

Review Times

July 2016



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1. Financial Reporting

1.1 Singapore ASC issues FRS 116

On 30 June 2016, the Singapore Accounting Standards Council (ASC) issued FRS 116 *Leases*. It replaces accounting requirements introduced a very long time ago that are no longer considered suitable in today's context, and is a major revision of the way in which entities account for leases.

Leasing provides an important and flexible source of financing for many companies. However, the extant lease accounting standard [Financial Reporting Standard (FRS) 17 *Leases*] makes it difficult for investors and others to get an accurate picture of an entity's lease assets and liabilities, particularly for industries such as the airlines, retail and transportation sectors. This is because leases to date have been categorised as either 'finance leases' (which are reported on the balance sheet) or 'operating leases' (which are disclosed only in the notes to the financial statements). This somewhat arbitrary distinction made it difficult for investors to compare entities. **FRS 116 solves this problem by requiring all leases to be reported on an entity's balance sheet as assets and liabilities.**

Entities are required to apply FRS 116 for annual periods beginning on or after 1 January 2019. Earlier application is permitted.

To access FRS 116, please visit the following URL: <http://ow.ly/vQqA3026X0m>

1.2 Singapore ASC issues Amendments to FRS 115

On 8 June 2016, the ASC issued Amendments to FRS 115 *Revenue from Contracts with Customers* clarifying some requirements and providing additional transitional relief for entities that are implementing FRS 115.

The amendments to the FRS 115 do not change the underlying principles of FRS 115 but clarify how those principles should be applied.

The amendments clarify how to:

- identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract;
- determine whether an entity is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and
- determine whether the revenue from granting a licence should be recognised at a point in time or over time.

In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for an entity when it first applies FRS 115.

The amendments have the same effective date as FRS 115, i.e. for annual periods commencing 1 January 2018 or later.

To access the amendments, please visit the following URL: <http://ow.ly/SdLc3026X34>

1.3 IASB issues narrow-scope amendments to IFRS 2 Share-based Payment

On 20 June 2016, the International Accounting Standards Board ("IASB" or "Board") issued amendments to International Financial Reporting Standard (IFRS) 2 *Share-based Payment*, clarifying how to account for certain types of share-based payment transactions.

The amendments, which were developed through the IFRS Interpretations Committee, provide requirements on the accounting for:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

Companies are required to apply the amendments for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

Further information about the amendments can be accessed at the following URL: <http://ow.ly/y09n3026X7a>

1.4 IASB proposes narrow-scope amendments to IFRS 3 and IFRS 11

On 28 June 2016, the IASB published an exposure draft (ED) on proposed amendments to IFRS 3 *Business Combinations* and IFRS 11 *Joint Arrangements*. It clarifies both the definition of a business and how to account for previously held interests.

The proposed amendments provide:

- clearer application guidance to help distinguish between a business and a group of assets when applying IFRS 3; and
- clarification on how a company should account for previously held interest in a business, if acquiring control, or joint control, of that business.

Further information about the ED—*Definition of a Business and Accounting for Previously Held Interests (Proposed Amendments to IFRS 3 and IFRS 11)*—can be accessed at the following URL: <http://ow.ly/enKR3026Xik>

The deadline for comments is 31 October 2016.

1.5 ISCA issues revised RAP 7

On 22 June 2016, the Institute of Singapore Chartered Accountants (ISCA) issued Revised Recommended Accounting Practice 7 (RAP 7) *Reporting Framework for Unit Trusts*.

RAP 7 sets out recommendations on the way in which the managers of a unit trust should prepare the unit trust financial statements for unitholders. RAP 7 is intended to be applicable to all authorised unit trusts in Singapore, regardless of their constitution, size or complexity. Managers and trustees are encouraged to comply with the recommendations set out in RAP 7.

RAP 7 (Revised June 2016) takes into account the changes made to FRS 32 *“Financial Instruments: Presentation”* and FRS 107 *“Financial Instruments: Disclosures”* in relation to the offsetting of financial assets and liabilities”; and new standards issued after 2012 – namely FRS 110 *“Consolidated Financial Statements”*, FRS 112 *“Disclosure of Interests in Other Entities”* and FRS 113 *“Fair Value Measurement”*.

RAP 7 (Revised June 2016) is effective for unit trusts with financial periods beginning on or after 1 July 2016.

RAP 7 (Revised June 2016) can be accessed at the following URL: <http://ow.ly/fjtP3026XuS>

1.6 ISCA withdraws RAP 6

On 6 June 2016, ISCA withdrew RAP 6 Accounting and Reporting by Charities. This is in view that there is now a standalone Charities Accounting Standard (CAS) which provides a comprehensive framework for the accounting and reporting by charities for financial years beginning on or after 1 July 2011.

2. Auditing & Assurance

2.1 ISCA provides guidance on Auditor's Responsibilities Relating to Other Information with regard to Directors' Statement

On 27 June 2016, ISCA issued guidance on the auditor's responsibilities relating to other Information with regard to the Directors' Statement.

Section 201 (16) of the Companies Act requires the financial statements of a Singapore incorporated company to be accompanied by a Directors' Statement for financial statements with financial periods **ending** 1 July 2015 or later. (For financial statements with financial periods ending on an earlier date, the Directors' Statement was split into two different statements, i.e. Directors' Report and Statement by Directors).

The Directors' Statement accompanies the financial statements and the auditor's report, and is therefore, other information (OI) within the scope of SSA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*. For many private companies, the Directors' Statement may be the only document that constitutes the OI.

The objectives of the auditor, having read the OI, are:

- a) to consider whether there is a material inconsistency between the OI and the financial statements;
- b) to consider whether there is a material inconsistency between the OI and the auditor's knowledge obtained in the audit;
- c) to respond appropriately in accordance with SSA 720 (Revised) when material inconsistencies appear to exist, or OI appears to be materially misstated; and
- d) to report in accordance with SSA 720 (Revised).

The guidance goes through several situations where material inconsistencies exist for each of the circumstances described and how the auditor should report them.

The guidance can be accessed at the following URL: <http://ow.ly/NGfU3026XBN>

2.2 ISCA issues AGS 11

On 23 June 2016, ISCA issued Audit Guidance Statement (AGS) 11 *Comfort Letters and Due Diligence Meetings*.

AGS 11 provides guidance to reporting auditors on the procedures to be performed to provide comfort in respect of the integrity of certain information disclosed in the investment circular, or to comment on changes in selected financial statement items subsequent to the latest period reported on in the reporting auditors' report. Such procedures are encompassed in the comfort letter issued by the reporting auditors, for an offering of securities in Singapore. AGS 11 also provides guidance to reporting auditors taking part in a due diligence or verification meeting for an offering of securities in Singapore.

AGS 11 is intended to provide guidance to reporting auditors in the context of an offering of securities in Singapore, where the reporting auditors are not required or have not been requested to provide limited assurance on subsequent changes in specified financial statement items from the end of the period for which relevant financial statements have been subject to an audit or a review in accordance with Singapore Standards on Auditing or Singapore Standards on Review Engagements.

Independent auditors should also follow the guidance in AGS 11 when requested to issue a comfort letter or take part in a due diligence or verification meeting in connection with an offering of debt securities, collective investment schemes authorised by the Monetary Authority of Singapore (MAS) (such as real estate investment trusts or REITs) and business trusts registered by MAS; and made pursuant to an investment circular.

AGS 11 is effective for engagements where the engagement letter for the appointment as reporting auditors is dated on or after 1 September 2016. AGS 11, can be accessed at the following URL: <http://ow.ly/LWBf3026XIG>

2.3 ACRA issues Audit Practice Bulletin No. 1 of 2016

On 15 June 2016, the Accounting and Corporate Regulatory Authority (ACRA) issued Audit Practice Bulletin ("APB") No. 1 of 2016 on *identifying, assessing and responding to risks of material misstatement in the financial statements*.

Please click on the following link to view the APB:
<http://ow.ly/YZ9V3026XPF>

The purpose of the APB is to provide guidance on performing the required risk assessment to identify the significant risks in an audit engagement before carrying out the necessary audit procedures to address such risk, as well as to emphasise the importance for public accountants to exercise a certain level of rigour and professional scepticism in the risk assessment process with illustrative examples.

In the APB, ACRA explains that the risk assessment process is broken down into three key steps as follows:

- a) Understanding the entity and its environment, including the entity's internal controls;
- b) Identifying and assessing the risks; and
- c) Responding to identified risks.

The APB also covers guidance when there are revisions of risk assessment during the course of an audit and risk assessment in a group audit situation.

The APB emphasises the importance of audit documentation in that work is deemed not performed if there is no record to show for it. Hence, for each of the three steps highlighted above, public accountants need to ensure that there is proper audit documentation as required by SSA 230 to allow an experienced auditor, having no previous connection with the audit, to understand the basis of the public accountants' risk identification and assessment, which should be supported by the public accountants' understanding of the entity and its environment, including internal control.

3. Regulatory & Business

3.1 SGX launches Sustainability Reporting Guide

On 20 June 2016, the Singapore Exchange (SGX) introduced sustainability reporting on a "comply or explain" basis.

SGX consulted on the sustainability reporting requirement at the beginning of 2016 and received strong support for the “comply or explain” framework. After carefully considering the feedback received, some changes to the Sustainability Reporting Guide (the “Guide”) and the requirements were made. The feedback received and SGX’s responses can be found at the following URL: <http://ow.ly/a4Ek3026XYD>

The main changes following the consultation are as follows:

- ② Giving companies up to 12 months from the end of the financial year to publish their first report. This takes effect for any financial year ending on or after 31 December 2017.
- ② Instead of a compliance statement, the Board statement to be included in the report describes the company’s sustainability actions.
- ② The materiality principle will be applied when determining whether an environmental, social and governance (ESG) factor should be reported on. Factors like corruption and diversity, if assessed to be immaterial by companies, may be excluded. Companies are however advised to present information on these factors on their websites to satisfy stakeholder interest.

Key features of the sustainability reporting requirements are as follows:

- ② Companies have to publish a sustainability report at least once a year, no later than 5 months after the end of each financial year.
- ② The report should describe the sustainability practices with reference to five primary components: material ESG factors; policies, practices and performance; targets; sustainability reporting framework; and the Board statement.
- ② If a company excludes a primary component, it must describe what it does instead with reasons for doing so. Full details of the sustainability reporting rule and Guide are found at the following URL: <http://ow.ly/gTXP3026Y9o>
- ② The sustainability report will be based on the principles set out in the Guide which include, among others, providing an accurate and balanced view of the risks and opportunities in a concise manner.
- ② SGX does not advocate a particular sustainability reporting framework; companies should carefully select an appropriate framework for their business model and industry. Reports do not require external assurance though companies which have been reporting for several years may find it useful to do so.

4. Taxation

4.1 The 60% PIC Cash Payout Scheme Ends on 31 July 2016

From 1 August 2016, the cash payout conversion rate for qualifying expenditure incurred will be reduced from 60% to 40%. Companies still wishing to take advantage of the higher cash payout should be mindful of the deadline and take quick action should they want to avail of the higher payout. The payout percentage reduces to 40% from 1 August 2016. In addition, from the same date taxpayers can file for the PIC cash payout electronically only.

4.2 Revised e-Tax Guide Income Tax and Stamp Duty: Mergers and Acquisitions

IRAS has issued a revised e-Tax Guide that sets out the details of the mergers and acquisitions scheme. This scheme, originally introduced in Budget 2010 for a 5-year period (i.e. 1 Apr 2010 to 31 Mar 2015), was extended in Budget 2015, for 5 years till 31 Mar 2020, is relevant to Singapore companies and encourages Singapore companies, especially small and medium enterprises, to grow through strategic acquisitions. Under the scheme, a Singapore company which makes a qualifying acquisition of the ordinary shares of another company may, subject to conditions, enjoy the following tax benefits:

- (a) An M&A allowance on the purchase consideration;
- (b) A stamp duty relief on the agreement for the sale of equitable interest in ordinary shares or instrument of transfer executed in connection with the qualifying share acquisition; and
- (c) A double tax deduction on transaction costs incurred in respect of the qualifying share acquisition

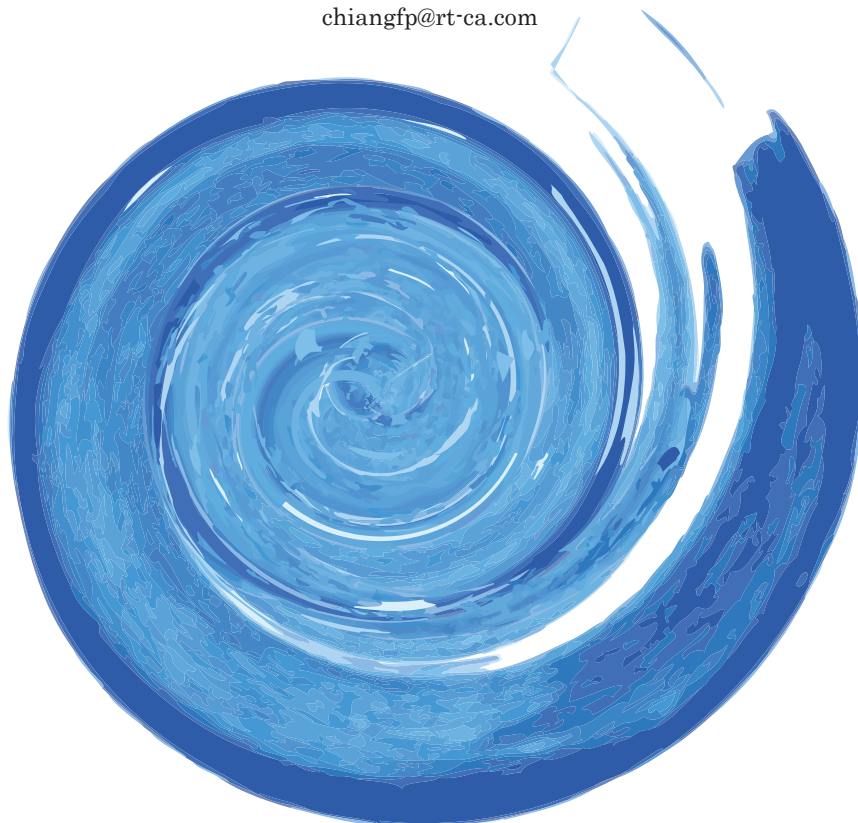
4.3 Revised e-Tax Guide on the GST advance ruling system

Taxpayers who wish to seek greater clarity and certainty on how specific provisions of the GST Act will apply for a particular business arrangement or a specific transaction may make an application to the Comptroller of GST for an advance ruling. An advance ruling issued in accordance with these provisions will bind the Comptroller of Goods and Services Tax on the ruling made. Some examples are:

- (a) Whether a specific transfer of business qualify as a transfer of going concern under the GST (Excluded Transactions) Order;
- (b) Whether the place of supply of services provided by an overseas company to a Singapore customer in a specific set of business and contractual arrangements is considered to be made in Singapore; and
- (c) Whether an exempt supply of financial services made together with a specific and defined set of taxable supplies is considered incidental to the business of a taxable person under Regulation 29(3) of the GST (General) Regulations.

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5. Events

RT ASEAN Network MOU Signing Ceremony



From left to right

Mr Andrew Chua – Head of Quality Control & Technical Partner

Mr Ravi Arumugam – Managing Partner & CEO

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