Financial Reporting Updates

Welcome to Financial Reporting Updates.

This is your quarterly update on all things relating to International Financial Reporting Standards or Financial Reporting Standards. We'll bring you up to speed on topical issues, provide comment and points of view and give you a summary of any significant developments.

Our first edition of 2017 starts with some important amendments on international & Singapore financial reporting standards and ends with regulatory matters.

Read this issue to find out:

- IASB & ASC issue IFRIC Interpretation of *Foreign Currency Transactions and Advance Consideration* and INT FRS 122: *Foreign Currency Transactions and Advance Consideration*
- IASB & ASC issue *Amendments to IAS 40 & FRS 40 – Transfer to and from, Investment Property*
- IASB and ASC issue Annual Improvements cycle 2014-2016 and Improvements to FRSs (December 2016)
- ASC Reminds Singapore-listed Companies of Full IFRS Convergence in 2018 And Affirms Retention Of Existing Frameworks For Other companies

In addition, we end with regulatory matters such as:

- Accounting and Corporate Regulatory Authority's ("ACRA") Financial Reporting Surveillance Programme in 2016
- ACRA issues Financial Reporting Practice Guidance No. 1 of 2016
- 53 listed mainboard companies are placed on the Singapore Exchange's (SGX) watch-list

Quarter 1 2017

IASB and ASC issue IFRIC Interpretation of *Foreign Currency Transactions and Advance Consideration* and INT FRS 122 *Foreign Currency Transactions and Advance Consideration*

On 8 December 2016, International Accounting Standards Boards (IASB) has issued minor changes to IFRIC Interpretation of Foreign Transactions and Advance Consideration. On 23 December 2016, Accounting Standards Council (ASC) has issued INT FRS 122 *Foreign Currency Transactions and Advance Consideration*

Under current IFRS, foreign currency transactions are recorded in the company's functional currency by applying the spot exchange rate on the date of the transaction – i.e. on the date when the transaction first qualifies for recognition.

However, when foreign currency consideration is paid or received in advance of the item it relates to – which may be an asset, an expense or income – IAS 21 *The Effects of Changes in Foreign Exchange Rates* is not clear on how to determine the date of the transaction. This has resulted in diversity in practice when translating the related item. To address this, The IFRS Interpretations Committee has issued IFRIC Interpretation to provide guidance about the exchange rate to be used in reporting foreign currency transactions (such as revenue transactions) when payment is made or received in advance.

What would the Interpretation apply?

The interpretation would apply when a company:

- pays or receives consideration denominated or priced in a foreign currency; and
- recognises a non-monetary prepayment asset or deferred income liability – e.g. non-refundable advance consideration – before recognising the related item at a later date.

For a transaction achieved in stages, a transaction would be established for each stage.

Single payment / receipt

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The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate to use on initial recognition of the related item, should be the date on which an entity initially recognises the non-monetary asset or liability arising from the advance consideration.

Example – Single upfront payment

Supplier enters into a contract with a customer on 1 January 20x1 and receives the full consideration of CU50 on this date. The goods are delivered and revenue is recognised on 31 March 20x1.

The Interpretation requires that:

- Supplier will recognise a non-monetary contract liability, translating CU50 at the exchange rate on 1 January 20x1.
- Supplier will recognise revenue at 31 March 20x1 (that is, the date on which the goods are transferred to the customer). Supplier will derecognise the non-monetary contract liability. Revenue will be recognised at the same amount in functional currency, using the exchange rate at the date of the transaction, which is 1 January 20x1. In this case, the amount of revenue is the same as the amount of the non-monetary contract liability derecognised.

Multiple receipts / payments

The Interpretation states that, if there are multiple payments or receipts in advance of recognising the related item, the entity should determine the date of the transaction for each payment or receipt.

The illustrative examples accompanying the Interpretation provide guidance on multiple receipts/payments when:

- revenue is recognised at a single point in time;
- services are purchased over a period of time; and
- revenue is recognised at multiple points in time.

Example – Revenue recognised at a single point in time with multiple payments

Supplier enters into a contract with a customer on 1 January 20x1 to deliver goods in exchange for total consideration of CU50 and receives an upfront payment of CU20 on this date. The goods are delivered and revenue is recognised on 31 March 20x1. CU30 is received on 1 April 20x1 in full and final settlement of the purchase consideration.

The Interpretation requires that:

- Supplier will recognise a non-monetary contract liability, translating CU20 at the exchange rate on 1 January 20x1.
- Supplier will recognise revenue at 31 March 20x1 (that is, the date on which it transfers the goods to the customer).
- On 31 March 20x1, Supplier will:
  - derecognise the non-monetary contract liability of CU20 and recognise CU20 of revenue using the same exchange rate (that is, the exchange rate at 1 January 20x1); and
  - recognise revenue and a receivable for the remaining CU30, using the exchange rate on 31 March 20x1.
- The receivable of CU30 is a monetary item, so it should be translated using the closing rate until the receivable is settled.

What would not the Interpretation apply?

The interpretation would not apply:

- when the related item is required to be recognised using a fair value measurement basis – e.g. financial assets and liabilities.
- to insurance contracts and income taxes.

When will the Interpretations apply?

The Interpretations will apply on 1 January 2018. Earlier adoption is permitted.

Entities can choose to apply the Interpretation:

- retrospectively for each period presented;
- prospectively to items in scope that are initially recognised on or after the beginning of the reporting period in which the Interpretation is first applied; or
- prospectively from the beginning of a prior reporting period presented as comparative information.

Next steps

Companies with a large volume of foreign currency transactions, application of this Interpretation may require adjustment to the software used to calculate the effect of the foreign exchange movements.

IASB and ASC issue Amendments to IAS 40 and FRS 40 – *Transfer to and from, Investment Property*

On 8 December 2016, IASB has issued the amendments to IAS 40 – Transfer to and from, investment property. On 23 December 2016, ASC has issued the amendments to FRS 40 *Transfers of Investment Property*

Under the amendments, an entity would reclassify a property to, and from, investment property when and only when, there is evidence of that a change in use of the property has occurred. The Standard's current list of circumstances in which a transfer should be made is amended and re-presented as examples of evidence that a change in use has occurred.

Under the existing requirements of IAS 40, transfers to, or from, investment properties are only permitted when there is change in use of a property. The Standard then specifies one event that constitutes evidence supporting each of:

- a transfer from investment property to inventory (the commencement of development with a view to sale);
- a transfer from inventory to investment property (the commencement of an operating lease to another party); and
- a transfer between investment property and owner–occupied property (the commencement or end of owner-occupation).

Investment property is property (land or a building or part of a building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both.

Examples of investment property

- land held for long-term capital appreciation
- land held for a currently undetermined future use
- building leased out under an operating lease
- vacant building held to be leased out under an operating lease
- property that is being constructed or developed for future use as investment property.

What are the amendments?

The amendment retains the requirement to make a transfer into, or out of investment property when, and only when, evidence of a change of use of property exists.

A change in use would involve an assessment of whether a property qualifies as an investment property supported by evidence that a change in use has occurred rather than merely being a change in management's intention.

Transfer from investment property to inventories

The Standard requires an investment property to be transferred to inventories only when there is a change of use evidenced by commencement of development with a view to sale.

Transfer from inventory to investment property

The property classified as inventory should transfer to investment property when the commencement of an operating lease to another party.

Transfer from investment property to owner-occupied property

The Standard requires an investment property to be transferred to owner-occupied property only when there is a change of use evidenced by commencement of owner-occupation.

Transfer from owner-occupied property to investment property

End of owner-occupation signals a potential transfer to investment property.

Transfer into, or from, investment properties during construction stage

Examples of evidence for the transfer into, or from, investment properties during the construction stage, might include:

- approval from relevant regulatory bodies for a change in the use of the property under construction upon its completion
- approval from an appropriate level of management which has been communicated to relevant external parties or
- relevant actions, such as commencement of leasing activities or promotional activities to sell the property upon its completion (where applicable) or modifying the layout or construction to make it suitable to a change in use.

When will the amendments apply?

The amendments will apply on 1 January 2018, earlier adoption is permitted. The Board provided two options for transition.

1. Prospective application.

   Any impact from properties that are reclassified would be treated as an adjustment to opening retained earnings as at the date of initial application. There are also special disclosure requirement if this option is selected.

2. Retrospective application.

   This option can only be selected without the use of hindsight.

Next steps

Real estate and construction companies could apply judgement to determine whether a property qualifies as investment property. An entity develops criteria so that it can exercise that judgement consistently in accordance with the definition of investment property.

IASB and ASC issue Annual Improvements cycle 2014-2016 and Improvements cycle 2014-2016 and Improvements to FRSs (December 2016)

On 8 December 2016, the IASB has issued 'Annual Improvements to IFRS Standards 2014–2016 Cycle'. The pronouncement contains amendments to three International Financial Reporting Standards (IFRSs) as result of the IASB's annual improvements project. On 23 December 2016, ASC has issued Improvements to FRSs (December 2016):

IFRS / IAS	Subject of amendments	Effective year
IFRS 1 & FRS 101 *First-time Adoption of International Financial Reporting Standards*	To delete the short – term exemptions in paragraphs E3 to E7 of IFRS 1 because they served their intended purpose.	1 January 2018
IFRS 12 & FRS 112 *Disclosure of Interests in Other Entities*	To clarify the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.*	1 January 2017
IAS 28 & FRS 28 *Investments in Associates and Joint Ventures*	To clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.	1 January 2018

ASC Reminds Singapore-listed Companies of Full IFRS Convergence in 2018 And Affirms Retention of Existing Frameworks for Other Companies

The ASC reminds Singapore-incorporated companies listed on the Singapore Exchange (Singapore-listed companies) of the requirement to apply a new Singapore financial reporting framework that will be identical to the International Financial Reporting Standards (full IFRS convergence) in 2018. For December year-end preparers, the new framework is effective 1 January 2018, with retrospective application to the earliest comparative year, i.e. 1 January 2017.

The ASC further affirms that other Singapore-incorporated companies can continue to apply the existing financial reporting frameworks, including the Singapore Financial Reporting Standards ("SFRS").

Singapore-listed companies, which are presently reporting under SFRS, will be required to apply all of the specific transition requirements in IFRS 1 '*First-time Adoption of IFRS*' when they initially apply the new framework. It could lead to restatements of previously reported financial information in respect of the comparative periods, even though SFRS are substantially word for word IFRS. This is mainly because the transition requirements in IFRS 1 are often different from those specified in individual SFRS standards that were applied to the existing financial statements.

In addition, Singapore-listed companies applying the new framework will have to concurrently apply the new major IFRS standards on revenue recognition and financial instruments, which will become effective on the same date. They may also elect to early apply the new major IFRS standard on leases at the same time. These standards may have significant implications across different industries.

You can access the ASC's press release.

The ASC & ISCA have jointly developed a set of Q&As to assist directors and chief financial officers of Singapore listed companies acquaint themselves with full IFRS Convergence, the key principles underpinning IFRS 1 and some of the potential implications.

Accounting and Corporate Regulatory Authority's ("ACRA") Financial Reporting Surveillance Programme in 2016

It is the year-end financial reporting season again. What is on the radar of the ACRA's **Financial Reporting Surveillance Programme ("FRSP")** in 2016?

In December 2016, ACRA released a Practice Guidance to highlight 7 areas of review focus for FY2016 financial statements under the FRSP. The Practice Guidance alerts directors of the listed companies incorporated in Singapore on potential areas of financial statement misstatements and enables them to pay closer attention to the financial statements before authorising the financial statements for issue.

Under the FRSP, ACRA reviews the financial statements of selected listed companies for compliance with Singapore Financial Reporting Standards (FRSs). Where potential non-compliance with FRSs are identified, ACRA sends enquiry letters to directors. ACRA addresses the enforcement to directors when a financial reporting breach is established after evaluating the explanations, supporting documents and other records provided by directors.

Outcomes of review

FRSP's review cycle	Number of listed companies reviewed	Number of warning letters issued to directors	Number of advisory letters issued to directors	Number of closure letters issued to directors	Number of FS reviewed without any enquiry	Ongoing cases
FY2013 financial statements	49 listed companies	5	30	12	-	2
FY 2014 financial statements	50 listed companies	2	21	7	17	3

1 Two companies have restated, one company was exempted from doing so in view of a reverse take-over situation, and two companies are in progress.

The good news is that most instances of non-compliances are less severe and could have been avoided if the directors had reviewed the financial statements more carefully and with rigour.

ACRA does not reveal the identities of the companies inspected, but this year's FRSP report flagged four areas in which it saw the highest instances of non-compliances with accounting standards. These included the application of new consolidation standards, business acquisitions, impairment of long-lived assets, and fair value accounting of properties. In particular, the new consolidation-related standards became effective for the first time during ACRA's review cycle for the 2014 financial reports.

Range of regulatory outcomes

Where the outcome of a review is satisfactory, ACRA will close the case.

For incidents of non-compliance that are not considered "serious", ACRA will issue an advisory letter to the company and its directors to urge them to improve on their level of corporate reporting in the future.

When the incidents of non-compliances are considered serious, ACRA may impose regulatory sanctions on the directors.

The first and mildest form of regulatory sanction is a warning letter. For what ACRA would consider “serious” incidents of non-compliance, ACRA may offer to compound the offence by imposing a fine on the directors. For very serious cases, ACRA has the power to prosecute both the directors and the company which could lead to fines and/or jail sentences.

Under the SGX Listing Rules, in all cases of regulatory action (including the issuance of warning letters), a director must declare, at his next appointment as a director of a listed company, that he has received a warning letter from a regulatory authority (in this case, ACRA).

In addition, a company must consider if the regulatory sanction is material information that is likely to affect the share price of the company under the SGX Listing Rules. If so, it must immediately make a public announcement of the sanction.

Ten areas of review focus under the FRSP for FY2015 financial statements

ACRA released Financial Reporting Practice Guidance No.2 of 2015, which sets out the areas of review focus for FY2015 financial statements on 9 December 2015. You can find them in our FKT Financial Reporting Updates 1Q2016.

What directors should do for FY 2016?

Directors should also refer to the FRSP’s areas of review focus for the FY2016 Financial Statements where ACRA has released Financial Reporting Practice Guidance No. 1 of 2016 and assess if those areas will give rise to potential misstatements in their FY2016 Financial Statements. Such assessment should be carried out in conjunction with the key audit matters that will be included in the new enhanced auditor’s report. A string of enhanced requirements for financial reporting in July last year. The new standards will take effect for audits of financial statements for periods ending on or after Dec 15 this year.

The changes will include requirements for auditors to elaborate more on key risk areas in a financial statement, and to ensure a company has sufficient disclosures on its going concerns – a term referring to the ability to continue operations.

Singapore will adopt these enhanced auditing standards as part of the global initiative launched by the International Auditing and Assurance Standards Board last January.

Areas of review focus under the FRSP for FY2016 financial statements

Directors should consider the areas of review focus identified by ACRA for FY2016 financial statements (as set out in the table below) before authorising the FY2016 financial statements.

Directors are also well advised to ensure that minutes of meetings are maintained with sufficient details to demonstrate the robust discussions that had occurred during their review of the FY2016 financial statements.

Enforcing directors’ duties over financial reporting

Sections 201(2) and 201(5) of the Companies Act require the directors of a company to present and lay before the company, at its annual general meeting, financial statements that:

(a) comply with the prescribed accounting standards in Singapore; and

(b) give a true and fair view of the financial position and financial performance of the company.

The directors must fulfil both conditions in the discharge of their responsibilities under the Companies Act.

ACRA issues Financial Reporting Practice Guidance No. 1 of 2016

On 8 December 2016, ACRA issued Financial Reporting Practice Guidance No. 1 of 2016.

Under the third review cycle of the Financial Reporting Surveillance Programme (FRSP), ACRA will review selected financial statements with financial year ended between 1 January 2016 and 31 December 2016 (FY2016 FS) for their compliance with the Accounting Standards.

The areas of concern by ACRA for FY 2016 FS under ACRA’s FRSP:

1. Going concern – Is this assumption appropriate? If yes, are the disclosures adequate?
2. Value of long-lived assets – any indication of impairment? If yes, has impairment test been conducted? If no impairment charge, why so and are assumptions realistic?
3. Significant one-off gains or losses – does it reflect the economic reality of arrangements?
4. Consolidation or Equity Accounting – have reserved matters or other contractual rights been considered?

(a) Reserved matters that require unanimous consent

(b) Contractual rights that accord power to direct relevant activities of the investee

5. Business acquisitions – have significant specific intangible assets, for which a premium was paid, been carved out from goodwill and separately recognised?

6. Statement of cash flows – are cash flows appropriately classified within operating, investing or financing cash flows?

7. Significant judgement and critical estimates – are disclosures tailored to the circumstances?

Other Matters – Preparing for new financial reporting framework and accounting standards

(a) New financial reporting framework

In 2014, the Accounting Standards Council announced that Singapore listed companies must apply a new Singapore financial reporting framework that is identical to the International Financial Reporting Standards (IFRS).

For December year-end preparers, the new framework is effective 1 January 2018, with retrospective application to the earliest comparative year i.e. 1 January 2017.

Accordingly, before the FY2016 FS is authorised for issue, management should complete the impact assessment of IFRS 1 First-time adoption of IFRS, a standard that specifies how a company should transit from a previous financial reporting framework to IFRS. Restatement of comparatives may result, even though the Singapore Financial Reporting Standards (SFRS) are substantially word-for-word IFRS. This is mainly because the transition provisions in IFRS 1 are generally different from those in the individual SFRS standards.

Please refer to above where Accounting Standards Council Reminds Singapore-listed Companies of Full IFRS Convergence in 2018 And Affirms Retention of Existing Frameworks for Other Companies.

(b) New financial reporting framework

- SFRS 115 *Revenue from Contracts with Customers*
- SFRS 109 *Financial Instruments*
- SFRS 116 *Leases*

53 listed mainboard companies are placed on the Singapore Exchange's (SGX) watch-list

On 14 December 2016, SGX has placed 53 listed main board companies on its Watch-list. For companies that were placed onto the Watch-list before 1 March 2016, they will have a 24-month cure period. For companies that were placed onto the Watch-list after 1 March 2016, they will have a 36-month cure period

With effect from 1 March 2008, quarterly reviews will be carried out on issuers to determine if they are non-compliant with Minimum Trading Price ("MTP"), or improve their financial performance if they triggered the financial entry criteria. The quarterly review will take place on the first market day of March, June, September and December of each year.

Following the feedback to the consultation on the proposed refinements to the MTP watch-list criteria, SGX has announced on 2 December 2016 that it will add a market capitalisation test to the MTP requirement, and that watch-list reviews will be conducted on a half-yearly basis, in June and December each year.

The first review of companies under the revised criteria will be on 1 June 2017. A one-time review of the companies who were placed on the Watch-list based on previous MTP rules was conducted on 1 December 2016 and companies who do not trigger the new MTP criteria have exited the Watch-list.

The financial entry criteria are as follows:

1. pre-tax losses for the three (3) most recently completed consecutive financial years (based on audited full year consolidated accounts); and

2. an average daily market capitalisation of less than S$40 million over the last 6 months.

The following is the total number of listed main board companies who are placed onto the Watch–list as below:

Watch-list on	Financial criteria	MTP criteria	Both Financial and MTP criteria
Total number of listed main board companies	32	21	16

How we can assist

If you need assistance or advice on the above, we are here to assist you.

Contact:

Irene Lau
Director, Professional Standards & Assurance
Foo Kon Tan LLP
24 Raffles Place #07-03 Clifford Centre Singapore 048621
D +65 6304 2341 F +65337 2197
E irene.lau@fookontan.com W www.fookontan.com