ICAEW FINANCIAL REPORTING FACULTY

# BY ALL ACCOUNTS

SINGAPORE SPECIAL EDITION

JULY 2011

## IFRS: SINGAPORE AND THE WIDER WORLD

We talk to ASC Chairman Euleen Goh, new IASB Chairman Hans Hoogervorst and IASB board member Paul Pacter

### PLUS…

The next wave of accounting standards

Singapore Financial Reporting Standard for Small Entities

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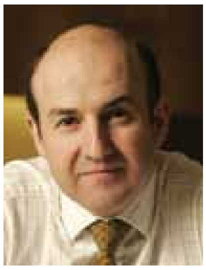
## FROM MICHAEL IZZA, ICAEW CEO



I am delighted that the ICAEW's Financial Reporting Faculty is publishing, for the first time, a special edition for Singapore of its acclaimed member journal, *By All Accounts*.

The increasingly global reach of the IASB makes the sharing of technical and educational ideas and resources more important than ever as we seek to improve understanding of IFRS requirements and influence the ongoing development of the standards. We are pleased to have had the opportunity to work with the Institute of Certified Public Accountants of Singapore (ICPAS) on this special edition. Its publication reflects the growing importance of Singapore and the region as a whole to ICAEW as we implement our international strategy and marks a new stage in the ongoing collaboration between ICAEW and ICPAS.

I would like to thank Euleen Goh, the Chairman of the Accounting Standards Council, for agreeing to be interviewed by the faculty. I'm sure you, like me, will find her views on Singapore's transition to IFRS equivalent standards in 2012 a very interesting read. Thanks also to the many other local professionals and ICPAS staff who have contributed articles and advice.

## FROM DR ERNEST KAN, ICPAS PRESIDENT

In April 2010, the Committee to Develop the Accountancy Sector published a report outlining its vision of transforming the Singapore accountancy sector into a leading global accountancy hub for the Asia-Pacific region by 2020. These recommendations were accepted by the government in May 2010. This is a bold vision indeed but one to which we are very much committed. As part of this vision, ICPAS recognises the need to become the go-to body for the profession in the region and in order to do so we need to continually evolve into a professional accountancy body with a global outlook and standing.

ICAEW is a very established accountancy body with global membership. It has therefore been a pleasure working with them on this project, as we work towards implementing our vision. This has given us an invaluable insight into what can be accomplished with the partnership of both institutes. We will continue our partnership with ICAEW's Financial Reporting Faculty as we seek to influence the debate over international financial reporting and build up excellence in our thought leadership and research capabilities.

With the introduction of the Singapore Financial Reporting Standard for Small Entities for 2011 and the requirement for listed companies to adopt new IFRS-equivalent standards from 2012, there are substantial challenges for the financial reporting community at the moment. Many of these are discussed in this journal, which I commend to ICPAS members and any others interested in IFRS reporting in the region.

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# THE ROAD AHEAD FOR SINGAPORE? AN INTERVIEW WITH EULEEN GOH

Euleen Goh is the Chairman of the Singapore Accounting Standards Council, the body which prescribes accounting standards in Singapore. She is also a fellow non-practising member with ICPAS. Nigel Sleigh-Johnson and Eddy James from ICAEW's Financial Reporting Faculty spoke to her about how Singapore is coping with its aim of converging fully with IFRS by 2012.

Following its formation in November 2007, Singapore's Accounting Standards Council (ASC) took on the task of formulating and promulgating high-quality accounting standards. Its mandate is to develop, review, approve and adopt accounting standards, not only for companies but also for co-operatives, societies and charities. Euleen Goh was appointed the ASC's inaugural Chairman and she is currently serving her second term in office, which comes to an end on 31 October 2011. Ms Goh was chief executive officer of Standard Chartered Bank, Singapore before stepping down in 2006 to serve as an independent director on various boards in Singapore and overseas.

## CONVERGENCE WITH IFRS

Ms Goh begins our discussion by telling us how important Singapore's status is as an international financial centre and how high-quality financial reporting standards have an important role to play in maintaining and enhancing the country's economic success. With this in mind, the ASC is working towards full convergence with IFRSs for all Singapore-incorporated companies listed on the Singapore Exchange by the end of 2012. Ms Goh is confident that this is the right choice: 'We believe in the principle of having a single set of high-quality global accounting standards. If we believe in the principle, we should subscribe to it. And if we subscribe to it, we should adopt it.'

She is also confident of achieving this goal: 'We are already pretty close because we have already adopted most of the IFRS standards, in many cases word for word. There is just a short gap to close by the end of next year.'

The journey has not always been easy: 'In the close-to-four years since we took on responsibility for standard-setting in Singapore, the IASB has embarked on a fairly aggressive schedule of developing new standards. Since the global financial crisis, the relevance of these new standards has taken on even greater prominence. So this has kept the ASC fairly busy!'

And there are also some differences between the Singapore Financial Reporting Standards (SFRSs) and IFRSs that still need to be resolved: 'The best example is the loan loss provisioning for banks and other financial institutions, where in consultation

with the Monetary Authority of Singapore, we have decided to retain a forward-looking expected loss model rather than the incurred loss model in the original IASB standard. It is helpful that the IASB now intends to incorporate a forward-looking approach into IFRS 9 in the near future.'

## CREATING A TRULY GLOBAL SET OF ACCOUNTING STANDARDS

Ms Goh is a passionate advocate of a global set of accounting standards: 'We believe that creating a single set of high-quality global standards is the right way for the world to go. Doing so improves quality, transparency and comparability, which can only benefit the investment community and other users of financial statements. We are therefore hugely supportive of the work of the IASB and compliment them on their efforts in developing such high-quality standards and the progress that has been made in getting over 100 countries to

'I would urge the economies who have pledged to consider convergence, to go ahead and sign on to convergence. Doing so will improve transparency and efficiency for both investors and preparers alike.'

commit to converge with their standards.'

She also has a message to those major countries, such as the US, which have yet to fully commit to IFRS: 'I would urge the economies who have pledged to consider convergence, to go ahead and sign on to convergence. Doing so will improve transparency and efficiency for both investors and preparers alike.'

Having said that, Ms Goh notes that the development of IFRS has hitherto been dominated in the main by the US and the EU, while Asia has largely been left on the sidelines: 'If we expect the standards to be globally applied then there are other markets which need to be drawn into the fold. All of the world's economies must feel they have a stake in the development of IFRS. Asia has some of the largest and fastest growing economies in the world and its voice must be heard if the standards are to be developed in a way that ensures they can be applied in marketplaces all around the world, rather than just in developed western economies.'

**A VOICE FOR ASIA**

But Asia is gradually finding its voice, and Ms Goh explains how Singapore is playing a role in encouraging regional feedback and promoting the adoption of IFRS in the region: 'Singapore was one of the founding members of the Asia-Oceanian Standard-Setters Group (AOSSG), a group that was formed so that we could discuss issues and share experiences on the adoption of IFRSs with our neighbours and provide feedback to the IASB to help them to develop a high-quality set of global accounting standards. This group has also provided facilities so that the IASB can hold roundtables and other outreach events here in Asia. Such events have not only been held in Singapore but also in cities such as Hong Kong, Tokyo and Kuala Lumpur.'

Indeed, when we met Ms Goh, she had just returned from an IFRS Foundation roundtable in Tokyo which had been discussing its future strategy. One element of this wide-ranging review process that she is particularly supportive of is the idea of post-implementation reviews as she feels 'these will help tease out issues on implementation in different marketplaces and within different legal frameworks and hence help ensure consistency of implementation'.

**WHERE NEXT FOR THE IASB?**

We ask Ms Goh for what else she thought the IASB should do once they have completed their remaining projects, in addition to post-implementation reviews. She tells us: 'It would be helpful if we all had a little bit of time to draw breath. There has been a frenzy of activity from the IASB – and we appreciate why it had to happen – but when the slew of new standards currently under development have been implemented, I think there should be a slow down with only certain critical work, such as the completion of the conceptual framework, being carried forward. The bulk of the IASB's time should be spent on helping jurisdictions implement consistently the standards that are in place. Although more than 100 countries have signed on to the idea of adopting or converging with IFRS, the reality is that many are still on that journey towards convergence. It is these jurisdictions that the IASB needs to help in order to ensure consistency in implementation.'

Those IASB projects currently underway include revenue recognition and leasing. In both cases Ms Goh feels that the IASB needs to really listen to its constituents if the board is to produce standards that are workable around the globe. She cites the examples of how the proposed revenue recognition standard might not capture the true economic substance of sales of residential properties 'off-plan', which are common in many Asian markets, and how the proposed leasing standard's requirement to bring property leases on-balance sheet would involve more cost than benefit in many Asian markets where property leases are often for no more than two years, and not for the longer periods common in other parts of the world.

### BEYOND LISTED COMPANIES

Ms Goh explains that, as well as working towards implementing full IFRS for listed companies, the ASC has also been looking to improve the quality of accounting standards for other types of reporting entities. The local version of the IFRS for SMEs, the Singapore Financial Reporting Standard for Small Entities, has been issued by the ASC and is available for use for periods beginning on or after 1 January 2011. Ms Goh feels that the IFRS for SMEs is a

'Many of our companies are small or medium-sized enterprises. I believe that the IFRS for SMEs will become increasingly relevant in Asian markets.'

very important standard: 'We have much smaller markets here in Asia as compared to the UK or the US. Many of our companies are small or medium-sized enterprises. I believe that the IFRS for SMEs will become increasingly relevant in Asian markets.'

While the IASB's focus is on companies, the ASC has a wider remit including developing accounting standards for co-operatives, societies and charities. Ms Goh tells us that a new Charities Accounting Standard is due to be issued by the ASC in June 2011. She'd like to see the IASB build into its agenda accounting for the not-for-profit sector at some stage, but she recognises that for now: 'The IASB has its plate full just trying to bed down the current standards that they are developing and to make global implementation as robust as possible.'

### BUILDING KNOWLEDGE AND INFLUENCE

With so much change on the agenda in Singapore, Ms Goh recognises that increasing local awareness of IFRS is critical: 'Training is important. Getting our graduates IFRS-ready is very important and the ASC has started to go out to universities to promote the understanding of IFRS and indeed to have discussions about the principles behind them.'

Those principles are also important to the ASC, as Ms Goh explains: 'We are also working now towards specific research pieces on the principles of financial reporting, which we think are important when it comes to providing feedback to the IASB. For example, we recently provided the IASB with some research on the notion of control, which is a concept that is embedded in an increasing number of accounting standards.'

### AND FINALLY…

These are certainly busy times at the ASC as work continues on IFRS reporting. With so much to do, we wonder how Ms Goh finds time to relax. She tells us that she loves to read and does so very widely; including books on countries she is travelling to and, currently, Bill Bryson's *A Walk in the Woods*. She also sets aside time to dip into *Whispers of Wisdom for Busy Women*, which promises no less than a daily dose of 'comfort, encouragement and inspiration… for busy women on the go'.

Before saying farewell, Ms Goh took a moment to offer her strong support for the efforts made by ICAEW and ICPAS to forge a closer relationship on financial reporting matters: 'The more we can bring together the different parties interested in IFRS to collaborate and to improve on both the standards and the due process, the more it will be beneficial to all of us. I therefore applaud this initiative and hope to see more from the ICAEW. I know that ICAEW has an office here in Singapore – it's a good thing to have an outpost in this part of the world so well done for that as well!'

# INTERNATIONAL FINANCIAL REPORTING STANDARDS: WHAT ARE THE BENEFITS?

Dr Philip Brown, FCPA, FASSA, is a Professor at the University of New South Wales and Emeritus Professor at the University of Western Australia. Drawing on his presentation at the faculty's December 2010 *Information for Better Markets* Conference on 'Adopting IFRS: the global experience', Dr Brown examines the evidence.

It is only proper this question be asked. The simplest answer is there must be benefits, otherwise why would IFRS continue to spread? But that answer does not do justice to the question. So I will answer it by summarising benefits found in countries where IFRS have been used for some years.

The evidence suggests major benefits can be gained by adopting IFRS, although the extent of the benefits achieved depends on: which standards were used before adopting IFRS; the education and training of preparers, users, auditors and regulators; the extent and consistency of guidance available to preparers; the presence of legal or other regulatory backing for the standards; and the degree of compliance monitoring and enforcement. Socioeconomic factors can make a difference too.

Countries have adopted IFRS for many reasons. For some, the demand has been driven primarily by the needs of large corporations seeking access to international public equity markets, and financial institutions seeking global investment opportunities. To illustrate, a statement issued by the EU in Brussels in 2002 claimed IFRS would 'help eliminate barriers to cross-border trading in securities... [which] will in turn increase market efficiency and reduce the cost of raising capital for companies, ultimately improving competitiveness and helping boost growth'.

Share market providers such as the Australian Securities Exchange argued for IFRS in the hope of deepening their markets. Labour markets were thought to benefit as well. For example, some believed widespread usage of IFRS would improve career opportunities for professionally-qualified accountants and increase the flexibility of supply. As another example, many in South Korea believe adopting IFRS (to happen in 2011) will expand business opportunities for Korean accounting firms and financial institutions, as well as mitigating the 'Korea discount'.

In sum, key benefits typically sought by adopting IFRS are to eliminate barriers to cross-border investing; to increase the 'quality' of financial reports; and to decrease the cost of capital. A mostly unstated benefit is to share with other countries the costs of standard-setting and of securing compliance with accounting standards.

Around 100 research papers have dealt with various outcomes following the adoption of IFRS. So what have they found? Following the adoption of IFRS:

- comparability across countries and industries has improved, although country-level differences persist;
- accounting 'quality' has improved (quality has been measured in ingenious ways!);
- if anything, share prices have become tied more closely to accounting fundamentals;
- analysts' EPS forecasts have become more accurate, with the largest improvements being in forecasts for voluntary 'early adopters';
- institutional investors increased their holdings in firms that adopted IFRS (as long as the standards were enforced);
- shares of IFRS adopters have been traded in more liquid markets;
- the cost of equity capital has declined;
- it takes time for the benefits to materialise; and
- compliance monitoring and enforcement are important.

Three caveats. First, the evidence is not unequivocal: academics thrive on argument and dissent, and archival studies, the main source of the evidence I've summarised, are always subject to challenge. Second, we have not yet studied all of the issues that appear to have mattered to governments of the day when they decided to adopt IFRS, but we are making progress. Third, many other changes, especially in corporate governance, have occurred over the past decade and relatively few studies of IFRS have properly accommodated them.

Webcasts of the presentations at the *Information for Better Markets* Conference are available at icaew.com/bettermarkets

# THE LANDSCAPE OF THE ACCOUNTANCY SECTOR IN SINGAPORE

Grace Chua, a non-practising member of ICPAS and Technical Manager of ICPAS's Technical Division, looks at the current state of play in Singapore's accountancy sector and considers what the future might hold.

Rapid economic growth in Asia-Pacific, particularly in China and India, has increased the demand for accountants significantly within the region. Michael Zink, Citigroup's Singapore country head, has forecast that by 2050, Asia will form 49% of the world's economy. With the scale of businesses extending across borders, the complexity of operations requires much more from the profession. To take advantage of the opportunities available in the development of the accountancy sector and to sharpen Singapore's competitive edge, the Committee to Develop the Accountancy Sector (CDAS) made several recommendations that hinge on the strategic location of Singapore to develop the sector into a regional hub for talent, internationally recognised professional qualifications and accountancy services by 2020.

A year has passed since CDAS made its recommendations, so where does Singapore now stand?

## GROWTH OF MULTI-NATIONAL COMPANIES AND FINANCIAL HUB

The growth of talent in the accountancy sector is a nexus to the development of the business and financial hub. With the establishment of multi-national companies in Singapore, the demand for talent increases, creating interesting opportunities which will draw talent into the profession. A recent example may be made of the leadership development centre launched by consumer conglomerate, Unilever. The centre will run programmes that aim to produce a stronger talent pool for key management and groom the future leaders of Unilever. The development of key management will also require the necessary support staff to aid management decisions and therefore creating a pool of expertise.

In 2011, the Ministry of Finance announced plans to develop Singapore into a regional project finance hub. With the growing infrastructure development within the region, Singapore plans to make the best use of its expertise as a key financial centre as an 'exemplar' and to capitalise on the opportunities available.

With various initiatives and strategic planning, the Singapore government is forecasting that 50,000 new jobs will be created per year over the next decade. Four in ten new jobs will be in high-end positions for industries like finance, business infocomm, arts and lifestyle.

## POST–UNIVERSITY PROFESSIONAL ACCOUNTING QUALIFICATIONS

Today's professional has to constantly update his or her skills and knowledge, even after graduation, to meet the increasing needs arising from the complexity of businesses and competition within the local and international market. The Pro-Tem Singapore Accountancy Council (Pro-Tem SAC) was set up on 1 September 2010 by the Ministry of Finance to drive the recommendations of the CDAS. In May 2011, the Pro-Tem SAC announced that it was seeking proposals from interested parties to act as consultants for the post-university professional accountancy programme. The programme will be designed to deepen and broaden the accountancy sector's professional capabilities and skills for both accountancy and non-accountancy graduates, locally and regionally. This would mean that the pathways for an accounting professional need not necessarily be restricted to accountancy graduates, but would also be extended to graduates from other fields of studies such as engineering, arts, or even mass communication. This adds to the diversity and vibrancy of the sector. In addition, the programme will need to include an Asian market value factor, which will cater to the demand of talent in the Asia-Pacific region.

## DEVELOPMENT OF SPECIALISED SKILLS

Increased business complexity has developed the need for specialised skills in various areas like business valuation, risk management and tax. To further enhance the standards of tax practices and competencies, ICPAS and the Tax Academy of Singapore launched the first accreditation body for tax professionals, known as the Singapore Institute of Accredited Tax Professionals (SIATP) on 7 May 2010. With the endorsement from the Inland Revenue Authority of Singapore (IRAS) and the Big Four, SIATP members are recognised for their higher standards of service and professionalism, where the quality of tax returns and timely submissions ensure effectiveness and efficiency of the tax administration.

Another area of specialised skills relates to the training for chief financial officers (CFOs). The role of

a CFO has evolved from being a supplier of financial data to that of being a strategic decision-making partner to the chief executive officer. In order to cope with the increased needs, the CFO requires a team that can assist in both transnational processes and decision support. Talent management strategy thus becomes crucial for a well-functioning finance team. In March 2011, KPMG Singapore launched a new CFO institute, which serves as a platform for members to exchange ideas with their peers, as well as a resource centre for training programmes and business tools to help develop and upgrade their corporate finance functions.

**REGULATORY SNAPSHOT**

For the accountancy sector to develop, it is important that the financial system remains stable. The robust growth of capital markets and multi-national companies needs to be balanced with the regulatory environment. The Singapore Exchange (SGX) maintains constant vigilance when it comes to monitoring companies listed in Singapore. In a move towards building stronger corporate governance and transparency within listed companies, the SGX is reviewing the adequacy of internal control systems and risk management frameworks. That said, regulation should not restrict financial innovation, but should aim to create conditions in the market that promote effective risk management. As emphasised by Mr Ravi Menon, the new Managing Director of Monetary Authority of Singapore (MAS), the new financial landscape paradoxically requires both better regulation and even better functioning markets.

Regulatory agencies like the Accounting and Corporate Regulatory Authority (ACRA) play an important role in upholding and building the 'trust and high integrity' factor in Singapore. In order to strike a balance on how the profession is regulated, Singapore aligns its regulatory structure to international benchmarks. Recently, the ACRA auditor's oversight system was recognised as equivalent to that of the European Union member states and was among the first batch of 10 countries (including Australia, Canada and the United States) to gain this recognition.

**THE ROAD AHEAD**

The accountancy sector in Singapore has experienced a new burst of vibrancy and dynamism with various organisations, professional institutions and regulatory authorities stepping up to fill the gaps in the sector. With the onset of the recommendations put forth by CDAS, there is far more groundwork required to be done. Exciting opportunities lie ahead but only the early bird catches the worm!

**SINGAPORE ACCOUNTANCY CONVENTION**

ICPAS is hosting its second annual Singapore Accountancy Convention (SAC) to make its mark once again among its local and regional accounting fraternity. Held in Q4 this year, this signature event will discuss **connectivity** of ideas and people involved in the accountancy sector under the theme of **accountancy entrepôt** – an extension of Singapore's success as an entrepôt port and its future development into a global accountancy hub. Building on the pillars of talent development, infrastructure of the accounting ecosystem and exemplars, the Convention brings together distinguished speakers from the profession and the industry from around the world to meet in one of Singapore's landmarks, the Marina Bay Sands Convention Centre. For more information, please refer to http://corp.icpas.org.sg/homepage.aspx in Q3 2011.

# ARE YOU READY FOR THE NEXT WAVE OF ACCOUNTING STANDARDS?

Shariq Barmaky, faculty member, ICPAS practising member, Audit Partner and Head of Technical Group for Deloitte Singapore and his colleague Poh Lin Poh, ICPAS non-practising member, Senior Manager, Technical Department, look at two IFRS projects likely to make a big splash in the months ahead.

With the aim of converging towards one set of accounting standards, the IASB and FASB have come together to work on a number of joint projects that are expected to have widespread implications. This article focuses on two of these projects – revenue recognition and leases – of much significance for Singapore. Ward Coombes' article on pages 12–13 looks at another major joint project, financial instruments.

## REVENUE RECOGNITION

Revenue recognition is currently at the redeliberation stage, with the final standard expected in the fourth quarter of 2011. The aim of the recent exposure draft was to achieve a single revenue recognition model based on six core principles:

1 **Revenue recognised only upon transfer of control of goods or services to a customer.** Entities can recognise revenue using the percentage of completion method or progressively only where there is continuous transfer of control throughout the contract. Where a customer does not have control of work-in-progress as it is built or developed, the seller does not recognise revenue until full completion. Construction companies and others applying the percentage of completion method are most likely to be impacted by this change.

2 **Identification of separate performance obligations for distinct goods or services.** Goods and services which in the past may have been considered ancillary to a main contract may now be reported as separate revenue streams, for example, 'free' mobile phone handsets bundled with service contracts or goods sold with warranty services. Each performance obligation will need to be evaluated separately and revenue will be recognised based on the revenue recognition criteria, sometimes resulting in revenue being recognised at different amounts and during different periods.

3 **Probability-weighted estimates of the consideration expected to be received.** Contingent revenue, which was not recognised as revenue in the past, may now be recognised at a probability-weighted estimate even though the actual amount can only be determined at a future date.

4 **Customer's credit risk reflected in the measurement of revenue.** Unlike the current practice where revenue is not recognised until its collectability is probable, the proposed amendments allow recognition to the extent that an entity can reliably estimate the possibility of collection of the contracted value.

5 **Allocation of transaction price in proportion to the estimated stand-alone selling price.** Total contract price has to be allocated to each performance obligation based on reasonable estimates of the stand-alone selling prices. Any discount given will need to be allocated in proportion to the stand-alone selling prices for each element. As a result, upfront onerous contract provisions may arise even if the overall contract is profitable, as some individual elements may be considered unprofitable.

6 **Expensing of contract acquisition costs.** Rather than capitalising direct costs incurred in securing contracts, under the proposed standard, such expenses would be expensed as incurred.

Of the six principles, the definition of 'transfer of control', or the lack of it, has generated the most discussion. IFRIC 15, which currently applies to real estate developers, already introduces the concept of 'continuous transfer of control' for revenue recognition. Whether transfer of control is continuous or at a single point in time is a matter of judgement and internationally there is currently divergence in views and interpretation. This divergence stems partly from a lack of sufficient guidance in the current literature, and possibly the differing terms of real estate sales agreements. In Singapore, the issuance of the IFRIC 15 equivalent was delayed until August 2010 (and it is not effective until 2011) and included an accompanying note explaining the basis for allowing percentage of completion method for a particular type of real estate sales. In Malaysia, the adoption of IFRIC 15 was deferred to 2012 after much deliberation.

There is some hope that this divergence will be addressed by the final revenue recognition standard and more guidance will be provided.

**Faculty update**

The IASB has been considering the feedback received on the exposure draft and thinking very carefully about the issues raised by its constituents. It appears that, in a number of areas, the board intends to modify the proposals that were set out in the exposure draft in the light of comments received. For example, the IASB has tentatively decided that incremental costs of securing a contract should be capitalised, not expensed, and that it may sometimes be appropriate to measure uncertain revenues at the most likely amount rather than a probability-weighted amount. More fundamentally, it has also been developing separate revenue recognition criteria for services. This is what many respondents requested and seems like it should be a step in the right direction – but, of course, the devil will be in the detail. The IASB has announced that it will re-expose its revised proposals, and a further exposure draft is expected in the third quarter of 2011.

## LEASES

The exposure draft on leases proposes to revamp the accounting for both lessees and lessors. If adopted, the proposals would eliminate the distinction between operating leases and finance leases and introduce new accounting models for both lessees and lessors. A final standard is now scheduled for the fourth quarter of 2011.

### What does the exposure draft mean for lessees?

Lessees would be required to recognise right-of-use assets and related lease liabilities to make payments for all leases rather than to treat operating leases as 'off-balance sheet' financing. The statement of comprehensive income would reflect interest expense on the liabilities, amortisation/impairment expense on the right-of-use assets and any revaluation gains if right-of-use assets are measured under the revaluation model. Controversially, the measurement of lease assets and liabilities would include estimates for contingent rentals and renewal periods, with a reassessment required if significant changes in facts and circumstances arise.

### What does it mean for lessors?

Lessors would be required to record lease receivables and either:

- derecognise a portion of the leased asset where the associated risks and benefits are substantially transferred to the lessee (the de-recognition approach); or
- retain the leased asset on balance sheet where those risks and benefits are retained and recognise a lease liability to be amortised over the lease term (the performance obligation approach).

Under the de-recognition approach, lease income will be recognised upfront and interest income will be recognised over the life of the lease. Under the performance obligation approach, both lease and interest income will be recognised over the life of the lease. Lease receivables measurement would include estimates of the longest possible lease term, but unlike lessee accounting, contingent rentals would only be included if they can be measured reliably.

### Who would be most impacted?

Understandably, Singapore entities that are heavily reliant on leased assets, such as transportation and telecommunication companies, would be most impacted by the proposed changes. The financial statements of lessees are likely to look very different with a right-of-use asset and a corresponding liability brought on to the balance sheet. Key metrics such as gearing, profits and the earnings per share are also likely to be impacted. Companies, which in the past preferred leasing assets instead of owning them, may change their behaviour, thus impacting tax accounting and the presentation between operating and financing cash flows. System changes may also be needed to support new measurement requirements and disclosures. Debt covenants with lenders may need to be revised or renegotiated.

**Faculty update**

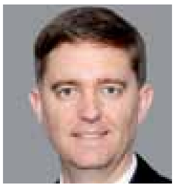
The proposals in the exposure draft have proved controversial and have attracted considerable debate. Over the past few months, the IASB has made a number of tentative decisions that may significantly change the proposals contained in the exposure draft. For example, the treatment of renewal periods and contingent rentals seems likely to be less complex than originally proposed. But the debate rumbles on and recently the IASB has reversed a decision taken in January 2011 that had sought to alleviate some concerns about the pattern of expense recognition. This serves to demonstrate that all decisions made to date are tentative. There is still some way to go and re-exposure of some or all of the boards' proposals has not been ruled out. Publication of a standard in 2011 may be challenging. Nonetheless it seems certain that all leases will at some point be recognised on balance sheet for the first time.

## CONCLUSION

Whatever the outcome of these two key IASB projects, the impact on financial reporting in Singapore and beyond is likely to be profound, and it will be important for companies to consider the business and accounting implications at an early stage.

# ARE YOU PREPARED FOR IFRS 9?

Ward Coombs, Partner at Ernst & Young in Singapore, advises preparers on how to identify and manage potential practical issues arising from the upcoming implementation of new requirements for accounting for financial instruments.



As a replacement to IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 9 *Financial Instruments* is being released in three phases. But currently only the first phase on classification and measurement has been completed. It has an implementation date of 1 January 2013. The remaining phases on impairment and hedging are expected to be finalised later this year.

## KEY REQUIREMENTS OF IFRS 9

As noted above, phase one looks at classification and measurement. The most significant changes relate to financial assets, which are measured at amortised cost if they have contractual cash flow characteristics (ie, contractual terms that give rise to payments of principal and interest on specified dates) and the entity's business model has the objective of collecting those cash flows rather than one of selling the asset prior to contractual maturity to realise fair value changes. All other financial assets are measured at fair value, with revaluation gains and losses being taken to profit or loss unless such gains or losses relate to equity securities not held for trading where the entity has made an irrevocable election to take them to other comprehensive income (OCI).

## QUESTIONS, QUESTIONS

When planning for the transition from IAS 39 to IFRS 9, key questions for the board include:

- **Has management assessed and understood its business model?** In order to apply amortised cost, it may be necessary to determine which portfolios are held to collect future cash flows and which are held for trading or otherwise with the intention to sell in the shorter term and to develop a strategy to maintain this segmentation of portfolios. In addition, policies and procedures need to be developed on when assets can be sold to maximise adherence to the 'business model' requirements.
- **Are any unlisted equity securities currently held at cost? If they are, is management able to determine the fair value of these investments on an ongoing basis?** There is no cost exception under IFRS 9, so all equity securities need to be carried at fair value.
- **For equity securities not held for trading, has management determined the choice to record revaluation gains and losses in OCI or through profit and loss?** Sensitivity or impact calculations may help management make this decision.
- **If realised gains and losses on equity securities are recorded through OCI, how will these be treated for local tax purposes?** Capital gains may not be taxable if they are not included in accounting profit or loss.
- **Are original term sheets for investments available to determine 'contractual cash flow characteristics' for the securities that may qualify for amortised cost?** This may be one of the most time-consuming aspects of classification and measurement as an instrument by instrument analysis will need to be conducted.
- **Does the entity have any of the following instruments: host contracts with embedded derivatives, non-recourse loans and retained interests or tranches from securitisations?** If it does, a closer analysis will be needed to determine if the requirements for 'contractual cash flow characteristics' continue to be satisfied. A good start will be to review the analysis done for IAS 39 to understand the types of embedded derivatives that are held by the company. There are other specific requirements for non-recourse loans and securitisations that need to be considered when conducting the 'cash flow characteristics' test that will be quite time consuming.
- **Does management intend to continue to elect to classify certain financial assets at fair value through profit and loss?** This fair value option is still available under IFRS 9, but only if it significantly reduces or eliminates an accounting mismatch. Accordingly, analysis will be needed to determine if an accounting mismatch is significantly reduced or eliminated as there may be different treatment for any offsetting items under the new classification criteria.
- **Does management want to adopt the standards early?** There could be advantages in early adoption as classifications and the use of fair value through profit and loss can be reconsidered and certain comparative information may not be required.
- **Will it be necessary to take up any of the transition reliefs offered by the standard?** For example, it may be deemed impracticable or

require hindsight to determine amortised cost for debt instruments previously carried at fair value under IAS 39. Fair value at the initial adoption date can be used as a proxy for amortised cost at transition and would be the new amortised cost carrying amount for subsequent periods. Other reliefs are available for unlisted equity investments which must be carried at fair value on transition and for financial assets with embedded derivatives.

**DELAYED ADOPTION OF IFRS 9 IN OTHER JURISDICTIONS**

Singapore financial statement preparers may be caught in a bind if some countries adopt IFRS 9 on a delayed basis. Preparers should be concerned with the timelines in other jurisdictions, especially if the standard is to be adopted for local statutory reporting prior to adoption by an overseas head office for group reporting. This may result in having to proceed with local implementation without the benefit of the group experience or resources, and inconsistencies between decisions by local management and the group. In particular, some decisions that are necessary for classification and measurement cannot be made at a local level as they involve global portfolios and group strategy.

For example, one of the key requirements to utilise amortised cost for classification and measurement of financial assets is to perform a 'business model' test. The 'business model' test looks at how financial assets are managed on a portfolio basis. In the case where local management needs to adopt IFRS 9 prior to adoption by the group but portfolios are managed on a global basis, local management may need to make decisions regarding portfolios that may not be consistent with subsequent adoption by the group. Ideally, portfolio management and segmentation decisions should be clear from a group perspective before 1 January 2013 if local management needs to adopt IFRS 9 for statutory reporting.

At the same time, foreign US SEC registrants using IFRS in their US SEC filings should note that the earliest required comparative period for a 31 December year-end filer is 2011. Companies required to report in 2013 will need to show comparative information that includes the year 2011. These companies should now be considering the data or information that needs to be gathered on an ongoing basis.

**CONCLUSION**

As the final classification and measurement requirements for IFRS 9 are already available, Singapore companies may want to begin to address the issues above as soon as possible. That may be particularly wise given the danger of being overwhelmed by the other new accounting standards that are scheduled for release in the year ahead!

# WHERE NOW FOR IFRS? AN INTERVIEW WITH HANS HOOGERVORST

Hans Hoogervorst takes over as the Chairman of the IASB this month. The faculty's Nigel Sleigh-Johnson and Eddy James were granted an opportunity to meet him shortly before he took the helm at Cannon Street.

Next month marks the dawn of a new era in financial reporting when Sir David Tweedie passes the baton as IASB Chairman to his anointed successor, Hans Hoogervorst, the former Dutch finance minister and head of the Dutch regulator, AFM.

When we met up with Hans in advance of the handover, he was excited about the change, and about relocating to London. He was also quick to dispel rumours that IASB may leave these shores any time soon. Well, he added, 'probably not', referring to the impact of new immigration rules on IASB's international workforce. We discuss with Hans ICAEW's role in highlighting the issue, and as a long-standing supporter of global standards, a 'partner' of IASB as Hans puts it, before turning to what the future may hold for IFRS.

## FUTURE AGENDA

In the Netherlands, Hans is perhaps best known for steering through major health care reforms as Minister of Health. Key to his success, he says, was a pragmatic approach, an ability to make 'complex issues simple'. This approach is one Hans plans to apply in his new role. So will there be less change on the IASB's agenda in the years ahead? Hans tells us that it is 'too early' to set out the priorities that will define his tenure as Chairman, explaining that 'he has an open mind' – although he understands that there may be little appetite for further substantial change any time soon. He is particularly interested in understanding the needs of emerging economies, and mentions the importance of completing the conceptual framework – without devoting undue time and effort to the project.

### IFRS and Asia

Hans also told the Financial Reporting Faculty it was 'inconceivable' to imagine IFRS as a global set of standards without Asia's backing and cited the recent opening of the IASB's first regional office in Japan as an example of the IASB's commitment to the region. He was also pleased to note that the emergence of the Asian-Oceanian Standard-Setters Group (AOSSG) gives the region a strong voice but at the same time he explained that it is important that views and perspectives of individual countries, such as Singapore, are not lost. Hans' vision is to create a true sense of ownership of IFRS around the world with the IASB building a deeper connection with many countries. One way he suggested that this can be achieved is by ensuring that local standard-setters and regulators are a source of IASB technical staff.

## BUILDING A GLOBAL CONSENSUS

Hans' enthusiasm is unbounded when we moved on to the IASB's relations with global stakeholders. 'That's the fun part', he tells us. His priority is to 'consolidate the gains made in recent years by solidifying the sense of ownership around the world through improved governance'. He explains that 'this can only be achieved by making the IASB feel like a truly global organisation; by ensuring it is not dominated by any one country or region... IFRS cannot survive if the standard-setter is perceived as European or American'.

But is such a global consensus really possible? Hans is 'realistically hopeful that the outcome will be positive' when the SEC takes its long-awaited decision later this year on the use of IFRS in the US.

Regardless of that outcome, Hans describes the effort of converging IFRS and US GAAP over the past decade as being 'time well spent', before adding: 'Let's not beat about the bush, of course there has been a lot of focus on the US. But while it is just one country, it is a very important one. Its own accounting standards are high quality and have served their capital markets well so I can understand some reluctance to change. But philosophically the two systems are already very close and the convergence project has not only brought them closer together but has also uplifted the quality of the standards at the same time.'

The new man at the helm of the IASB is a pragmatist, with a strongly international perspective. We leave him clutching a copy of *Fostering Monetary and Financial Co-operation in East Asia* by Duck-Koo Chung and Barry Eichengreen. Some light reading for the journey ahead?

The full version of this interview appears in this month's main edition of *By All Accounts*. This abridged version first appeared in the June 2011 edition of *Accountancy*.

# LOAN LOSS PROVISIONING: WHAT NOW?

Teo Kok Ming, ICPAS member, Executive Director at the Monetary Authority of Singapore, discusses his views on developing an appropriate expected loss impairment model.

Prudential regulators, particularly in this region, have long held the view that the incurred loss impairment model under IAS 39 would lead to systematic under-provisioning for loan losses. This has prompted a number of them to put in place various measures to encourage their financial institutions to provision adequately.

We were no different in Singapore as we issued guidance requiring banks in Singapore to remain circumspect and to maintain a level of impairment allowances sufficient to absorb all estimated credit losses inherent in their loan portfolios. In addition, a minimum level of collective impairment allowances is prescribed for banks that do not have a loss estimation methodology that is sufficiently robust or lack sufficient quality loss data to calibrate loan loss provisions meaningfully. From a policy standpoint, this has served us well but, nonetheless, it has taken the recent crisis for users of financial statements to recognise the inherent shortcomings of the incurred loss impairment model.

'The final impairment model can retain the concept of interest revenue as a credit cost adjusted yield.'

It is therefore encouraging that both the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) have stepped up to address this by moving towards a more forward-looking expected loss impairment model. The joint publication of the *Supplement on Financial Instruments: Impairment* for consultation in January 2011 is a good start. It contains proposals for a converged approach to accounting for impairment which is directionally consistent with the call made by the G20 leaders. In our view, this proposed converged approach has the potential to foster greater consistency in application across the globe, while improving the decision usefulness and relevance of financial reporting for users.

Developing a final solution to impairment accounting will not be easy as the boards started out with significantly differing objectives. The IASB's objective was to reflect initial expected credit losses when determining the effective interest rate, which they believe, is more reflective of the economic substance of lending transactions. The FASB's objective was to ensure that the allowance balance was sufficient to cover all estimated credit losses for the remaining life of an instrument. Therefore the latest proposals are something of a compromise and further changes are likely as both boards re-deliberate and incorporate the diverse feedback received from the consultation.

We believe that the final impairment approach need not be grounded solely on conceptual purity. The final impairment model can retain the concept of interest revenue as a credit cost adjusted yield. This will recognise that the pricing of financial assets includes an initial estimate of expected credit losses. In addition, using the proposed time-proportional approach to allocate the initial estimate of credit losses will achieve some extent of matching against interest revenue. However, to adequately address the 'too little, too late' issue associated with the incurred loss model, the final model must also consider the recoverability of the loans and receivables balances at each reporting date. Where a bank's assessment points to an inability to collect all contractual repayments due on its loan portfolios, the final impairment model should allow the bank to make sufficient allowances for such credit losses that are inherent in the portfolios at each reporting date (especially for portfolios that exhibit early loss patterns). Such a balanced approach will better meet the objective of having a true and fair statement of both the income for the period under review and financial assets at each balance sheet reporting date.

Additionally, given the accelerated timeline taken to develop the new impairment model, it will be useful for the boards to consider carrying out further field tests and impact studies to ensure that the final impairment model is robust and practical.

**Faculty update**

The comment period for the supplementary document *Supplement on Financial Instruments: Impairment* closed on 1 April 2011. Feedback on the supplementary document is being considered and redeliberations are ongoing.

# THE IASB AGENDA: WHERE TO NEXT?

The IASB will begin consulting on its future technical agenda this summer. We asked Mr Reinhard Klemmer of KPMG and Ms Kok Moi Lre of PricewaterhouseCoopers, for their thoughts on what items they think are worthy of inclusion in their workplan going forwards.

**Reinhard Klemmer, KPMG**

### INTANGIBLE ASSETS

Operating in a knowledge-based economy, Singapore companies have, over the years, increased investments in the development of intangible assets such as trademarks, brand names and patents. The current accounting standard allows capitalisation of purchased intangibles but significantly limits capitalisation of internally-generated intangible assets. This creates an artificial distinction between those intangibles that are self-generated and those that are purchased. The absence of internally-generated intangible assets from the balance sheet usually results in financial statements that are not reflective of the true worth of the business and therefore reduces the usefulness of the financial statements. The accounting standard, in this respect, has failed to keep pace with the changing economic environment.

### COMMON CONTROL TRANSACTIONS

Group restructuring occurs frequently in many jurisdictions, including Singapore. Most of these transactions have legitimate business objectives such as streamlining of operations or obtaining an advantageous tax treatment. Such transactions are not currently addressed by IFRSs even though they are common in the marketplace. Consequently, in practice a variety of accounting methods are applied meaning similar transactions may be accounted for very differently. Guidance is needed to ensure consistency.

### RELATED PARTY TRANSACTIONS

Closely related to this issue is the accounting for related party transactions such as sales, purchases, group share-based payments and inter-company financing which are usually not carried out on an arm's-length basis. Currently there is inconsistent guidance in IFRS with some of these transactions recognised on a deemed commercial basis, while others are recognised based on the agreed terms. Such inconsistencies reflect the need for the IASB to comprehensively review the accounting for related party transactions. The agreement on the fundamental principle that should underpin the accounting for these transactions would represent a significant improvement to current financial reporting.

**Kok Moi Lre, PwC**

### OTHER COMPREHENSIVE INCOME

There is little clarity in the IFRS on why certain items are included as part of other comprehensive income (OCI) rather than in the profit and loss. For example, fair value changes in non-trading equity investments may be included in OCI while fair value changes in investment properties are always included in profit and loss. The driving principle behind this distinction needs to be established. But perhaps the more critical question is when items previously included in OCI are, if ever, recycled to the profit and loss since 'net profit' continues to be a key financial performance indicator.

### INCOME TAXES

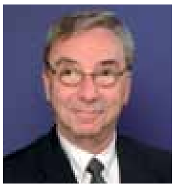
The recent amendment to IAS 12 in relation to deferred tax on investment properties measured at fair value caused some excitement among the property owners in Singapore. Deferred tax on fair value gains on such properties was written back as there is no capital gains tax in the country. The question is whether the amendments should stop there. It is well acknowledged that the current accounting model for deferred taxes needs more than a facelift. The board should continue the work on this topic, given that the current model is complex and hard to understand. Would the board be bold enough to propose fundamental changes to the way deferred taxes are viewed and accounted, for example, is deferred tax liability a liability to begin with?

### A CONCEPTUAL FRAMEWORK FOR DISCLOSURES

Disclosures are necessary to complement the numerical information in the financial statements. However, information in financial statements has evolved to be voluminous and too often boilerplate. There is a real danger that important information is lost among unnecessary detail. To address this, the board should consider developing over-arching principles in guiding the types of disclosure that are relevant and necessary to be included within IFRS. Perhaps, there is a case for 'less is more'.

# A GLOBAL STANDARD FOR SMEs? AN INTERVIEW WITH PAUL PACTER

Paul Pacter is the architect of the IFRS for SMEs and since July 2010 has been a member of the IASB Board. The faculty's Nigel Sleigh-Johnson and Eddy James spoke to him exclusively for this special edition about the SME standard and IFRS in Singapore and beyond.



**Financial Reporting Faculty – The IFRS for SMEs is clearly enjoying much success around the world but several major jurisdictions have decided not to use it or have amended its contents. Why do you think that is, and how do you intend to respond?**
**Paul Pacter** – The IFRS for SMEs was issued in July 2009. In less than two years, 73 countries have adopted it and nearly all of them have not changed a word. Nearly all of them either permit or require it for all entities that do not have public accountability. Very few have put in size tests; Singapore has but they are one of the few to do so. I think we have achieved an extraordinary breadth of acceptance in a very short time. Adoption is a jurisdiction's decision, but if they make modifications then they cannot assert compliance with the IFRS for SMEs.

**What unexpected implementation or technical issues have arisen from early use of the IFRS for SMEs?**
The Trustees of the IFRS Foundation have appointed an SME Implementation Group (SMEIG) to develop and publish questions and answers as non-mandatory guidance for implementing the IFRS for SMEs. We have received roughly 50 implementation questions so far – not very many considering millions of companies are using the standard. We honestly do not have many thorny technical questions on individual sections of the standard. The main questions are on who is eligible to use the standard.

Perhaps this is because the board knew that we could not just issue the standard and say goodbye and good luck! So we have offered a lot more support than we do for companies adopting full IFRS, through things such as running 'train the trainer' workshops – like the one I presented in Singapore last year – and developing comprehensive self-study training materials.

**What is your biggest regret about the content of the first iteration of the IFRS for SMEs?**
My biggest regret is the income taxes section, which was the toughest chapter to write in the whole standard. My recommendation three times to the board was to go for taxes payable with disclosures on deferrals, reversals and so on. In other words, no deferred taxes! At the time the board was proposing to replace IAS 12 with a standard that had fewer exemptions. In other words, more deferred taxes. And that's what the chapter in the SME standard is based upon. But when the comments came back on the proposals to replace IAS 12 they were very negative and so the board decided to abandon the exposure draft. But those abandoned proposals are hardwired into the IFRS for SMEs. I am disappointed we have ended up in this situation, but the practical effect is not huge as for most SMEs recognition of deferred taxes seems to be straightforward. We have had few implementation questions so far.

**Do you still hold that the IFRS for SMEs is suitable for very small private companies as well as larger businesses?**
If your question is whether I think that tiny private companies – say those with fewer than five or ten employees – should be required by law or regulation to prepare general purpose financial statements, my personal leaning would be no. But if a parliament or a regulator has demanded that micro-entities prepare general purpose financial statements, I think the IFRS for SMEs is ideal for them.

Remember that a huge issue for micro-companies is access to capital. Companies of this size consistently lament their inability to borrow money. The banks and other capital providers, on the other hand, say – to put it crudely – we don't understand the numbers, we don't trust the numbers. So I definitely think there is a big role for the IFRS for SMEs even for micros.

**Earlier this year you visited Singapore to deliver a three-day train the trainer session on the IFRS for SMEs and to present at an ASC/ICPAS conference on the same subject. How did you enjoy the trip and how did people react to the contents of the new standard?**
I lived in Hong Kong for nearly 11 years, and go to Singapore often. It is a lovely city and I always enjoy going there.

The Singapore 'train the trainer' workshop had 120 participants from eight countries. The workshop and the conference went very well and the contents of the standard were well received. We expect thousands of SMEs in Singapore to be using the

SFRS for Small Entities (essentially the IFRS for SMEs word for word) starting in 2011.

**Are there any particular aspects of the IFRS for SMEs that are causing particular difficulty in South-East Asia?**
I think that perhaps the most problematic aspect of full IFRSs in South-East Asia has been the required use of fair values. While some in the region simply don't believe that fair value is the right basis for measurement, in most cases the issues have related to the lack of availability of reliable measures of fair value. Most definitely, IAS 41 has been of concern, as has IAS 39, which requires measurement of some financial assets and liabilities at fair value.

Fair value is much less of an issue with respect to the IFRS for SMEs, which in both instances is essentially an historical cost accounting model.

**How can relatively small countries, such as Singapore, which lie outside of the main global capital markets, contribute most effectively to the international standard setting process?**
The way forward is to bring the national standard-setters into a working partnership with us as we embark on our new agenda. They have skills and, frankly, resources that we need. They have the direct links to their constituents – and know the issues of concern to those constituents. I would hope that the national standard-setters in countries like Singapore could become the incubator of ideas, undertaking research and field testing, as well as a sounding board for the IASB at various stages in projects. They should also be our early warning system when IFRS implementation problems are emerging.

With regard to the IFRS for SMEs, we would encourage constituents in Singapore to provide comments on draft Q&As published by the SMEIG, to identify and let us know about implementation problems and provide comments on the exposure draft of possible changes to the IFRS for SMEs.

**How significant is the opening of the IASB's first regional office in Japan?**
Most of the world thinks of the IASB as Europe's standard-setter. And that is particularly true in Asia. But we're now the world's standard-setter. The board are aware of the concern in Asia that the IASB appears to be Euro-centric. It was with this in mind that we decided to open an Asia-Oceania Regional Office in Tokyo. It's not our Japan office; it's our regional office. I think the new office is significant because it highlights the growing importance of Asia as a global financial centre and the resulting demand for the kind of high-quality financial information that IFRSs provide.

**Do you think the faculty has a role to play in an increasingly global financial reporting environment?**
IFRSs are good, but understanding them requires old fashioned hard work. The ICAEW Financial Reporting Faculty offers people the help they need to get to grips with the standards. So I think what it does is very useful, not just for people in the UK but all around the world, including Singapore. So I see a bright future for the faculty.

# FINANCIAL REPORTING BY SMALL ENTITIES: ALL CHANGE?

The Singapore Financial Reporting Standard for Small Entities (the local version of the IFRS for SMEs) applies as alternative to the SFRS for periods beginning on or after 1 January 2011. Kon Yin Tong, Managing Partner of Foo Kon Tan Grant Thornton LLP, and Fellow Practising Member, ICPAS, explains which entities are eligible to use the new standard and the pros and cons of opting-in.

## INTRODUCTION

Until recently, Singapore did not have a differential reporting framework for small entities. All companies incorporated in Singapore, regardless of size or the level of public interest in them, were required under the Companies Act to comply with Singapore Financial Reporting Standards (SFRS) which, of course, are largely aligned with IFRS. This imposed a significant financial reporting burden on many small private companies, particularly in the areas of recognition and measurement bases and detailed disclosure requirements.

In response to demand for a simpler yet robust financial reporting framework, the Singapore Financial Reporting Standard for Small Entities (SFRS for Small Entities, or the Standard) was issued on 30 November 2010. It provides an optional financial reporting standard for small entities for financial reporting periods beginning on or after 1 January 2011, and was issued after a rigorous consultation process with the public and various stakeholders.

SFRS for Small Entities is word for word the same as the IFRS for SMEs, bar the reference to the Singapore standards in the criteria on the exemption from consolidation in section 9.

## ELIGIBILITY

'Entities' refers to companies incorporated in Singapore and Singapore branches of foreign companies. An entity is eligible to use the SFRS for Small Entities if:

- it is not publicly accountable; and
- it publishes general purpose financial statements for external users; and
- it is a small entity.

Publicly accountable entities include public companies as defined under the Companies Act and charities as defined under the Charities Act.

A small entity is an entity that satisfies at least two out of three 'not more than' size criteria in the prior two consecutive financial reporting periods (determined on a consolidated basis where consolidated accounts are required) as follows:

- total annual revenue of not more than S$10m;
- total gross assets of not more than S$10m;
- total number of employees of not more than 50.

## THE SIZE CRITERIA

Total revenue and total gross assets are determined at the end of the financial reporting period in accordance with either the Standard or SFRS. Where the financial reporting period is longer or shorter than a year, total revenue should be extrapolated or pro-rated as necessary. The number of employees is based on the number of full-time employees employed by the reporting entity at the end of the financial reporting period. These size criteria will mean that about 80% of private companies in Singapore will be eligible to apply the Standard.

## MARGINAL ENTITIES

The application of the size criteria above means that there is some relief for marginal entities ie, those that fall in and out of the size criteria due to year-on-year fluctuations in financial or operational results. A non-publicly accountable entity continues to eligible for reporting under the SFRS for Small Entities until that entity does not satisfy the size criteria for the prior two consecutive financial reporting periods

In brief, entities that are not publicly accountable:

- **may** use the Standard in the current period provided they have satisfied size criteria in the prior two consecutive financial reporting periods; and
- **must** use SFRS in the current period if they have not satisfied size criteria in the prior two consecutive financial reporting periods.

This is best illustrated in the following table for currently eligible entities.

| Size criteria satisfied? | | | | | |
|---|---|---|---|---|---|
| 20X3 | 20X4 | 20X5 | 20X6 | 20X7 | 20X8 |
| Yes | Yes | No | No | Yes | Yes |
| **Eligible?** | | | | | |
| ✓ | ✓ | ✓[1] | ✓[1] | ✗[1] | ✗[2] |

[1] You must use SFRS only if you did not satisfy the size criteria in the prior two consecutive periods.

[2] To apply the Standard, the size criteria for the previous two consecutive periods must be satisfied.

### START-UPS

It is expected that the SFRS for Small Entities will be popular with start-ups. For newly constituted entities, the Standard is available for the first and second financial reporting periods after incorporation if the entity meets the qualitative criteria for the full financial reporting period.

### CESSATION OF ELIGIBILITY

Eligible entities can continue to use the Standard until the qualitative criteria have not been met for the full financial reporting period; or for the previous two consecutive financial reporting periods before the financial reporting period in respect of which the Standard is sought to be applied, the entity was not or had ceased to be a small entity because it did not meet the size criteria at the end of each of those financial reporting periods.

### WHICH STANDARD TO USE?

Eligible entities that currently prepare SFRS financial statements have a choice of continuing to apply SFRS or the Standard. A decision on which standard to adopt could be based on the following factors:

1. **Additional accounting policy choices under SFRS**. This may be critical in certain Singapore industries like IT or the creative industries because applying the Standard will result in a write-off of previously capitalised development costs and borrowing costs.
2. **Tax impact**. Currently, it is not clear what adjustments, if any, the revenue authorities will seek to apply if the Standard is applied, or whether applying SFRS will result in a different tax exposure.
3. **Group accounting**. If a parent of an eligible entity prepares consolidated financial statements using SFRS, the consolidation process will be more efficient if consistent accounting policies are applied across the group.
4. **Future ineligibility**. If the entity will be ineligible in a few years eg, if a public listing is expected or if the size criteria will no longer be met, then it may be more cost effective to continue using SFRS. The initial switching costs incurred will not be recouped if an entity has to revert to SFRS in the near future.

The Standard, undoubtedly, has the advantage of lower costs of compliance, because the financial statements are simpler, shorter and there are far fewer disclosures. Nevertheless, any management decision to switch standards should be made in consultation with shareholders, lenders and other stakeholders.

### CONCLUSION

While there were initial (and for some, still lingering) apprehensions about a differential reporting framework, including concerns about the need to maintain two standards, the difficulty of upgrading to SFRS, the potentially reduced profitability in financial statements prepared using the Standard and the still relatively widespread use of fair values, the introduction of SFRS for Small Entities comes at an opportune time when businesses are focused on costs, and should be welcomed by all stakeholders. The decision not to make significant changes to the IFRS for SMEs means that the financial statements of Singapore companies applying the Standard will be intelligible around the world, and confirms the commitment of Singapore to the brave new world of international reporting.

# PRACTICAL HELP IN A COMPLEX WORLD

We meet two of the Singapore-based members of ICAEW's Financial Reporting Faculty and find out what the benefits of faculty membership are.

Since its launch in December 2008, ICAEW's Financial Reporting Faculty has gone from strength to strength, attracting a substantial number of members from the UK and beyond. The faculty promises to provide its members with 'practical help in a complex world' and as companies listed on the Singapore Stock Exchange prepare for the adoption of IFRS-equivalent standards in 2012 and smaller entities get to grips with the Singapore Financial Reporting Standard for Small Entities, this help is perhaps needed more than ever.

We spoke to two Singapore-based faculty members to find out their thoughts on the faculty's offering. To find out more about the Financial Reporting Faculty visit icaew.com/frf.

| Financial Reporting Faculty questions | Borzou Aram BSc ACA, Finance Manager, Samco Shipholding Pte. Ltd | Ramchand N Jagtiani CPA, CFA, ATP (Income Tax), Partner, LTC LLP Public Accountants and Certified Public Accountants |
|---|---|---|
| **What is your overall view of the Financial Reporting Faculty?** | My overall view is favourable. I think setting up the faculties, in general, has been a positive move by ICAEW to make it relevant to the members. Overall, the ICAEW has to try and convince grassroots industrial members, like me, that it is more than a trade body for the Big Four audit firms. | A convenient one-stop information and resource portal on IFRS and UK GAAP that is both bite-sized and insightful enough for the busy professional. |
| **What do you like best about what the Financial Reporting Faculty offers and the services it provides? Why?** | I like the factsheets as they enable me to identify the issues that may affect my work and need further attention or study.<br><br>The profession is positively awash with new rules and regulations most of which do not affect me so any help to sift through and pick up the relevant stuff is good. | Analyses of new, revised and forthcoming accounting standards especially from their practical impact and business perspectives. |
| **Would you recommend Financial Reporting Faculty membership to others (eg, a colleague or a friend)? Why? Why not?** | Yes, but my accountant friends tend to be members already. | Yes, if they would like timely, convenient and succinct updates and insights on IFRS and UK GAAP. |
| **Does your membership to the Financial Reporting Faculty offer good value for money? Why? Why not?** | I perceive the faculty as the part of ICAEW that provides useful information to me. | Yes, because you can avail of the eIFRS resources at the same time. |

**SPECIAL OFFER**

If you are a Singapore-based ICAEW member or a member of ICPAS you can take advantage of a limited special offer to receive membership of the Financial Reporting Faculty until 31 December 2012. Join online today at icaew.com/frf and enter promotional code **FRF18M** to claim your discount. Or you can call +44 (0)1908 248 250, quoting **FRF18M**. Offer ends 31 August 2011.

# ICAEW FINANCIAL REPORTING APP FOR iPHONE AND iPAD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The Financial Reporting Faculty has developed a new iPhone and iPad app – downloaded by over 5,000 people so far – that brings the latest information on topics such as IFRS and UK GAAP to you, wherever you are. The app features a selection of premium member content from the faculty including webinars and IFRS factsheets. You will also find a promotional code within the app that offers you a discount to our full range of high quality financial reporting resources.

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This Singapore Special Edition has been published by ICAEW's Financial Reporting Faculty to complement the July 2011 edition of our member journal, *By All Accounts*. Production of the Special Edition would not have been possible without the sterling efforts of faculty Technical Manager Eddy James and the collaboration of our colleagues at ICPAS. We are grateful for their input and support.

I would welcome your thoughts on whether you found the supplement interesting and useful. Please contact me at nigel.sleigh-johnson@icaew.com with any comments.

The 32 page July 2011 edition of *By All Accounts* explores many of the current challenges facing financial reporting professionals. The articles are written by experts in the field and cover both IFRS and UK GAAP. Topics include:

- An analysis of the challenges ahead for IFRS reporting, including the full version of our exclusive interview with Hans Hoogervorst, the new Chairman of the International Accounting Standard Board.
- More details on the next wave of IFRSs, including an introduction to IFRS 10–13 and an update on all of the IASB's outstanding major projects.
- An update on the UK Accounting Standards Board's plan to reshape UK GAAP by reference to the IFRS for SMEs.

*By All Accounts* is distributed to all members of the faculty and may be purchased by ICPAS members and non-members at icaew.com/shop.

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