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Moore Stephens - CCS Financial Reporting Seminar 2018

Friday 21 September 2018

Suntec Convention & Exhibition Centre

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Careful and thorough implementation of the new reporting requirements and corporate governance regulations is required to avoid potential pitfalls, according to speakers at the 2018 Moore Stephens-CCS Financial Reporting Seminar. The seminar, held at Suntec City Convention Centre on 21 September 2018, was attended by more than 200 participants including Company Directors, Chief Financial Officers, and Finance Executives. The seminar was led by financial reporting, corporate governance, and technology specialists from Moore Stephens, and distinguished guest speaker Dr Andrew Lee, Associate Professor of Accounting Practice at the Singapore Management University.

Financial Reporting Implementation Issues

The seminar kick-started with a discussion of common issues relating to the new rules on revenue recognition by Mr Wong Koon Min, Partner and Head of Professional Standards at Moore Stephens LLP. One such issue relates to capitalisation of contract costs. It is easy to overlook that Singapore Financial Reporting Standards (International) ("SFRS(I)") 15 Revenue from Contracts with Customers, which is the key financial reporting pronouncement relating to revenue from 1 January 2018, also includes rules on cost capitalisation, which has become more prescriptive. Another commonly-overlooked area is that the new revenue requirements extend to certain non-revenue gains related to disposal of long-term assets. Finally, Singapore property developers, when applying SFRS(I) 15, should remember to consult the conclusions published by the local professional body, the Institute of Singapore Chartered Accountants, in 2017, relating to timing of revenue recognition on sale of standard residential properties, executive condominiums,

Delegates at the Moore Stephens-CCS Financial Reporting Seminar 2018

DBSS properties, and mixed development properties in Singapore.

Many issues relating to the new financial instruments rules in SFRS(I) 9 Financial Instruments arise from the computation of expected credit loss (ECL) provisions. While these mainly affect banks, companies in other industries are not spared. For example, all companies are required to collate historical data to support ECL provisions, and incorporate forward-looking information into these ECL provisions, which requires thought, effort and planning. All companies with inter-company loans also need to develop ECL provisions for such loans, for which historical default information is usually either not available or not representative. Some practical approaches to resolve these problems were discussed during the seminar. Another change affecting NFCs that may be overlooked is that SFRS(I) 9 requires an immediate gain or loss to be recognised upon renegotiation of borrowings. Prior to SFRS(I) 9, some of these gains/losses qualified for deferral.

Convergence to the new financial reporting framework, SFRS(I), by Singapore-incorporated SGX-listed companies, also presents hidden pitfalls. Koon Min explained that in the past, when new financial reporting rules became effective, they sometimes adopted a "prospective" approach and exempted the preparer from restating past transactions. Upon convergence with SFRS(I), however, the financial reporting rules on convergence date are applied largely retrospectively, therefore some of these previously-exempted transactions may no longer be exempted upon convergence. While SFRS(I) 1 First-time Adoption of SFRS(I) provides its own set of exemptions that are available for adoption (with disclosures), these exemptions may not be available for all transactions in which case restatements are required. This issue will also affect certain accounting pronouncement amendments that take effect in 2018.

Mr. Wong Koon Min, Partner, Moore Stephens LLP speaking on issues in financial reporting

Moving beyond 2018, Koon Min touched on common pitfalls associated with implementation of SFRS(I) 16 Leases. A common misconception is that no adjustments are required for finance leases, which are already capitalised by lessees, when transitioning to the new rules. However, the computation of lease liabilities under the existing and new rules are not entirely similar, e.g. residual value guarantees are treated differently. Another common pitfall relates to capitalisation of variable lease payments, which may not be required depending on how the variability arises. A third issue relates to assessment of lease terms when there are lease extension or termination options, for which the assessment can vary depending on whether the lessee or lessor holds the option. A final issue discussed relates to assessment of discount rates used to capitalise leases, which should reflect financing rates under similar circumstances.

Dr. Andrew Lee, Associate Professor of Accounting Practice, Singapore Management University, speaking on equity valuation issues

Equity Investment Valuation Issues

Thereafter, Dr Lee took the stage to discuss valuation of equity investments. Under SFRS(I) 9, the exemption to keep unquoted equity investments at cost is no longer available, and companies are now required to assess, and account for, the fair value of all equity investments. This will be challenging in respect of unquoted equity investments, and especially so for investments in new industries and start-ups. Dr Lee highlighted that the financial reporting literature allows for various types of valuation techniques namely the market approach, income approach, and cost approach, the first two of which are more common. Dr Lee discussed each of the various valuation techniques in greater depth, sharing with participants his valuation insights, common technical issues, and case studies.

Ms Lao Mei Leng, Partner and Head of Risk Management at Moore Stephens LLP, addressing the Code of Corporate Governance

New Rules on Corporate Governance

Companies need to plan appropriately for the implementation of the new Code of Corporate Governance, and associated Listing Rule amendments, that take effect in 2019, according to Ms Lao Mei Leng, Partner and Head of Risk Management at Moore Stephens LLP. Additional amendments will take effect in 2022. Mei Leng proceeded to discuss key amendments in various areas including board composition, director independence, director training, internal audit, corporate governance disclosure obligations, and others. A key development to note is the setting up of an industry-led Corporate Governance Advisory Committee which will work with the regulatory bodies to enhance compliance with corporate governance requirements.

Corporate Planning and Technology

Beyond good governance, the effectiveness of an organisation also relies heavily on the effectiveness of its planning and monitoring processes, in the view of Mr Agus Tirtoredjo, Director of MS IT Solutions. However, Agus opined that many organisations do not perform these processes as effectively as they should. One reason is that often, plans are not integrated across the organisation on a real-time basis. This may lead to plans that become quickly outdated, due to the lack of mechanisms to update such forecasts continuously, including follow-on effects on an organisation-wide basis. Another reason is that frequently, too much time is spent to gather, process and consolidate data, while too little time is spent on analysing such data. Yet another issue is that the outputs of such processes are usually reports that merely generate numbers but no actionable insights, although it is the latter that is most valuable to management. Agus opined that the above

Mr Agus Tirtoredjo, Director of MS IT Solutions, on the value of technology integration to an organisation issues can only be resolved through effective technology, given the complexity that exists in most organisations today. Agus went on to share with participants the significant benefits that such technology can bring to organisational financial, planning and analysis processes.

Mr. Neo Keng Jin, Partner, Moore Stephens LLP leading the panel session discussion

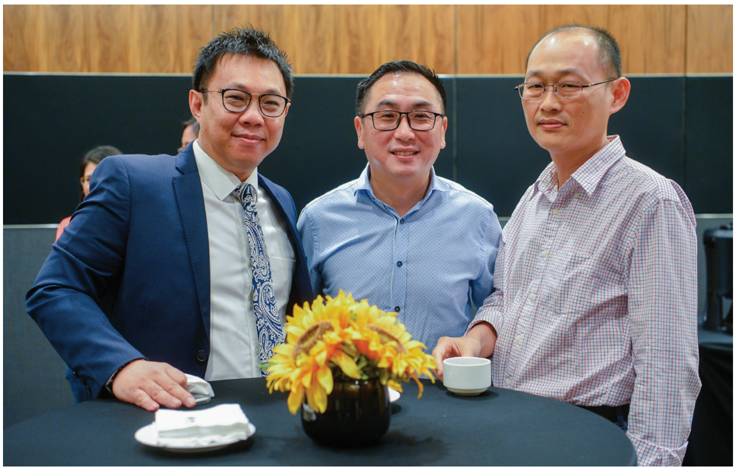
Panel Session and Conclusion

Companies need to take quick action to comply with the new financial reporting and corporate governance regulations, if they have not already done so. 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.

Panellists noted that the financial reporting changes to revenue and financial instruments have been effective since 1 January 2018. There are tax implications associated with the financial reporting changes, and the Inland Revenue Authority of Singapore has issued publi cations setting out the tax implications in detail. Accordingly, unwary companies that have yet to examine the impact of the financial reporting changes risk unplanned tax exposures. In addition, for listed companies, interim results under the new reporting rules have been announced for the past half year, and subsequent amendments to previous interim results, if any, should preferably be minimised. For corporate governance regulations, panellists observed that the bulk of the changes take effect in 2019, which is only slightly over 3 months away, and the same is true for the financial reporting changes for leases.

Thereafter, the seminar was thrown open to the floor for questions from participants, following which tokens of appreciation were presented to the guest speaker. The seminar ended at 5.30pm.

Panellists for the Moore Stephens-CCS Financial Reporting Seminar 2018



(L) to (R): Mr. Willy Ng, Partner, Moore Stephens LLP and Tansri Saridju Benui and Mr Wong Chew Yuen, Vashion Group Limited

(L) to (R): Ms Lau Mei Ling, Partner, Moore Stephens LLP, Mr Yap Choon Siong and Mr Allen Teo, Xpress Feeders Limited and Ms Daphne Aw, Senior Manager, Moore Stephens LLP

(L) to (R): Mr. Mick Aw, Senior Partner, Moore Stephens LLP and Dr. Andrew Lee, Associate Professor of Accounting Practice, Singapore Management University

(L) to (R): Ms Wendy Pang and Mr Stanley Loh, UMS Holdings Limited, Mr Neo Keng Jin, Partner, Moore Stephens LLP and Ms Michelle Chong, Associate Director, Moore Stephens LLP

(L) to (R): Mr. Neo Keng Jin, Partner, Moore Stephens LLP, Mr. Mick Aw, Senior Partner, Moore Stephens LLP, Dr. Andrew Lee, Associate Professor of Accounting Practice, Singapore Management University, Mr Wong Koon Min, Partner, Moore Stephens LLP, Ms Lao Mei Leng, Partner, Moore Stephens LLP, Mr Agus Tirtoredjo, Director of MS IT Solutions

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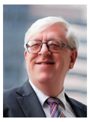

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