MOORE STEPHENS LLP
CHARTERED ACCOUNTANTS OF SINGAPORE

Moore Stephens
Financial Reporting Seminar 2016

Friday 18 November 2016
M Hotel

> ***"Of the financial reporting changes that become effective after 2016, the new framework for revenue recognition....which takes effect in 2018, may have the most wide-ranging impact..."***

Extensive changes in financial reporting for revenue, financial instruments and leases will take effect in 2018 and 2019, and companies need to start preparing for these changes now.

That was the key message at the Moore Stephens Financial Reporting Seminar 2016, held at M Hotel on 18 November 2016 and attended by more than 150 participants including directors, CFOs and finance executives. The seminar provided participants with effective and practical tools to assess the impact from new reporting regulations.

Financial Reporting Changes in 2016

One of the most significant changes in 2016 will be the enhanced auditor's report, according to Mr. Wong Koon Min, Partner and Head of Professional Standards at Moore Stephens LLP, who kicked off the seminar by highlighting the most immediate changes that take effect in the 2016 financial year.

In particular, auditors of listed companies will have to highlight key audit matters, being those matters that require the most significant auditor attention during the audit. While this development is likely to increase the value of the audit for investors and stakeholders, it also sets new challenges, for example, potentially increased investor scrutiny on the tone and language of the expanded and more discursive report.

Other amendments to financial reporting rules in 2016 include changes to accounting rules for biological assets, depreciation and amortisation of long-term assets, pension plans, investment entities, acquisition of unincorporated joint ventures, presentation issues, etc.

New Revenue Recognition Rules

Of the financial reporting changes that become effective after 2016, the new framework for revenue recognition specified in FRS 115 Revenue from Contracts with Customers, which takes effect in 2018, may have the most wide-ranging impact.

According to Mr. Wong, while FRS 115 provides a seemingly straightforward, principle-based and 5-step approach to assessing revenue, it also includes much more prescriptive guidance on how that approach applies in a wide range of situations. This has led to the creation of new rules in situations where, prior to FRS 115, companies largely had the flexibility to exercise judgment.

Revenue recognition practices that are potentially impacted by FRS 115 include the accounting rules for sales returns, multiple element revenue contracts, long-term project revenue, accounting for variation orders, project modifications, contingent revenue, warranties, revenue recognition by intermediaries and agents, and sale and licensing of intellectual property, among others. Participants were provided with checklists of key change areas, and encouraged to start identifying and analysing the impact of FRS 115. Early communication of financial impact to stakeholders is essential.

New Financial Instruments Rules

Accounting for financial instruments also faces an overhaul in 2018, when FRS 109 Financial Instruments becomes effective.

Mr. Wong highlighted that companies with less sophisticated finance functions may face challenges in the valuation of unquoted equity investments (other than subsidiaries, joint ventures and associates), as FRS 109 no longer allows these investments to be held at cost less impairment.

For such equity investments, valuation gains/ losses can be recorded either entirely in profit/ loss, or entirely outside of profit/ loss. Mr. Wong cautioned that, unlike pre-FRS 109 rules, the second option will permanently exclude capital gains from profit/ loss, even when the investments are disposed.

Another key change is the requirement for impairment to be estimated and recognised from acquisition date. Before FRS 109, impairment losses are not recognised until objective “trigger” events (e.g. loan default) occur. Under FRS 109, these events are no longer a prerequisite for impairment. Mr. Wong surmised that impairment allowances will increase under FRS 109.

A further key change under FRS 109 is the simplification of complex hedge accounting rules, e.g. FRS 109 removed the complex quantitative hedge effectiveness testing rules,

Mr. Wong Koon Min, speaking on financial reporting changes in 2016, revenue recognition, and financial instruments.

Professor Ng Eng Juan providing an update on the upcoming changes in lease accounting.

Mr. Winston Seow discussing the latest updates in corporate regulations.

and allowed more hedging strategies to qualify for hedge accounting. Companies can also continue using pre-FRS 109 hedging rules even after FRS 109 becomes effective, providing further flexibility.

New Lease Accounting Rules

From 2019, lessees will have to capitalise most leases under the new accounting framework in FRS 116 Leases, according to Associate Professor Ng Eng Juan, UniSIM School of Business.

As some of these leases may have been classified as "operating leases" which were off-balance sheet under pre-FRS 116 rules, many lessees will report higher gearing ratios. Further, FRS 116 will accelerate lease expenditure, because it front-loads the lease liability amortisation expense, whereas, prior to FRS 116, operating leases were amortised evenly throughout the lease period.

New Regulatory Changes

Moving away from financial reporting, Mr. Winston Seow, Head of Corporate & Securities at Withers KhattarWong LLP went on stage to explain the latest developments in corporate regulations.

Singapore companies need to contend with increasing Anti-Money Laundering (AML) legislation. As a global financial centre and international trading hub, Singapore is ideal for money laundering activities, as Singapore's reputation lends legitimacy to activities conducted here. Recent events, including 1MDB in Malaysia and leakage of the Panama Papers, have led to increasing AML enforcement by the government, which will impact companies and financial institutions.

Delegates at the Moore Stephens Financial Reporting Seminar 2016 paying close attention to Professor Ng's insights on lease accounting.

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Besides AML, Singapore companies can also expect changes to enhance corporate governance. Highlighting that Singapore relies on a tripartite governance structure between the Board of Directors, shareholders and regulators, Mr. Seow surmised that the Code of Corporate Governance may be reviewed soon, as the last review was carried out a few years back in 2012.

IT changes

With intensifying regulatory scrutiny on companies, it is increasingly essential for companies to achieve zero-defect regulatory reporting, which require the right technological tools.

Mr. Choo Kwong Chee, Director of IT Consulting and Solutions at Moore Stephens LLP, pointed out that traditionally, finance teams have relied on generic spreadsheet software for reporting purposes. In today's sophisticated and increasingly-regulated environment, where errors can lead to serious financial consequences, such software is increasingly inadequate. Using real-life examples, Mr. Choo demonstrated how seemingly trivial spreadsheet errors can result in enormous losses.

Today's companies need specialised reporting tools that are accurate, tested and secure, yet sufficiently flexible and user-friendly. In the past, these tools would have been costly to acquire and maintain, but this is no longer the case with the advent of cloud solutions. According to Mr. Choo, many CFOs are moving to cloud solutions to support budgeting, planning and reporting processes.

Panel Discussion

The presentations were followed by a panel session in which views were shared between the speakers and two additional panellists, Mr. Phil Cowan and Mr. Nick King. Mr. Cowan is Head of Corporate Finance at Moore Stephens LLP, London while Mr. King is a Director in the forensic accounting services team of Moore Stephens LLP, London. The panel discussion was hosted by Mr. Chris Johnson and Mr. Neo Keng Jin, who lead the Risk Management and Initial Public Offerings divisions, respectively, at Moore Stephens LLP, Singapore.

Speakers exchanged views on the responsibilities imposed on directors and senior management for financial reporting. According to Mr. Seow and Mr. King, directors and senior management are not expected to be financial reporting specialists, but are required to exercise due diligence in reviewing available information, and requesting for further relevant information. Mr. King illustrated this with reference to the disclosures in financial reports relating to impairment, wherein directors and senior management can be penalised for not challenging disclosed assumptions that were clearly illogical.

Professor Ng and Mr. Wong also shared views on the requirement for listed companies to fully converge with International Financial Reporting Standards in 2018, which will deprive listed companies of certain exemptions that ease transition to the new rules on revenue and financial instruments. As a result, listed companies must undergo a more thorough implementation process.

Thereafter, the seminar was thrown open to the floor for questions from participants, following which tokens of appreciation were presented to speakers. The seminar ended at 4.30pm.

Panel Discussion: (L) to (R) Mr. Wong Koon Min, Mr. Winston Seow, Professor Ng Eng Juan, Mr. Choo Kwong Chee, Mr. Neo Keng Jin, Mr. Nick King, Mr. Phil Cowan and Mr. Chris Johnson.

(L) to (R): Mr. Chris Johnson and Mr. Maneesh Tripathi, Chief Executive Officer, Si2i Limited.

(L) to (R): Ms. Koo Kah Yee, Director, Moore Stephens LLP, Mr. Khoo Kin Kean, Finance Manager, Skin Inc Global Pte Ltd and Mr. Raymond Ngu, Financial Controller, Skin Inc Global Pte Ltd

(L) to (R): Mr. Mick Aw, Senior Partner, Moore Stephens LLP and Mr. Kuan Kim Kin, Executive Director (Finance), Pacific International Lines.

(L) to (R): Mr. George Lau, BC Neo Business Advisory Pte Ltd and Mr. Bernard Juay, Director, MS Corporate Finance.

(L) to (R): Mr. Richard Greiner, Partner, Moore Stephens LLP, Mr. Wong Koon Min, Professor Ng Eng Juan, Mr. Winston Seow, Mr Mick Aw, Mr. Phil Cowan, Mr. Nick King, Mr. Neo Keng Jin, Mr. Michael Simms, Partner, Moore Stephens LLP and Mr. Choo Kwong Chee.

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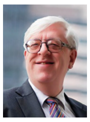

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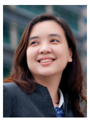

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