionary tax rate will also be simplified to a single rate of 8%, which will apply to new or renewed incentives approved on or after 1 April 2017.

- Extending and refining the Integrated Investment Allowance Scheme to continue helping businesses to be cost efficient in outsourcing their manufacturing activities to lower cost countries. The scheme will be extended till 31 December 2022 and the qualifying productive equipment may now be used by the overseas company primarily (instead of solely) to manufacture products for the qualifying company. This liberalisation will only apply to expenditure on qualifying productive equipment for projects approved on or after 21 February 2017.

- Extending and/or refining certain existing tax incentives of the financial sector to strengthen the attractiveness of Singapore as the finance and treasury centre. These include:

  - extending the qualifying period for withholding tax exemption on tax payments made to non-resident non-individuals for structured products offered by financial institutions till 31 March 2021.

  - refining the Finance and Treasury Centre (FTC) scheme by streamlining the qualifying counterparties for certain transactions of approved FTCs.

  Please refer to our Tax Alert Issue 19 on FTC for more details.

  - extending the following tax incentive schemes for Project and Infrastructure Finance till 31 December 2022:

    a. Exemption of qualifying income from qualifying project debt securities;

    b. Exemption of qualifying income from qualifying infrastructure projects/ assets received by approved entities listed on the SGX; and

    c. Concessionary tax rate of 10% on qualifying income derived by an approved Infrastructure Trustee Manager/ Fund Management Company from managing qualifying SGX-listed Business Trusts/ Infrastructure funds in relation to qualifying infrastructure projects/ assets.

- Extending the withholding tax exemption on payments for international telecommunications submarine cable capacity under an Indefeasible Rights of Use agreement till 31 December 2023 to support building of a strong digital economy.

- Extending the Additional Special Employment Credit (ASEC) for another three years till 31 December 2019 to encourage more employers to continue hiring and retaining older workers. The scheme provides for additional wage offsets of up to 3% for employers hiring workers who earn up to $4,000 per month and who are:

  - above re-employments age (raised from 65 years to 67 years with effect from 1 July 2017); or

  - above 65 years old as of 1 July 2017 but not covered by the new re-employment age.

- Deferring the foreign worker levy increases for one more year for the marine and process sectors in view of the continued weakness in these two sectors.

In addition, to further strengthen enterprises, especially SMEs in building up their digital capabilities, a new SME Go-Digital Programme will be introduced whereby SMEs will get step-by-step advice on technologies, in person help at SME Centres and funding at each stage of their growth.

"The Go Digital Programme is a welcome move for SMEs. As we live in an increasingly globalised world, the creative employment of technology is necessary for Singapore to retain its competitiveness as a cutting-edge economy. SMEs can use these incentives to harness the digital space, which will spur value creation and support Singapore's position as a global hub."

**- Larry Sim, Tax Partner, KPMG in Singapore**

The tax regime is also simplified and rationalised by withdrawing:

- *Tax deduction for Computer Donation Scheme*. As the objectives of the scheme had been achieved, the scheme will be withdrawn after 20 February 2017. That means companies that donate computers on or after 21 February 2017 will not be eligible for any tax deduction.

  Companies that donated computers before 21 February 2017 will still enjoy the 250% tax deduction, subject to existing conditions.

- *Accelerated Depreciation Allowance for Energy Efficient Equipment and Technology (ADA-EEET) Scheme*. Over the years, new incentives, such as the Investment Allowance – Energy Efficiency Scheme and the Productivity Grant, were introduced

to promote energy efficiency. To streamline the various incentives that promote energy efficiency, the ADA-EEET scheme introduced in 1996 will be withdrawn after 31 December 2017. No ADA-EEET will be granted for equipment installed on or after 1 January 2018.

Capital expenditure incurred before 1 January 2018 for certified energy efficient and energy saving equipment installed before 1 January 2018 will still qualify for an accelerated writing down period of one year, subject to existing conditions.

- *Accelerated Writing-Down Allowances (WDA) for acquisition of Intellectual Property Rights (IPRs) for Media and Digital Entertainment (MDE) content Scheme.* As the scheme is assessed to be no longer relevant, the Scheme will be allowed to lapse after the last day of the basis period for YA 2018.

  For IPRs acquired for MDE content before the last day of the basis period for YA 2018, an approved MDE company or partnership is still allowed to claim WDA over a period of two years for capital expenditure incurred in respect of IPRs pertaining to films, television programmes, digital animation or games, or other MDE content acquired for use in its business. After YA 2018, MDE companies or partnerships may only elect to claim WDA over a writing-down period of 5, 10 or 15 years on the capital expenditure incurred to acquire the qualifying IPRs.

- *International Arbitration Tax Incentive (IArb).* This incentive grants approved law practices 50% tax exemption on qualifying incremental income derived from the provision of legal services in connection with international arbitration. As Singapore has grown as an international arbitration hub over the past decade, the IArb will be allowed to lapse after 30 June 2017.

- *Approved Building Project (ABP) Scheme.* Currently, land under development is granted property tax exemption for a period of up to three years under the ABP scheme, subject to conditions. In line with the abolition of property tax refund for vacant buildings on 1 January 2014, this scheme will be allowed to lapse after 31 March 2017 as property tax is a tax on property ownership rather than dependant on whether the property is put to use or occupied.

More details on the tax changes and new initiatives unveiled in Budget 2017 are available on the IRAS website and MOF website.

You may also refer to KPMG Singapore Budget 2017.

## Accounting impact on 31 December 2016 year-end financial statements

Changes in income tax laws and regulations are taken into account in the measurement of current and deferred taxes from the date of substantive enactment of these changes. In Singapore, new tax measures are generally considered substantively enacted on the date of the Budget announcement by the Singapore Minister for Finance during the Budget Statement.

If your financial year ends on 31 December 2016, the measurement of current and deferred taxes should not take into consideration the effect of the new tax measures introduced in the 2017 Budget Statement. However, if the tax changes arising from the new tax measures are material to the financial statements, a description of the new measures and an estimate of their financial effect shall be disclosed as a subsequent event.

For other changes that do not affect the current or deferred taxes, such as changes in incentives that are accounted for as government grants (such as the ASEC), the effect of changes are considered when they are effective and applicable.

## Accounting impact on interim financial statements for the quarter ended 31 March 2017

The effect of the new tax measures on the opening current and deferred taxes are recognised immediately in the interim period or as an adjustment to the effective tax rate as appropriate.

Refer to our publication Insights 13th Edition Chapter (5.9.160 to 190) which provides an extensive discussion on the accounting for income tax in the interim financial statements.

# Overview of 2016 tax changes

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## An overview of salient tax changes that could affect businesses for the financial year ended 31 December 2016

### Introducing a new Automation Support Package

This new scheme, which aims to support companies to automate, drive productivity and scale up, comprises the following components:

(i) Investment Allowance of 100% on approved capital expenditure (net of grants) capped at $10 million per qualifying project;

(ii) Capability Development Grant (CDG) to support the roll-out or scaling up of automation projects at up to 50% of qualifying costs, capped at $1 million per project;

(iii) Financing support for qualifying projects under SPRING Singapore's Local Enterprise Finance Scheme (LEFS) is enhanced by increasing the government's risk-share with participating financial institutions from 50% to 70% for qualifying projects undertaken by SMEs. The LEFS is also expanded to cover equipment loans for non-SMEs at 50% risk-share; and

(iv) Assisting businesses to access overseas markets.

For the CDG [item (ii) above], the taxability of the grant will depend on whether the grant is revenue or capital in nature.

CDG granted for the following supportable areas are generally taxable as they are revenue in nature:

- Brand Development
- Business Excellence
- Business Innovation & Design
- Enhancing Quality & Standards
- Financial Management
- Human Capital Development
- Intellectual Property & Franchising
- Service Excellence

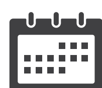
CDG granted for the following supportable areas are not taxable as they are capital in nature:

- Productivity Improvements
- Technology Innovation

## Enhancing the Mergers & Acquisitions (M&A) Scheme

Under the M&A scheme, a qualifying company can claim a tax allowance of 25% and stamp duty relief, for the cost of acquisition for qualifying share purchases for each year up to a certain cap. The cap was doubled from $20 million to $40 million for qualifying share acquisitions made from 1 April 2016 to 31 March 2020.

Besides the cap on the cost of acquisition, the amount of M&A allowance granted to an acquiring company for each YA for all qualifying share purchases made in the basis period for that YA is subject to an overall cap, as follows:

|  Basis period in which acquisitions were made | Cap on M&A allowance for corresponding YA |
|---|---|
| Ends before 1 April 2016 | $5 million |
| Starts on or after 1 April 2016 | $10 million |
| Straddles 1 April 2016[1] | Shares acquired before 1 April 2016 - $5 million<br>Shares acquired on or after 1 April 2016 - $10 million<br>(1) & (2) subject to overall cap of $10 million |

Similarly, the cap on the amount of stamp duty relief for each financial year is dependent on the period in which the qualifying share acquisition takes place, as follows:

### Cap on stamp duty relief for each financial year

| | |
|---|---|
| 1 April 2015 to 31 March 2016 | $40,000 |
| 1 April 2016 to 31 March 2020 | $80,000 |

For more details on the M&A scheme, please refer to the IRAS e-Tax Guide, and the March 2015 issue and the December 2011 issue of KPMG Financial Reporting Matters.

[1] For example, for a December year-end company, acquisitions made during the basis period for YA 2017 (i.e. 1 January 2016 to 31 December 2016) will be subject to two caps as stated in the table, i.e. shares acquired during 1 January 2016 to 31 March 2016 would be subject to cap of $5 million and shares acquired during 1 April 2016 to 31 December 2016 would be subject to cap of $10 million, and overall cap of $10 million would apply for the whole year 2016.

## Introducing Business and IPC Partnership Scheme (BIPS)

Under BIPS, businesses can enjoy a total of 250% tax deduction on qualifying expenditure incurred when they send their employees to volunteer and provide services, including secondments, to Institutions of a Public Character (IPCs), subject to the receiving IPC's agreement. This scheme is applicable to services provided (e.g. legal, human resources, accounting and other professional services, or general voluntary services) from 1 July 2016 to 31 December 2018.

The following businesses do not qualify for BIPS:

The qualifying expenditure (which includes basic wages and certain related incidental expenses) is subject to a cap of $250,000 per business per YA. Each IPC is also subject to a qualifying expenditure cap of $50,000 per calendar year. For the year 2016, the qualifying expenditure cap is $25,000 (i.e. 6/12 x $50,000) per IPC.

For more details on BIPS, please refer to the IRAS website and MOF website.

| Type of business/ company | Reason |
| --- | --- |
| Non-resident businesses subject to final withholding tax | They are currently taxed at reduced final withholding tax rates on gross income, and not on net income. |
| Investment holding companies | They derive only passive income such as dividend, interest or rental, and are not regarded to be carrying on a trade or business for tax purposes. |
| Trusts other than registered business trusts | Trusts (other than registered business trusts) are generally used as passive investment vehicles with no active business operations. |
| Service companies that elect to use the cost plus mark-up basis of assessment | An acceptance of mark-up as the chargeable income of the company is net of all available deductions and allowances (including BIPS). |

## Providing for allocation of expenses under Section 14U[2] and pre-commencement expenses under Part V of the Income Tax Act[3]

To ensure fair allocation of Section 14U expenses and pre-commencement expenses to income derived by businesses enjoying tax incentives which are subject to tax at different rates in the first YA and to provide certainty on the allocation method to be used, such expenses will be allowed as follows:

| Type of expense | Tax treatment |
|---|---|
| Section 14U expenses and pre-commencement expenses that are directly attributable to exempt income, concessionary income and normal income | Offset against the respective income streams |
| All remaining Section 14U and pre-commencement expenses | Allocated to the respective income streams based on income apportionment basis that is a fair and reasonable reflection of the expenses attributable to the respective income streams, and the basis used is consistently applied (e.g. "turnover", "gross profit" or "ratio B" for banks) |

The above change applies to Section 14U expenses and pre-commencement expenses incurred on or after 25 March 2016.

For more details on this tax change, please refer to the IRAS e-Tax Guide.

For an overview of the Singapore Tax Budget and other income tax measures that affect businesses, please refer to the KPMG publication Singapore Budget 2016 Report and April 2016 issue of the KPMG Financial Reporting Matters.

[2] Section 14U deems the first day of the accounting year in which a business earns its first dollar of trade receipt as the date of business commencement. The business can claim tax deduction on revenue expenses incurred up to 12 months before this date as well as revenue expenses incurred during that accounting year before the first dollar is earned (collectively referred to as "Section 14U expenses").

[3] Pre-commencement expenses under Part V of the Income Tax Act refers to the qualifying expenditure relating to intellectual property protection, research and development, renovation and refurbishment and design incurred before the business activity commences that are deemed to be incurred on the first day on which the business activity commences under sections 14A(3) [relating to costs for protecting intellectual property], 14D(2) [relating to research and development expenditure], 14Q(4) [relating to renovation and refurbishment expenditure] and 14S(5) [relating to design expenditure] of the Income Tax Act.

# Corporate Governance Disclosures

This article is contributed by:

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Partner,
Risk Consulting

**In every listed company's annual report, the Singapore Exchange (SGX) Listing Rule 710 requires that they disclose whether they "comply" with the principles and guidelines as specified in the Singapore Code of Corporate Governance (Code) 2012, or "explain" any departure from the Code.**

The recent *SGX-KPMG Corporate Governance Study* ("the Study") of 545 Mainboard companies found that while the state of disclosures is good, there is room for improvement. Many companies appear to view the Corporate Governance (CG) section of the annual report as a compliance-driven exercise – disclosing only the minimum level of detail. Other companies view disclosures as a driver of value, and choose to provide more forthcoming and specific details.

The objective of the study was to identify the extent to which CG disclosures were present (either a positive or negative statement) and of good quality (the disclosure, including explanations for alternative practices, provides forthcoming and meaningful information to enable the reader to understand the practices adopted by the company) in relation to the key requirements specified in the CG Code, the SGX Disclosure Guide (issued in January 2015) and the SGX Listing Rule 1207 (10) (the Listing Rule).

Disclosures on each of the 16 principles and 82 guidelines of the Code and the Listing Rule requirements were evaluated based on whether the disclosure was present, which would account for one-third of the score, and the quality of the disclosure if present, which would carry two-thirds of the score. The heavier weighting reflects the focus of this study on substance over form.

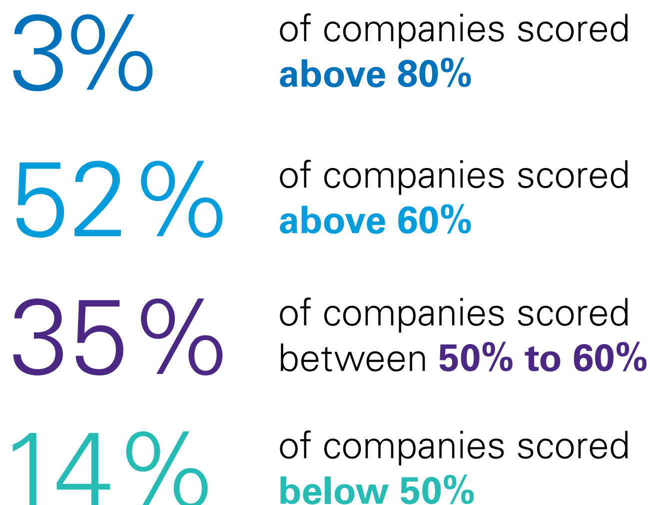
## Results of the study

The following chart shows the results of the study:

### Overall company score distribution

Percentage Scores

| Percentage Scores | Number of companies |
|---|---|
| **Low** | |
| 0<10% | 0 |
| 10<20% | 0 |
| 20<30% | 1 |
| 30<40% | 9 |
| 40<50% | 65 |
| **Mid** | |
| 50<60% | 189 |
| 60<70% | 202 |
| 70<80% | 62 |
| **Top** | |
| 80<90% | 17 |
| 90<100% | 0 |




NB: Figures may not add to 100% due to rounding

Disclosures were generally more forthcoming where the CG criterion in question was more structural (the Audit Committee scored 91%, Reumeration Committee 80% and Nomination Committee 83%), procedural in nature (Board meetings scored 87%), or supported by mandatory requirements (shareholder rights scored 71%).

Improvement, however, is needed in areas that drive behaviour and culture (performance linked remuneration scored just 50%) or are emerging practices (board diversity scored 41%). Companies were silent on their compliance with a number of guidelines in the Code. Not only does this contravene the existing "comply or explain" requirement, it makes it challenging for the reader to determine whether the recommended CG best practice was actually applied by the company.

## Corporate Governance disclosure characteristics

### Strongest performing guidelines

**Mandatory**

- Audit Committee
- Board's opinion on internal controls

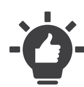
**Procedural**

- Board meetings
- Director's key information

**Structural**

- Nominating Committee
- Remuneration Committee
- One third independence

### Weakest performing guidelines



**Behavioural areas**

- CEO and KMP full disclosure of remuneration
- Long-term incentives schemes
- Executive performance criteria and conditions

**Emerging areas**

- Sustainability
- Board diversity

Source: SGX-KPMG Study 2016

## Implications for Boards and preparers of annual reports

There are a number of key areas in which directors and those responsible for compiling the CG disclosures, can focus their attention to improve the standard of the disclosures as noted in the diagram below:

- **Accountability** – directors should ensure there is a process that builds accountability for CG disclosures across all levels of the company. This extends to having a clearly defined process owner for each key CG practice.

  – In this regard, we have seen an emerging good practice to formally assign oversight responsibility for CG disclosures to a board committee, such as a CG Committee, or a combined Nominating and CG Committee. Where such a body is established, it is important to formally define its terms of reference, and clarify communication channels between committees with potentially overlapping roles. An example of a potential overlap is the Audit Committee (AC), which (among other things) would typically oversee internal control practices and disclosures, and the Board Risk Committee (BRC), which looks at risk management processes, thereby overlapping with the internal control work of the AC.

- **Self-assessment** – it's important that management conducts a self-assessment of the company's CG disclosures. The results should be presented to the board, highlighting any gaps and mitigating measures. The assessment should not be a static description of the company's state of affairs. Instead, it needs to be a comparative view of how the company is growing and maturing in CG stature and development.

- **Benchmarking** – directors should also check how the company compares against relevant benchmarks, such as competitors in the same sector or with similar market capitalisation. This exercise yields a competitive advantage in that clear and transparent disclosures can help stakeholders to more easily assess if the practices adopted by the company are in line with their expectations.

- **Assurance and review of CG disclosure** – while the financials in the annual report are subject to an audit by the external auditors, there is no requirement that the underlying CG practice described in a specific disclosure needs to be formally and independently reviewed and verified to confirm that it exists and that it is accurately and completely represented in the disclosure. An emerging and leading practice is to seek an independent check, typically from the internal auditors, of the veracity and accuracy of the CG disclosures made.

## The future

The Monetary Authority of Singapore (MAS) has recently indicated that a review of the Code is being considered, and this has been welcomed by the industry. Any review would need to weigh the differing perspectives of the various stakeholders, including due consideration for some of the following potential changes:

- **Risk governance structures** – while most companies continue to assign responsibility for risk governance to the AC (refer to Diagram 1), an increasing percentage are establishing an Audit and Risk Committee (ARC) or BRC (refer to Diagram 2). Companies should conduct a holistic review of the board governance structure as emerging committees such as the CG Committee and Sustainability Committee also start to gain momentum (Refer to Diagram 3).
- **Risk culture** – companies should establish a risk culture framework which includes: defining the 'tone at the top'; embedding risk culture into daily business activities; establishing a formal risk management training programme; and establishing mechanisms to measure the effectiveness of risk culture.
- **Fraud risk management** – as the frequency and scale of fraud-related events increase, companies should review the holistic fraud risk management framework in place to manage such risks. This framework should be integrated as part of the Enterprise Risk Management (ERM) framework to minimise duplication of effort and standardise the tools and approach to identify, assess, manage and mitigate fraud risks.
- **Risk management function resources and capabilities** – as stakeholder expectations continue to increase in relation to risk governance, companies need to reconsider the right operating model for their risk management activities. The key to this is clarifying the senior executive responsible for risk management and the scope and objectives of the risk function.
- **Risk disclosures** – while the Code and the Listing Rule encourage companies to disclose key risk categories, there is no specific directive to disclose more detailed risk information. As the nature of the risks that companies face become more complex, and the requirement to disclose Key Audit Matters and material misstatements of other information contained in the annual report come into force, more granularity in disclosure will be expected. The aim is to give stakeholders comfort and assurance that the company has identified the key risks and is monitoring their potential severity, likelihood and velocity of impact.
- **Internal audit (IA)** – while companies are forthcoming in the disclosures around the existence of an IA function, there is no visibility on the scope and depth of coverage in the audit plan for the year. The role could be more clearly defined to look beyond financial, operational, compliance and IT processes and controls, to review governance and culture, ERM, fraud risk management, crisis management etc.

Although the recent KPMG study has shown that there is a robust level of disclosure for CG requirements, especially in structural areas, there are still significant areas for improvement, in particular in behavioural areas, although these are not currently specified in the Code. Boards and those responsible for the preparation of annual reports, should focus on enhancing the disclosures for the current requirements, given that further obligations may be included in the next version of the Code.

Diagram 1

Diagram 2

Diagram 2

# International Developments

## Newly effective standards at a glance

Our summary of newly effective and forthcoming standards for 31 December 2016 year-ends is now available. It provides links to more details on the new requirements – enabling you to quickly access the insight that you need – and also highlights the effective dates in the European Union.

It is important to note that, while the new standards on revenue, financial instruments and leases aren't effective yet, investors and regulators are expecting progressively more disclosures about the impact of these major new standards from now on.

Access the summaries via our IFRS: New standards web page.

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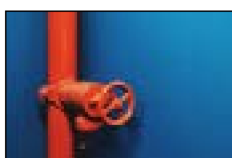


## Regulators' focus for 2016 includes the impact of new standards and Brexit

The European regulator, ESMA, has issued a statement highlighting the common areas that European national regulators will be focusing on when reviewing listed companies' 2016 IFRS financial statements. Its three key priorities cover:

- disclosures about the impact of the new standards[1];
- presentation of financial performance, including the topical issue of alternative performance measures; and
- debt / equity classification.

For those companies potentially affected by Brexit, ESMA is also encouraging disclosures about the associated risks, and the expected impact and uncertainties on their business activities.

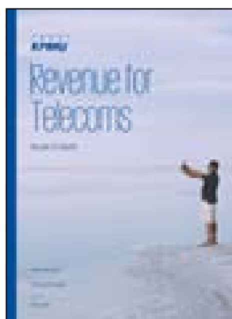
Although the topics included in ESMA's statement are those deemed to be most relevant at a European level, regulatory bodies outside of Europe are also likely to take notice, and to pay particular attention to many of the same topics.

In Singapore, in ACRA's Financial Reporting Practice Guidance No. 1 of 2016 issued on 8 December 2016, ACRA also reminded directors to ensure that preparation work is on track for:

- Convergence to IFRS.
  Before FY2016 financial statements are authorised for issue, ACRA expects the management of Singapore-listed companies to complete the impact assessment for first-time adoption of IFRS.
- Initial adoption of the new accounting standards for revenue, financial instruments and leases.
  ACRA expects directors to ensure meaningful disclosures are provided on reasonably estimable financial effects from adopting the new accounting standards in the FY2016 financial statements.

Read our web article to find out more.

[1]IFRS 9 *Financial Instruments*; IFRS 15 *Revenue from Contracts with Customers*; IFRS 16 *Leases*.



## Revenue for Telecoms – Facing the challenges

IFRS 15 is having a profound effect across the telecommunications sector. For companies in the telecommunications sector wrestling with the implementation challenges, we're delighted to share our insight in this publication. It will provide you with a comprehensive understanding of how to apply IFRS 15 to common transactions in your sector.

Whether you're just starting to assess the impact of the new requirements or are well advanced in your implementation project, use this publication to help you face the challenges ahead.

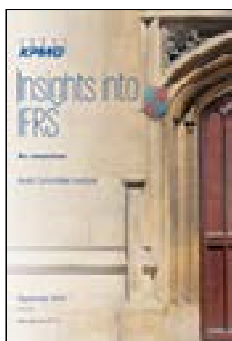
## Oil and gas – Assessing the impact of the new revenue standard

The new revenue standard – effective from 1 January 2018 – is likely to affect the way oil and gas companies account for revenue.

Accounting for revenue is changing – impact on oil and gas companies reflects the final version of IFRS 15 and focuses on the impact of the new requirements on arrangements specific to oil and gas companies, such as collaborative arrangements and production- and sales-based royalties.

## Revenue – It's time for investment managers to engage

Accounting for revenue is changing, Investment managers – Implementing IFRS 15 reflects the final version of IFRS 15 and focuses on the impact of the new requirements – in particular, the effect on various types of fees commonly charged by investment managers.



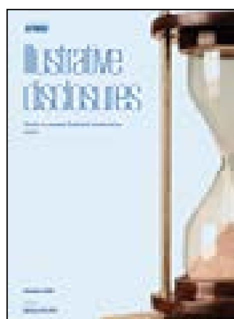
## Insights – Your tool for applying new and existing IFRS

With the effective dates for the new standards on revenue and financial instruments fast approaching – and leases close behind – this is a critical time for every company reporting under IFRS.

Our publication, *Insights into IFRS*, will help you rise to the challenges ahead. It provides in-depth, easy-to-understand guidance and draws on the hands-on experience of our IFRS specialists. It can be used alongside our forthcoming suite of Guides to annual financial statements to form your complete guide to the year end.

## How to get your copy of Insights

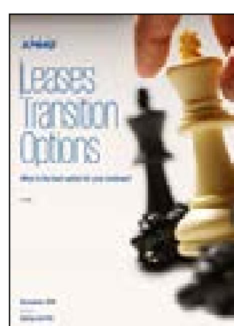
Please speak to your usual KPMG contact to request a hard copy of *Insights into IFRS*. Insights into IFRS: An overview, which provides a high-level briefing for audit committees and boards, is available for download.



## Your essential year-end financial reporting guides

Our Guides to annual financial statements – incorporating Illustrative disclosures and a companion Disclosure checklist – will help you prepare your financial statements in accordance with IFRS.

These updated guides reflect standards that have been issued as at 15 August 2016 that are required to be applied by a company with an annual reporting period beginning on 1 January 2016 (year-ended 31 December 2016). The 2016 annual illustrative disclosures include expanded disclosures on the possible impact of standards issued but not yet effective. In addition, they include a new appendix illustrating the effects of adopting IFRS 9 *Financial Instruments*.



## Leases – Transition options

With IFRS 16 *Leases*, a company's choice of transition option and practical expedients will affect far more than the costs and timing of the implementation project – it'll affect the business's financial statements for years to come.

There are many different transition options and practical expedients, with most of the choices involving a trade-off between cost and comparability.

Choosing the best transition option for your business will require thought – and probably some detailed modelling of alternative approaches.

Our Leases – Transition options publication provides an overview of the options and expedients, together with KPMG's insight. A comprehensive worked example modelling how the various options would affect a fictional company is also included.

## Banks – Comparing the IFRS 9 and US GAAP impairment models

Entities reporting under IFRS or US GAAP (or both) will soon adopt the new requirements on accounting for credit losses. In the latest edition of The Bank Statement, we:

- compare and contrast some key aspects of the two credit loss models; and
- discuss the consultation paper issued by the European Banking Authority (EBA) on credit institutions' credit risk management practices and accounting for expected credit losses.

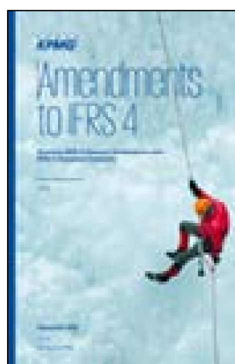
## Banks – Are you prepared for IFRS 9?

The new financial instruments standard – effective from 1 January 2018 – is proving to be a momentous accounting change for banks.

As many of the larger banks have already found, its impact is wide-ranging and changes to systems and processes are often necessary.

If you haven't started, it's time to engage and assess the impact of the new standard.

To help you with this assessment, read our IFRS 9 for banks.




## Insurers – Reducing the impact of IFRS 9

Insurers need to assess the impact that the differing effective dates of IFRS 9 Financial Instruments and the forthcoming insurance contracts standard could have on their business. The amendments to IFRS 4 Insurance Contracts provide insurers with optional solutions to address this issue.

Our First Impressions guide contains insights and examples that will help you assess the potential impact, and make informed decisions when choosing your approach to IFRS 9 implementation.

For a high-level overview, read our web article and SlideShare presentation.

Given the looming effective date of IFRS 9, companies need to quickly consider the benefits and costs of the two optional solutions, and whether one should be elected.

**Joachim Kölschbach**
KPMG's Global IFRS Insurance Leader

## The puttables exception – to retain or not?

Further progress has been made by the IASB (the 'Board') in exploring classification under a new approach known as the Gamma approach – as part of its ongoing discussions on financial instruments with characteristics of equity (the 'FICE project').

At its November meeting, the Board discussed the classification under the Gamma approach of instruments meeting the existing puttables exception in IAS 32 and the merits of retaining the exception.

Find out more in this newsletter.

The discussion about retaining the IAS 32 puttables exception emphasises that no classification approach can portray all the information that is important to users.

**Chris Spall**
KPMG's Global IFRS Insurance Leader

## Financial instruments – Claims with alternative settlement outcomes

Further progress has been made by the IASB in exploring classification requirements as part of its ongoing discussions on financial instruments with characteristics of equity (the ‘FICE project’).

At its October meeting, the Board discussed claims where the issuing entity can choose between alternative settlement outcomes and considered whether economic incentives should affect the classification.

Find out more in this newsletter.

Broader consideration of economic incentives in the classification of claims with alternative settlement outcomes would represent a significant change from current practice.

**Chris Spall**
KPMG’s Global IFRS Insurance Leader

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## Financial instruments - Moving the FICE project forward

Further progress has been made by the IASB in exploring presentation and disclosure requirements as part of its ongoing discussions on financial instruments with characteristics of equity (the ‘FICE project’).

At its September meeting, the Board focused its discussion on the presentation of specific types of derivatives classified as liabilities and how disclosures could complement approaches to classification and presentation.

A next step for the project will be to consider recognition, derecognition and reclassification of equity instruments.

Find out more in this newsletter.

The effort to supplement a binary classification approach with presentation and disclosure improvements is a welcome step in moving the FICE project forward.

**Chris Spall**
KPMG’s Global IFRS Insurance Leader

## Providing insight into business strategy and prospects

There's a gap between what investors need to know and what corporate reports are telling them.

When evaluating companies, investors firmly focus on the future. Last year's earnings may be a good starting point, but what about the company's strategy and its progress implementing it? How will this drive value? Although corporate reports could answer these questions, many don't.

The International Integrated Reporting Council (IIRC) has presented an overview of the key principles of integrated reporting, targeted at investors and produced in association with KPMG. Companies seeking to apply these principles to close their reporting gap may be interested in the IIRC's Integrated Reporting Framework.

Read our web article to find out more.

# 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 |

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