ASC
ACCOUNTING STANDARDS COUNCIL
SINGAPORE

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IFRS Convergence
Are You on Track?

November 2016

About the Accounting Standards Council

The Accounting Standards Council (ASC) is the independent accounting standard-setting body established under the Accounting Standards Act for companies, charities, co-operative societies and societies in Singapore. In carrying out its mandate, the ASC takes into account:

- The information needs of the stakeholders of the entities;
- Facilitation of comparability, disclosure and transparency;
- Compatibility with relevant international standards; and
- Singapore's reputation as a trusted international business and financial hub.

For more information, visit www.asc.gov.sg.

About the Institute of Singapore Chartered Accountants

The Institute of Singapore Chartered Accountants (ISCA) is the national accountancy body of Singapore. ISCA's vision is to be a globally recognised professional accountancy body, bringing value to our members, the profession and wider community. There are over 30,000 ISCA members making their stride in businesses across industries in Singapore and around the world.

Established in 1963, ISCA is an advocate of the interests of the profession. Possessing a global mindset, with Asian insights, ISCA leverages its regional expertise, knowledge, and networks with diverse stakeholders to contribute towards Singapore's transformation into a global accountancy hub.

ISCA is the Administrator of the Singapore QP and the Designated Entity to confer the Chartered Accountant of Singapore - CA (Singapore) - designation.

ISCA is an Associate of Chartered Accountants Worldwide – supporting, developing and promoting over 620,000 Chartered Accountants in more than 200 countries around the world.

For more information, visit www.isca.org.sg.

About ISCA IFRS Convergence Sub-Committee

ISCA IFRS Convergence Sub-Committee is chaired by Mr. Tan Seng Choon and comprises practitioners and representatives from various stakeholders, namely Monetary Authority of Singapore, Singapore Exchange Limited and Securities Investors Association (Singapore). The terms of reference of the Sub-Committee is to create awareness amongst various stakeholders on the impact and implications of IFRS convergence.

Foreword

In 2014, the Accounting Standards Council (ASC) announced IFRS convergence for Singapore-incorporated companies listed on the Singapore Exchange (SGX). Those listed companies shall apply a new Singapore financial reporting framework that is identical to the International Financial Reporting Standards (IFRS) (hereinafter referred to as SG-IFRS) for annual periods beginning on or after 1 January 2018.

As a first step, listed companies need to undertake an impact assessment of IFRS 1 *First-time Adoption of IFRS,* a standard that specifies how an entity should transition from a previous financial reporting framework to IFRS. Restatement of comparatives may result, even though the Singapore Financial Reporting Standards (SFRS) are substantially word for word IFRS. This is mainly because the transition provisions in IFRS 1 are generally different from those specified in individual standards that were applied to previous SFRS financial statements.

Listed companies also have to make certain pertinent decisions, such as an election to make an explicit and unreserved statement of compliance with IFRS in addition to SG-IFRS, just to name a few. These decisions can have implications for the financial statements, both on transition to SG-IFRS and for years to come. It is therefore imperative for listed companies to fully understand, proactively anticipate and effectively manage the implications of transitioning to SG-IFRS.

The ASC and the Institute of Singapore Chartered Accountants (ISCA), through its IFRS Convergence Sub-Committee[1], have jointly developed this set of Q&As to assist the directors and chief financial officers (CFOs) of listed companies in acquainting themselves with IFRS convergence, the key principles underpinning IFRS 1 and some potential implications. IFRS 1 contains detailed requirements and is accompanied by implementation guidance. Listed companies are encouraged to work closely with their professional advisers in implementing IFRS 1.

We hope that this publication would serve as a simple yet useful guide to assist listed companies formulate and execute their IFRS convergence plans to achieve a smooth transition to SG-IFRS.

1 Members of ISCA's IFRS Convergence Sub-Committee include Mr. Tan Seng Choon (Chairman of the Sub-Committee) [who is supported by Ms. Chionh Chia Chia and Mr. Kuah Ee Wen], Ms. Soh Lin Leng and representatives from various stakeholders, namely Mr. Ashley Seow (MAS), Mr. Richard Dyason (SIAS), Mr. Lim Chuang (SIAS), Mr. Rigel Leow (SGX) and Ms. Siew Wun Mui (SGX).

ASC and ISCA gratefully acknowledge and thank these individuals and stakeholders for their contributions towards the development of this publication.

1. ASC announced IFRS convergence for listed companies come 2018. Am I affected?

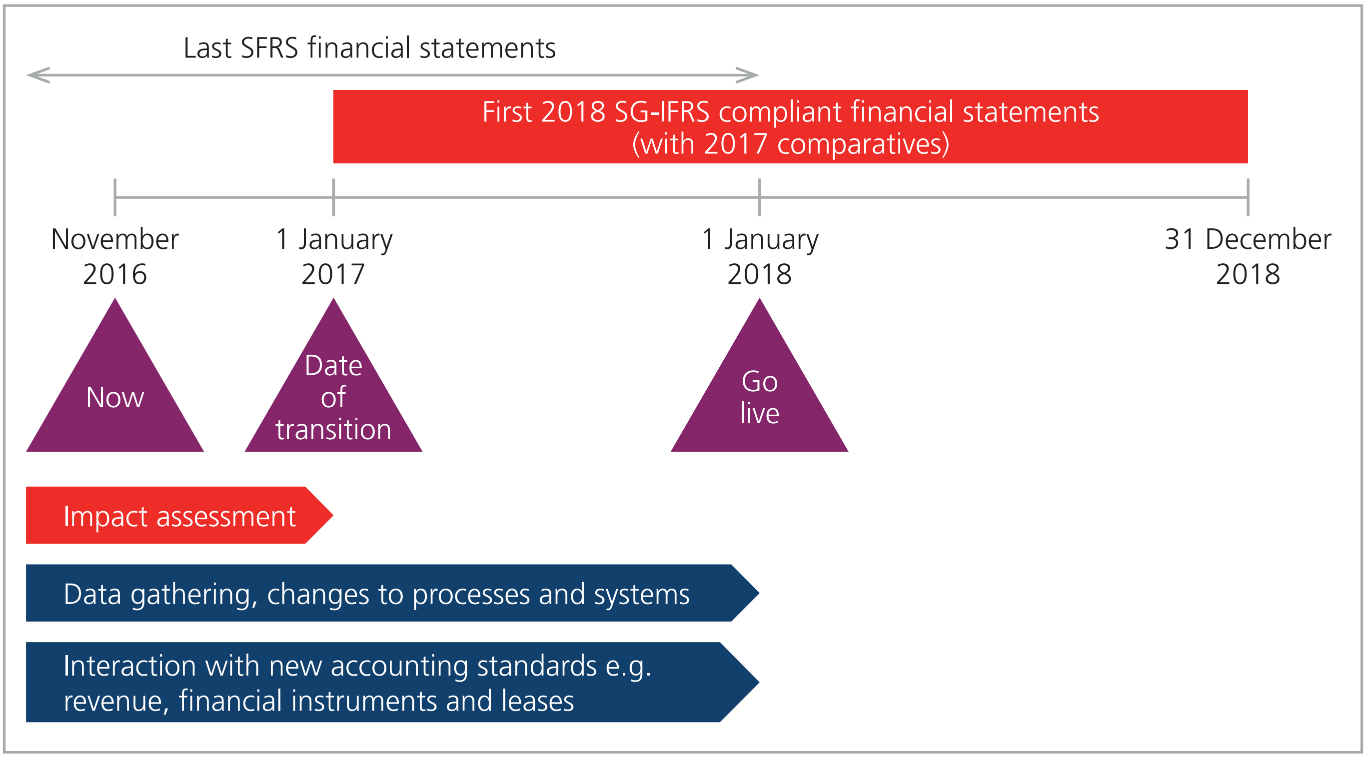
Yes, if your company is incorporated in Singapore and listed on SGX. This refers to a Singapore-incorporated company that has issued, or is in the process of issuing, equity or debt instruments for trading in a public market in Singapore. Your company must prepare statutory financial statements applying SG-IFRS, a new Singapore financial reporting framework that is identical to IFRS.

You may consider voluntarily applying SG-IFRS, for example, if your unlisted company is a material subsidiary, joint venture or associate of the aforementioned companies. This will avoid having to maintain accounting information under two different financial reporting frameworks.

If your company has a December year-end, the first set of SG-IFRS financial statements shall be prepared for annual period beginning 1 January 2018. The financial statements shall also present an opening 'third' balance sheet at 1 January 2017, which is the date of transition to SG-IFRS and the starting point for accounting in accordance with SG-IFRS. Comparatives will accordingly be presented based on SG-IFRS.

You may wish to consider implications outside the financial statements, such as the five-year financial statistics and trend analysis in management's discussion and analysis in the annual report.

IFRS convergence timeline for a December year-end company



2. SFRS are substantially word for word IFRS. Isn't IFRS convergence essentially business as usual?

It depends on each company's facts and circumstances.

Although SFRS are substantially word for word IFRS, IFRS convergence is not necessarily a 'non-event' for various reasons.

IFRS 1 must be applied on transition to SG-IFRS as of the date of the opening balance sheet; specific transition provisions in individual standards are disregarded. Therefore, the impact of IFRS convergence depends on the effects of applying IFRS 1, and less so on the differences between SFRS and IFRS.

Adjustments to the opening balance sheet and the comparative information may be required:

- even if individual SFRS and IFRS standards are the same. This is because IFRS 1 generally requires retrospective application, i.e. as if an accounting policy had always been applied. There are certain transitional reliefs from retrospective application, but these reliefs are often different from those applied to previous SFRS financial statements.

- if there are changes to accounting policies arising from new or amended standards effective in 2018. This is because IFRS 1 requires both the opening balance sheet and comparative information to be prepared using the most current accounting policies.

The full impact of IFRS 1 cannot be determined without a careful analysis of company-specific facts and circumstances. Implementation efforts are required, whether or not IFRS 1 would result in any adjustments eventually.

Hence business as usual is unlikely.

3. Can I leave the implementation of IFRS convergence to my finance team and auditor?

Directors and CFOs have to make certain important decisions on IFRS convergence that have implications for the reporting of financial position and performance, both on transition to SG-IFRS and for years to come.

For example, the selection of transitional reliefs has implications for the opening balance sheet, the financials in subsequent periods, and the resulting financial and regulatory ratios. The interplay of transitional reliefs can affect decisions about the early application of the new standards on revenue recognition, financial instruments and leases. In addition, a company that has made an explicit and unreserved statement of compliance with IFRS in addition to SG-IFRS need not re-apply IFRS 1, for instance if and when it prepares IFRS financial statements for dual listing in other jurisdictions in the future.

Therefore, companies need to fully understand, proactively anticipate and effectively manage the implications of IFRS convergence – opportunities and threats alike. Directors, CFOs and auditors have a crucial role in this entire process.

Directors provide strategic direction and oversight to senior management. With the right tone at the top, an emphasis on early and effective implementation will cascade through the ranks.

Directors and CFOs have to work closely with the auditors and other professional advisors in the implementation process.

4. How do I benefit from the transitional reliefs?

IFRS 1 provides transitional reliefs in the form of mandatory exceptions to, and optional exemptions from, retrospective application.

Example 1 – Fair value as deemed cost

Companies can elect to use fair value as the deemed cost of certain assets on transition to SG-IFRS. This relief is available to property, plant and equipment, investment property, intangible assets, and to investments in subsidiaries, joint ventures and associates in the separate financial statements.

Some companies have previously carried out one-off revaluation of property, plant and equipment under the cost model of SFRS. If the revalued amount at the revaluation date was broadly comparable to fair value, IFRS 1 allows that revalued amount to be treated as the deemed cost at the revaluation date, and essentially 'freezes' the resulting carrying amount on transition to SG-IFRS.

Example 2 – Cumulative translation differences

Some companies have foreign subsidiaries, joint arrangements, associates or branches (i.e. foreign operations). These companies have the option to 'zerorise' all related cumulative translation differences that exist in the reserves on transition to SG-IFRS.

This relief provides a fresh start for the accounting of differences arising from the translation of foreign operations under SG-IFRS. Companies selecting this option will accordingly exclude the 'zerorised' cumulative translation differences from the gain or loss that will be recognised on a subsequent disposal of those foreign operations.

Example 3 – Acquisitions and disposals of subsidiaries

Companies are generally permitted to not restate the accounting for past business combinations. The same is true for past acquisitions of joint ventures and associates. In addition, companies do not have to retrospectively re-measure, at fair value, the retained investment that is a joint venture or an associate for past transactions involving a loss of control in subsidiaries.

No adjustments may result, even if there are differences in effective dates between SFRS and IFRS standards on consolidation and interests in joint ventures and associates.

5. Can I re-elect a different accounting policy or revise my estimates on transition to SG-IFRS?

Accounting policies

SFRS are substantially word for word IFRS. An alternative accounting policy should have been applied under SFRS, if the change would result in reliable and more relevant financial information. The election of a different accounting policy only on transition to SG-IFRS can be expected to receive additional scrutiny, when facts and circumstances remain unchanged.

Estimates

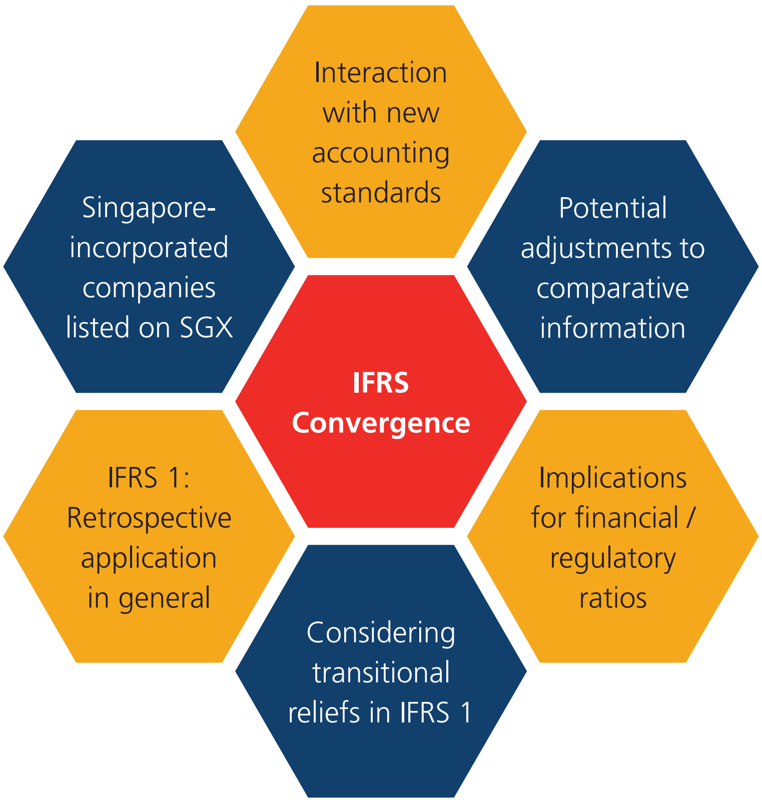
Generally no, unless there is objective evidence of an error. In the case of errors, the effects of correcting the errors must be distinguished from those arising from changes in accounting policies.

6. What should I do to prepare for IFRS convergence?

Get implementation into full gear.

Companies have to perform impact analysis, make policy decisions, implement process changes, and collect data – ideally all by 1 January 2017 if they have a December year-end. In addition, companies have to report SG-IFRS information as early as their first quarterly or half-yearly announcement for 2018.

The clock is ticking. Given the magnitude of the IFRS convergence exercise, it is important that your company goes full gear on implementation and faces any challenges head-on. Where necessary, you should consider getting professional assistance. The implementation of IFRS convergence – and IFRS 1 in particular – is a critical one-time exercise and your company cannot afford to get it wrong!



ASC
ACCOUNTING STANDARDS COUNCIL
SINGAPORE

10 Anson Road #05-18,
International Plaza,
Singapore 079903
FAX +65 6226 3386
EMAIL MOF_Feedback_ASC
@mof.gov.sg
WEBSITE www.asc.gov.sg

ISCA
Global Mindset, Asian Insights

60 Cecil Street,
ISCA House,
Singapore 049709
TEL +65 6749 8060
FAX +65 6749 8061
EMAIL isca@isca.org.sg
WEBSITE www.isca.org.sg