MOORE STEPHENS LLP
CHARTERED ACCOUNTANTS OF SINGAPORE

Moore Stephens Financial Reporting Seminar 2017

Friday 22 September 2017
Suntec Convention & Exhibition Centre

> *"...based on the Draft Income Taxation Bill (Amendment) Bill 2017 and Ministry of Finance responses to the public consultation, it is probable that Singapore taxation of revenue and financial instruments will be substantially aligned with financial reporting based on both IFRS 15 and IFRS 9 from 2018 onwards..."*

Companies need to brace up for a challenging reporting season ahead, as they grapple with both the 2017 audit and the transition to new financial reporting rules applicable in 2018, in particular, those relating to revenue and financial instruments.

Additionally, listed companies reporting under Singapore Financial Reporting Standards (FRS) need to manage the process of converging with International Financial Reporting Standards (IFRS), in time for 2018 first quarter reporting.

This is according to speakers at the Moore Stephens Financial Reporting Seminar 2017, held at Suntec City Convention Centre on 22 September 2017 and attended by more than 200 participants including company directors, Chief Financial Officers, and finance executives.

The seminar dealt with the practical application issues and also the potential implications of the new financial reporting changes.

Applying the New Revenue Framework

The new framework for recognition of revenue as codified in IFRS 15 (or FRS 115) Revenue from Contracts with Customers, that applies from 2018, will affect a broad variety of industries, according to Mr. Wong Koon Min, Partner and Head of Professional Standards at Moore Stephens LLP.

Leveraging on the implementation framework presented in the previous year's seminar, Mr. Wong illustrated the effects of implementing IFRS 15 with example analyses, based on common revenue contractual terms across a broad sample of industries, including commodities, manufacturing, shipping, information technology, insurance brokerage, construction and real estate.

Mr. Neo Keng Jin, kicking off the seminar with an introduction to the latest developments in the global financial reporting landscape.

The examples illustrated that significant changes in both the amount and timing of revenue recognised can result from IFRS 15. The new rules also require more accounting judgment and decisions that in turn require a wider range of information than needed previously.

For listed companies that currently report under FRS, the requirement for retrospective adjustments to comparative financial numbers upon transition to IFRS will necessitate efforts to start collating the necessary information in respect of the comparative financial year (i.e. FY 2017).

Converging with IFRS

From 1 January 2018, Singapore-incorporated companies listed on the Singapore Exchange (SGX) are required to apply a new financial reporting framework identical to the International Financial Reporting Standards (IFRS).

Accordingly, companies that currently report under FRS will have to record GAAP adjustments to converge with IFRS. Mr. Wong presented an implementation framework for convergence, in a similar format to the framework for revenue that was previously presented. Although FRS is substantially similar to IFRS, Mr. Wong cautioned that GAAP differences still exist.

Further, certain financial reporting requirements that are only effective prospectively from specified dates under FRS, may have to be applied retrospectively upon transition to IFRS unless optional exemptions are adopted. Companies need to study the impact carefully to ensure that all material differences between FRS and IFRS are appropriately dealt with.

Other than the mandatory adjustments, the convergence process also offers one-time, voluntary exemptions that companies can take advantage of. For example, companies have the option to reset the currency translation reserve, which can be useful for companies with a complicated track record of foreign business acquisitions and disposals.

Mr. Wong Koon Min, speaking on implementation of IFRS 15

Delegates at the Moore Stephens Financial Reporting Seminar 2017

Understanding the New Framework for Financial Instruments

Thereafter, Dr Andrew Lee, Associate Professor of Accounting Practice at the Singapore Management University, took the stage to provide participants with comprehensive insight into the new accounting requirements for financial instruments in IFRS 9 (or FRS 109) Financial Instruments. Under the new requirements, companies need to re-consider the classifications of their financial investments, re-measure financial asset impairment provisions, and optionally adopt the new hedge accounting model provided by IFRS 9.

Professor Lee cautioned that the new requirements are complex. For example, IFRS 9 adopts a new asset classification scheme that impacts the accounting treatment (e.g. whether recorded at fair value through profit or loss, fair value through other comprehensive income, or amortised cost). However, applying this classification scheme to the sophisticated financial and investment products of today can present formidable technical challenges. Professor Lee illustrated this with a walk-through for the accounting of structured securitised notes based on IFRS 9 requirements.

Other than asset classification, the new three-stage impairment model based on expected losses, is also technically challenging and requires an understanding of credit structure. However, for the majority of companies that do not engage in sophisticated financial products, IFRS 9 provides simplified exemptions to ease application.

Managing the New Lease Accounting Framework

Beyond 2018, lessees will be affected by the new lease accounting frame work in IFRS 16 (or FRS 116) Leases that takes effect from 2019. While the accounting mechanics of the new leasing framework are not complicated (being fairly similar to previous accounting for finance leases), Mr. Wong highlighted that the true challenge for management lies in managing the financial impact of the new accounting requirements.

Under the new framework, lessees will have to capitalise most leases by recording the present value of lease payments upfront as an asset and liability. This will likely cause deterioration of gearing and capital ratios for most lessees.

In addition, profitability is likely to decline, as the new framework records lease expenses based on a front-loaded amortisation method. Both higher gearing and lower profitability can have follow-on adverse implications in relation to loan and financing covenants, as well as key performance indicators.

Managing these financial effects require a forward-looking approach that involves both upfront stakeholder communication, as well as proactive management of the leasing portfolio and contractual terms.

Through a series of examples, Mr. Wong illustrated how the resulting adverse financial impacts can be significantly mitigated with an in-depth awareness of the technical requirements.

Considering Taxation and Other Implementation Issues

Companies must prepare for the significant taxation implications that will arise from the new financial reporting framework for revenue and financial instruments.

That was the key takeaway message from the panel session led by Mr. Neo Keng Jin, Partner and Head of Audit at Moore Stephens LLP, which followed the speakers' presentations. In addition to the speakers, the panellists included Mr. Lim Peng Huat, Director of Accounting & Taxation Services at Complete Corporate Services Pte Ltd.

Panellists noted that the taxation

Dr. Andrew Lee, speaking on implementation of IFRS 9 implications of both IFRS 15/ FRS 115 and IFRS 9/ FRS 109 have been drafted into the Draft Income Taxation (Amendment) Bill 2017 issued for public consultation in June 2017. The Ministry of Finance (MOF) has provided its responses to feedback received from the public consultation in September 2017. Based on the draft income tax bill and MOF responses, it is probable that Singapore taxation of revenue and financial instruments will be substantially aligned with financial reporting based on both IFRS 15/ FRS 115 and IFRS 9/ FRS 109 from 2018 onwards.

Notably, the accounting transition adjustments will be subject to a one-off tax/ tax deduction at the start of the financial year in which IFRS 15 and IFRS 9 are applied. Another notable development is the removal of the existing pre-FRS 39 tax treatment for most entities, when IFRS 9 takes effect.

Panellists also discussed the consultation paper on the tax implications of IFRS 16/ FRS 116 issued by the Inland Revenue Authority of Singapore (IRAS) in August 2017. The consultation paper proposed that the taxation requirements for lessees should not be affected by the new financial reporting framework. This proposal will result in taxation adjustments being required in tax computations after the effective date of IFRS 16/ FRS 116.

Besides taxation, panellists also discussed other challenges that finance teams can expect to encounter in relation to the implementation of the new reporting requirements. These include stakeholder communication, technical expertise in relation to the new accounting frameworks, data collection issues, and others.

The panel session ended with a firm agreement among the panellists that a comprehensively-considered and well-structured implementation process with active senior management and board involvement will be needed to avoid negative and unintended consequences when the new requirements become active.

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 5.30pm.

Panel Discussion: (L) to (R): Mr. Neo Keng Jin, Mr. Wong Koon Min, Dr. Andrew Lee and Mr. Lim Peng Huat

(L) to (R): Mr. Mick Aw, Senior Partner, Moore Stephens LLP and Dr. Andrew Lee

(L) to (R): Ms. Chan Rouh Ting, Partner, Moore Stephens LLP and Ms. Alice Loo, Senior Manager, Nanofilm Technologies International Pte Ltd

(L) to (R): Mr. Arturo Cuadra, Financial Controller, Mid-Continent Equipment Group, Ms. Shirley Lim, Director, Complete Corporate Services Pte Ltd and Ms. Wendy Pang, Finance Manager, UMS Holdings Limited

(L) to (R): Mr. Wong Koon Min, Partner, Moore Stephens LLP and Ms. Chan May Leng, Financial Controller, Metech International Limited

(L) to (R): Mr. Neo Keng Jin, Mr. Wong Koon Min, Mr. Mick Aw, Dr. Andrew Lee and Mr. Lim Peng Huat

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