CCS
Complete Corporate Services Pte Ltd

CCS Newsletter

December 2019 Issue

In This Issue

ECONOMIC NEWS

Key Economic Updates from July to November 2019

1. The US-China trade war continued to dominate economic concerns in the second half of 2019. In July, the US and China conducted trade talks in Shanghai. In August, US added four Chinese nuclear entities to a trade blacklist. The US also split tariffs on $300 billion of Chinese products into two categories, one of which takes effect in September 2019 and the rest in December 2019. China retaliated with its own higher tariffs. In September, some progress towards resolution was made when China granted tariff waivers for U.S. soybean imports, while the US agreed to postpone imposition of some tariffs to October 2019. However, in the same month, the US sanctioned Chinese shipping companies for transporting Iranian oil, including subsidiaries of Chinese shipping giant Cosco, amongst others. In October, more progress towards resolution was made when US and China agreed on the outline of a partial trade deal, and US agreed to lift the tariffs scheduled to start in that month, but this was jeopardized when the US blacklisted eight Chinese technology firms, accusing them of involvement in human rights violations in China. In November 2019, negotiations were further complicated when President Trump signed into law the Hong Kong Human Rights and Democracy Act that expresses US support for Hong Kong (HK) protesters.

2. The situation in HK remained challenging in the second half of 2019. In July, protesters forced their way into the Legislative Council building and defaced the China Liaison Office, even as Chief Executive Carrie Lam pronounced the extradition bill "dead", albeit not yet fully withdrawn. During an anti-extradition bill protest in Sheung Wan, a mob of 100 men dressed in white indiscriminately attacked demonstrators and bystanders alike in a MTR station, leaving 45

injured. In August, as demonstrations continued to rage through the country, Chinese e-commerce giant Alibaba decided to postpone its previously planned HK listing. In October, HK regulators enforced an anti-mask law, which makes it illegal for anyone to wear a mask at a lawful rally or march, unlawful or unauthorised assembly, or during a riot. This sparked violent protests even as the HK Legislative Council formally withdrew the extradition bill. In November, hundreds of protesters occupied the Hong Kong Polytechnic University, fortified the campus, and engaged in street battles with riot police, a standoff which only ended when HK riot police laid siege to the university using tear gas, water cannons and armoured vehicles. In the same month, at the HK district council elections, pro-democracy candidates won almost 90% of 452 district council seats, signifying a major setback for the pro-Beijing parties.

3. In September 2019, fashion retailer Forever 21 filed for Chapter 11 bankruptcy protection in the US. Forever 21 will close up to 178 stores in the US and up to 350 overall and cease operations in 40 countries. The brand, which specialises in fast-fashion apparel, has been plagued by heavy debt after an aggressive expansion into foreign markets.

4. In October 2019, British vacuum manufacturer Dyson announced that it is scrapping its entire automotive division and ceasing its electric car projects. According to founder Sir James Dyson, the move is due to a lack of commercial feasibility. Dyson had announced in January 2019 that it would move its head office from the UK to Singapore. The new global headquarters will be located at the historic St James Power Station in Singapore.

5. In October 2019, Singapore dislodged the United States as the world's most competitive economy, according to the Global Competitiveness Report released by the World Economic Forum. Singapore topped the infrastructure, labour market functioning and financial systems development pillars, and also achieved a near-perfect score for macroeconomic stability. Its score on every pillar is higher than the OECD average.

6. In November 2019, Singapore Exchange Regulation (SGX RegCo) announced the addition of thirty-six firms to the Fast Track program. This program was launched in April 2018 and allows qualified companies to enjoy prioritised response on selected regulatory submissions. Companies in the program have demonstrated high corporate governance standards and achieved good compliance track records.

7. In November 2019, Saudi Arabia's state-owned oil giant Aramco launched a blockbuster initial public offering worth at least US$24 billion, which will value the entire conglomerate at US$1.71 trillion. Aramco plans to list 1.5% of the company, or about 3 billion shares, at an indicative price range of 30 riyals to 32 riyals per share. This offering could still rival the record listing proceeds of US$25 billion by Chinese retail giant Alibaba in 2014.

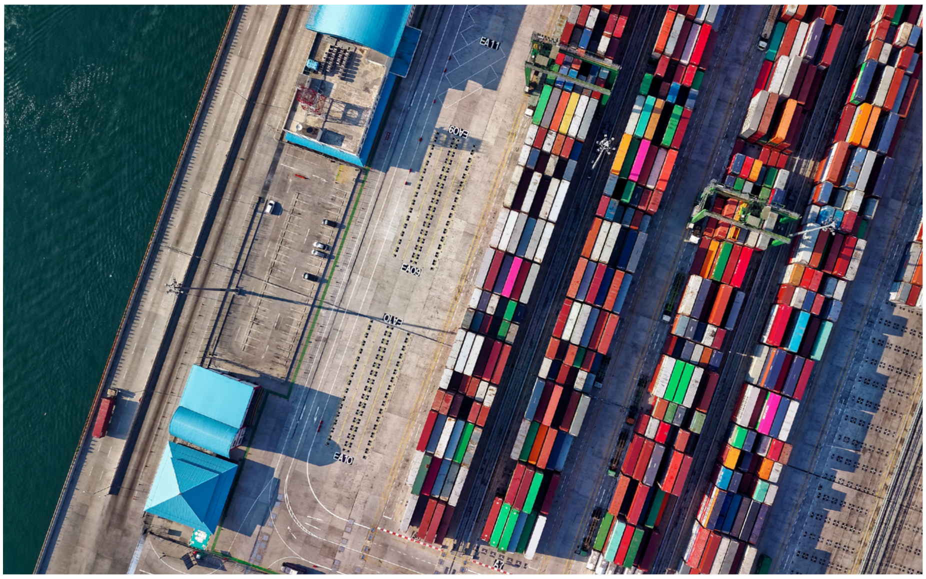
8. In November 2019, Deutsche Bank reportedly sold US$50 billion worth of assets related to emerging-market debt to Goldman Sachs, as part of a strategic transformation and restructuring plan that was outlined by Deutsche chief executive Christian Sewing in early July that involved the reduction of up to 18,000 jobs and divestment of €282 billion of non-core assets.

9. In November 2019, the Monetary Authority of Singapore (MAS) announced that it has set up a US$2 billion green investments programme (GIP) to invest in public market investment strategies that have a strong green focus. The first investment under the GIP will be a US$100 million placement in the Bank for International Settlements' Green Bond Investment Pool, in support of its global green finance initiatives. MAS will also develop incentives to encourage growth in green and sustainability-linked loans. It will roll out grant schemes to help firms defray the costs for developing sustainability frameworks and engaging external reviewers.

10. In November 2019, the Infocomm Media Development Authority (IMDA) and Microsoft signed a memorandum of intent to provide a development environment to facilitate the creation of 5G applications, services and capabilities. The recent partnership with Microsoft is part of IMDA's efforts to drive the development and adoption of 5G applications in Singapore. The agency also revealed in June 2019 that it was setting aside S$40 million to build up the 5G ecosystem, a process that includes the development of testbeds that would allow government and private organizations to run their 5G use cases.

SHIPPING NEWS

Key Shipping Updates from July to November 2019



1. Countries continued efforts to counter security threats in the Straits of Hormuz during the second half of 2019. In August, Bahrain, Australia and the UK agreed to join the International Maritime Security Construct (IMSC), an international naval security coalition, to protect shipping in the Straits from Iranian threats. In September, Iran seized a boat near the Straits, suspected of being used to smuggle fuel and arrested its 11 crew members. However, in the same month, Iran also released British-flagged oil tanker Stena Impero which had been seized for allegedly violating maritime rules, even as United Arab Emirates and Saudi Arabia joined the IMSC. In October, Japan opted to dispatch its own naval assets to the Straits instead of joining the IMSC. Qatar and Kuwait agreed to join the IMSC in November, while France announced that a European-led maritime mission similar to IMSC will be stationed at the French naval base in Abu Dhabi. Also in November, Britain lowered its security risk level for UK-flagged ships traveling through the Straits.

2. Singapore port operator PSA International continues to expand its global footprint. In August 2019, PSA concluded the acquisition of Halterm Container Terminal in the Port of Halifax, Canada. In September 2019, PSA completed its takeover of Penn Terminals, located on the Delaware River in the US, marking PSA's first acquisition in the US. Both deals were from Australian investment fund Macquarie Infrastructure and Real Assets. PSA's global network includes more than 50 coastal, rail and inland terminals across 18 countries.

3. In August 2019, the Singapore Exchange partnered with data analytics company GeoSpock to build a global maritime spatial database with the Baltic Exchange with a special focus on global maritime air emissions. Baltic Exchange is aiming to develop an intelligent database that captures data on every measurable aspect of the shipping industry. This includes metadata such as location, weather, emissions, fuel usage, journey routes and times. Through the collection of this data, its membership will have complete and instant visibility into the shipping landscape.

4. Developments in autonomous shipping:

   - In September 2019, NYK conducted the world's first Maritime Autonomous Surface Ships trial. Iris Leader, a 70,826-tonne pure car truck carrier deployed for the trial, was successfully navigated using the Sherpa System for Real system from Xinsha, China, to Nagoya, Japan, and onwards to Yokohama, Japan.
   - In October 2019, the Singapore Maritime Institute announced the establishment of a research centre for the development of autonomous ships, the Centre of Excellence for Autonomous & Remotely Operated Vessels. China also announced plans to launch operations on the Xiangshan Ocean Technology Port, its first autonomous ship research and development test base, by end-2019, to lead and promote the fast development of unmanned marine system and intelligent equipment industry in China.
   - In October 2019, IBM announced its participation in the Mayflower Autonomous Ship project. This project is led by marine research organization ProMare, and aims to develop an unmanned, fully-autonomous ship for a transatlantic voyage. IBM's artificial intelligence and cloud computing technologies will be deployed on the project.
   - In October 2019, Finnish start-up Awake.AI joined the One Sea, an industry alliance that brings

together leading exponents of autonomous ship technology. Awake.AI is aiming to create a new platform and machine learning models based on transparent data sharing to break down the barriers between ships, ports and other stakeholders in the maritime logistics chain.

5. In October 2019, the Singapore Shipping Association partnered with the International Chamber of Commerce (ICC) and Singapore tech start-up Perlin to develop an International E-Registry of Ships system, supported by the Maritime and Port Authority of Singapore, to automate ship registration and renewal. The blockchain e-register will run on self-executing smart contracts, and aims to reduce time, costs and errors. If the system is successful, ICC will push for its global adoption.

6. In October 2019, the latest annual survey by Petrofin Global Bank Research showed that ship financing is now at its lowest since the global financial crisis of 2008. Research revealed that the top 40 banks' lending to shipping now stands at US$300.7 billion, the lowest level since Petrofin started monitoring the global portfolio in 2008. A significant US$44.3 billion has been knocked off the portfolios of the top 40 banks over the last year, with European portfolios on a steep decline. Petrofin noted that the growth of the global fleet continues to be funded from non-banking sources. The Petrofin Index has fallen by 13% since last year.

7. In October 2019, ground was broken on the development of the Tuas Terminal mega port by Singapore Prime Minister Lee Hsien Loong, a US$14.5 billion mega-port that will be the world's largest fully-automated terminal when completed in 2040. The port will feature automated wharf and yard functions and fully-electric automated guided vehicles, among other innovations. The complex is being constructed in four phases, the first of which will complete in 2021.

8. In November 2019, China State Shipbuilding Corporation and China Shipbuilding Industry Company was merged to create the China Shipbuilding Group, which is now the world's largest shipbuilding company with $112 billion of assets and 310,000 employees.

MOORE MARITIME EXPENSES TOOL LAUNCHED

We have launched the Moore Maritime Index tool, enabling shipowners and advisers to analyse operating costs and revenues against a large global sample of vessels.

At Moore Stephens, we have advised the Shipping and Maritime sectors for more than seven decades. We are regarded within the industry as a preeminent provider of advice and services.

Our latest tool, the Moore Maritime Index provides information on more than 1,500 vessels across more than 20 vessel types, covering these cost categories:

- Crew costs: wages, provisions and other costs
- Stores: lubricants and other store costs
- Repairs & maintenance, including spares
- Insurance
- Administration

Additionally, the Moore Maritime Index provides exclusive information relating to vessels' net income and dry docking/special survey expenses.

"Moore Maritime Index launches at a time when the sector is doing a good job of controlling costs. Data tells us that there are certain relationships and correlations that need to be investigated further in order to optimise operations," says Costas Constantinou, Global Maritime leader, Moore.

"Through this new tool, we are pleased to provide basic analysis of vessel operating costs to all users for free, with additional benefits for subscribers. Alongside Moore's acknowledged expertise in shipping and maritime, we believe that the Moore Maritime Index will quickly become the authoritative source for global vessel operating costs."

To access the Moore Maritime Index, please visit www.moore-index.com.

SUSTAINABILITY REPORTING - REIMAGINING THE SHIPPING BUSINESS IN GREEN

By Lao Mei Leng, Partner and Head, Risk Management at Moore Stephens LLP, Singapore

"We need to reimagine, rethink and rediscover the shipping business in green and be inclusive as we progress..."

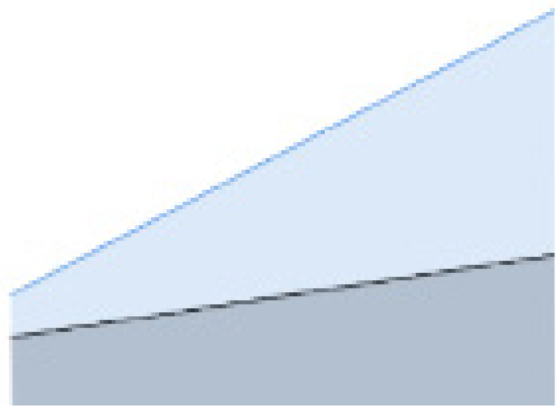
Pursuant to the adoption of the 2030 Agenda for Sustainability Development with 17 Sustainability Development Goals by the United Nations ("UN") in 2015, the International Maritime Organisation ("IMO"), as part of the UN, has since established several important targets related to these SDGs. These targets, amongst many others, include the 0.5% global sulphur cap coming into force from 1 January 2020 and the reduction of greenhouse gas ("GHG") emissions by at least half before 2050 compared to 2008, reduction of average carbon emissions of 40% by 2030 and then 70% by 2050 from 2008. The IMO working group for GHG emissions agreed in a recent November meeting in London to opt for a mandatory goal-based approach to reduce shipping's carbon emissions. The IMO Action Plan includes further strengthening existing regulations and introducing new supporting measures to reduce plastic litter from ships.

This opens up new opportunities for players to build resilience in their business. Business resilience can be better developed and communicated in the form of sustainability reporting to key stakeholders. The language of sustainability covers 3 key dimensions - people, planet, and prosperity and can be organised in the form of environmental, social and governance ("ESG") factors.

The identification of material ESG factors allows companies to channel their sustainability efforts to areas that matter most. From the investor's perspective, ESG factors help to

3 widely discussed ESG factors

CARBON TAX PLAN



The effect of carbon tax on the price of fuel

better predict the fundamentals and performance of the company. As such, it is of paramount importance for the company to be able to tell investors and key stakeholders about its business directions, efforts, and corporate DNA. Common disclosure topics include corporate governance, greenhouse emissions, business ethics and integrity, anti-corruption practices, employee development and safety, management of technology risks, and diversity. Let us look at three (3) widely discussed ESG factors and the need to establish policies, practices, and performances of these factors.

1. REDUCTION OF GREENHOUSE EMISSIONS

The path towards decarbonisation is fraught with obstacles ranging from the availability of low carbon fuels, the suitability of marine equipment for these low carbon fuels, ship design, and an appropriate carbon pricing system. With Mr. Andreas Sohmen-Pao pushing for a $70 billion carbon tax plan and saying that we should not be on the wrong side of history on this one, it will be wise to heed his call. At the suggested starting rate of $10 per tonne of CO2 emitted and $50-$70 per tonne by 2030, this is estimated to add another $30 to $225 per tonne to the price of fuel.

The first step is to start tracking the carbon footprint of the business. The emissions of other GHG covered in the Kyoto Protocol should be similarly tracked and managed actively. An internal corporate carbon pricing or GHG pricing can be set to allow shadow pricing to be calculated and evaluate the impact on operating results. Using big data, powerful scenarios analyses can be made and meaningful evaluation can be done over what energy sources to use to comply with IMO's requirements.

The average Energy Efficiency Design Index ("EEDI") for new ships can also be established and disclosed. Energy and fuel consumption, emissions and pollution management, carbon offsetting and waste management efforts can be described and disclosed. The internal management systems will also need to be developed so that data can be identified, captured and reported. As the saying goes *"If you cannot measure it, you simply cannot manage it."*

Innovation has emerged due to mandatory requirements enacted by IMO and various jurisdictions. While the jury is still out on LNG as a clean fuel, new research and development efforts on new energy sources like those of Maersk and Wallenius Wilhelmsen joining hands to develop a lignin and ethanol blend as a low carbon fuel solution will also be of interest to key stakeholders. So will the use or non-use of green fuel and green technology by your business.

The comparability of ESG data remains a huge barrier in generating a meaningful return difference between companies with stronger ESG management/reporting and those who are average. The Poseidon Principles, Green Loan Principles, and the Sustainability Linked Loan Principles all point towards a change in focus by the banks and investors. The Green Ship Finance Deal of the Year was awarded to Sovcomflot for the $252 million nine-year Green Finance Credit Facility to finance its nine (9) LNG-powered Aframax tankers. In October 2019, Teekay Shuttle Tankers successfully placed $125 million senior unsecured Green Bonds for its four (4) new low-emission vessels for the Norwegian North Sea. The tide of ESG investing and green financing is undeniably rising.

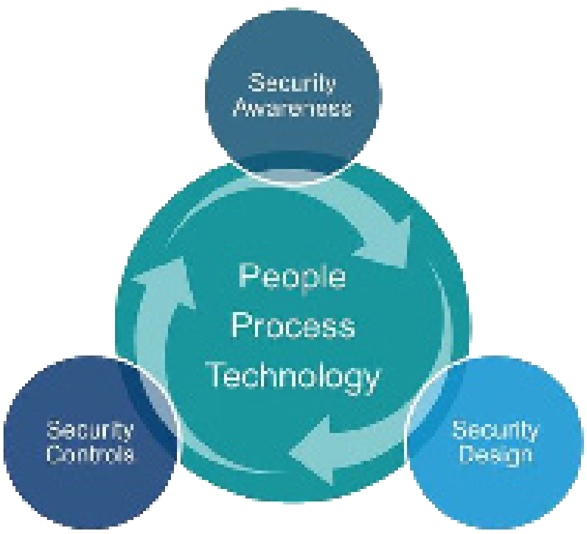
To put wind in the sails and catch the tide, one can look at the adoption of Task Force on Climate-Related Financial Disclosures to improve sustainability literacy and better align disclosures with the needs of investors, lenders, insurers and other stakeholders. The Maritime and Port Authority of Singapore ("MPA") launched the first Maritime Sustainability Reporting Guide in August this year. The Maritime Sustainability Reporting Guide can be used to help shipping companies embark on its sustainability reporting journey.

2. MANAGEMENT OF TECHNOLOGY RISKS

Successful sustainability developments call for collaboration among partners and a rapid move towards innovation in maritime technology.

This is the era of the 4th industrial revolution driven by technology everywhere. Talk about big data, big tech and artificial intelligence happens all the time. The ability to harness new technology and manage data/cybersecurity risks has become critical in building business resilience. However, new threats from cybersecurity risks, data management risks, and technology operation risks can also quickly wash one overboard.

The Maritime and Port Authority of Singapore ("MPA") has



A holistic approach to Cybersecurity by Kudelski Security

recently launched various labs to test new technologies and concepts such as the Next Generation Vessel Traffic Management System and will soon be launching the "digitalPORT@SG". The first phase of digitalPORT@SG is a one-stop clearance for vessel-related transactions of all arriving and departing ships and is estimated to save 100,000 man-hours per year. The next phase of digitalPORT@SG is a digital shopfront for the booking of terminal and marine services facilitating optimal vessel passage planning in the port. The aim is to make digitalPORT@SG interoperable and allow the exchange of ship credentials with other countries for port regulatory activities, thereby enabling greater efficiency among industry players.

Technological innovation presents wonderful opportunities to help reshape the maritime industry. Imagine having the ability to harness the power of technological advancement for device-to-device connectivity and create efficiencies. Embedding the purposeful use of technology in sustainable development goals and everyday operations will create a competitive advantage that others find hard to emulate.

Every ship is essentially a business unit. If onboard systems can be redesigned and greater automation introduced, the whole fleet of vessels will be able to generate better returns. Reimagine the use of technology to make the ships more homogenous, interchangeable and flexible, with enormous live data about the performance of every ship to make new optimisations and adjustments. The goal of unlocking intelligence by opening up data is not a distant future.

Fast-changing technological innovation however, can present other forms of risks. The ever-chang ing cyber threats come in many forms which are mutating and multiplying rapidly. Security, including cybersecurity, is fundamental to a well-functioning transportation system. The risks of unauthorised access or malicious attack on the ship's systems and networks grow every day.

IMO Resolution MSC.428(98) identifies cyber risks as specific risks and states that a Safety Management System ("SMS") should take into account cyber risks management in line with the objectives and requirements of the International Safety Management ("ISM") code. Plans and procedures for cyber risk management should be established and incorporated into current security and safety risk management requirements in the ISM code and International Ship and Port Facility Security ("ISPS") Code. Systems should include both onboard systems ranging from cargo management systems, bridge systems, access control systems, communication systems, etc as well as shoreside networks and systems. Vulnerabilities in its systems and onboard procedures should be identified and addressed.

Systematic upgrades to the IT systems and good cyber awareness of the crew/shore-based personnel are critical. It is imperative to have strong contingency and recovery plans in place and to test periodically. It is also recommended that shipping companies relook at their marine property insurance and cover claims caused by cyber incidents and/or cyberattacks. A well-communicated cybersecurity strategy and efforts in the sustainability report will give key stakeholders assurance that the company has a holistic and effective approach to protect its people, its data, its critical information system and operations infrastructure against major disruptions and attacks.

3. DIVERSITY

Diversity ensures a variety of different perspectives and helps one avoid the pitfall of group think. Diversity, like everything else, needs to be managed carefully to see the higher innovation, greater productivity and more profits produced by a diverse talent pool. It is important to have a diversity policy to elucidate the objectives, desired competencies, and guidelines for workplace diversity and inclusion.

The latent labour force of women can be unleashed and further developed as part of the diversity movement in the maritime industry. Shipping has traditionally been a male-dominated industry. IMO promotes gender equality and women's empowerment and is working with various maritime stakeholders to achieve the SDGs, including SDG 5 – Gender Equality. The World Maritime Day theme for 2019 is in fact "Empowering Women in the Maritime Community", with IMO Secretary-GeneralKitack Lim quoted as saying that *"Empower- ing women isn't just an idea or a concept. It is a necessity that requires strong, positive action to address deep-seated structural, institutional and cultural barriers."*

While technology has played a big part in levelling the playing field for females, there must be more awareness of the career possibilities in the maritime industry among young women and greater career opportunities for those women already in the industry. There must be concerted efforts and training to curb unconscious bias, especially when making people decisions.

CONCLUDING THOUGHTS

Life in shipping is always tough. Shipping people get criticised for a lot of things which include, amongst many things, damage to the environment, slow adoption of technologies, and the lack of diversity in the community. Green and technology issues are top agenda items for the shipping fraternity, especially the rising Millennials who embrace and are defined by diversity.

We need to reimagine, rethink and rediscover the shipping business in green and be inclusive as we progress. Sustainability reporting is a useful tool for companies to communicate their corporate resilience and ESG efforts, thereby allowing them to tap into the green financing market. In conclusion, there are costs of acting and there are costs of not acting. As Mr. Sohmen-Pao says, we should not be on the wrong side of history on this one.

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SINGAPORE'S UPCOMING GAME CHANGER IN FUND MANAGEMENT - THE VARIABLE CAPITAL COMPANY

By Wong Koon MIn, Partner and Head, Technical, Compliance and Financial Services at Moore Stephens LLP, Singapore

"A VCC will not be required to disclose its register of shareholders to the public, although it may be required to disclose such information to supervisory and enforcement agencies. The financial statements also need not be made public. This will provide shareholders with enhanced privacy and anonymity."

On 1 October 2018, the Parliament of Singapore passed into law a new type of corporate structure – the Variable Capital Company ("VCC") – that will put Singapore in the same league as other global fund hubs like Cayman Islands, Dublin and Luxembourg.

The VCC is a bespoke corporate structure for investment funds in Singapore. It is aimed at attracting more fund managers to base their funds and run their fund management activities in Singapore.

KEY FEATURES OF A VCC

At present, funds can be registered under existing structures available, namely, unit trusts, limited partnerships and investment companies, but these structures with restrictions are less ideal for funds. The new corporate entity structure will give fund managers operational flexibility in Singapore. The salient features of a VCC are as follows.

- A VCC will be governed by the Variable Capital Companies Act ("VCC Act") and is to be regulated by the Accounting and Corporate Regulatory Authority (for establishment and administrative purposes) and the Monetary Authority of Singapore ("MAS") (for Anti-Money Laundering/Countering the Financing of Terrorism ("AML/CFT") purposes).
- A VCC can be used for both traditional funds or alternative funds and can be used for retail investors or for restricted class investors. It can be formed as a single standalone fund, or as an umbrella fund with two or more sub-funds, each holding different assets. The sub-funds can share a single board of directors with the same fund manager, custodian, auditor and administrative agent. Certain administrative functions can also be consolidated. A VCC must appoint a fund management company that is licensed or registered by MAS, or is an exempt financial institution in Singapore.
- Shares can be issued and redeemed without shareholders' approval, enabling investors to exit their investments when they wish to. Dividends can also be paid out of capital.
- A VCC need not hold annual general meetings with its shareholders subject to caveats.
- A VCC must prepare financial statements. Except for VCCs offered as a Collective Investment Scheme, which must be based on Recommended Accounting Practice 7 Reporting Framework for Unit Trusts, issued by the Institute of Singapore Chartered Accountants, financial statements may be prepared using US Generally Accepted Accounting Principles, International Financial Reporting Standards, or Singapore Financial Reporting Standards.

- A VCC will not be required to disclose its register of shareholders to the public, although it may be required to disclose such information to supervisory and enforcement agencies. The financial statements also need not be made public. This will provide shareholders with enhanced privacy and anonymity.
- A VCC must be able to demonstrate sufficient mandatory substance in Singapore, via a Singapore registered office, a Singapore resident company secretary and auditor, and at least one resident director.

TAX TREATMENT

The Ministry of Finance has announced in its 2018 Budget Statement the following with respect to the tax treatment of a VCC:

- A VCC will be treated as a company and a single entity for tax purposes. This means that only one set of income tax returns is required to be filed with the Inland Revenue Authority of Singapore.
- The tax exemptions for the income of a company incorporated and resident in Singapore arising from funds managed by a fund manager in Singapore (section 13R of the Income Tax Act) and for the income arising from funds managed by a fund manager in Singapore (section 13X of the Income Tax Act) will be extended to VCCs.
- The 10% concessionary tax rate under the Financial Sector Incentive – Fund Management scheme will be extended to approved fund managers managing incentivised VCCs.
- The existing GST remission for funds will also be extended to incentivised VCCs.

RE-DOMICILIATION OF FOREIGN FUNDS TO VCC

To facilitate fund domiciliation in Singapore, the law will provide a re-domiciliation mechanism for existing overseas investment funds constituted as corporate structures similar to VCCs. In addition, existing funds domiciled in Singapore as companies, limited partnerships or unit trusts can also restructure to take advantage of the VCC structure.

CONCLUSION

The establishment of the VCC in Singapore will certainly be welcome by the growing fund industry in Singapore. While the features of the VCC are, arguably, not too different from open-ended fund structures in some other jurisdictions, these features coupled with the country's strong regulatory framework, economic reputation, and taxation infrastructure including its extensive network of double taxation agreements, will, in our view, almost certainly make the VCC an obvious candidate for global funds and family offices who are seeking a structuring venue when it becomes operational at the end of 2019.

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SINGAPORE FINANCIAL REPORTING SEMINAR 2019

By Wong Koon Min, Partner and Head, Technical, Compliance and Financial Services at Moore Stephens LLP, Singapore

"As regulations grow in volume and complexity, the need for expertise and professional judgement can only be expected to increase...."

The 2019 Moore Stephens-CCS Financial Reporting Seminar, led by financial reporting and taxation specialists from Moore Stephens LLP and the Singapore Management University and held at the Suntec City Convention Centre on 20 September 2019, attracted more than 200 participants including Company Directors, Chief Financial Officers, and Finance Executives.

UPDATES & PITFALLS IN NEW ACCOUNTING RULES FOR REVENUE AND FINANCIAL INSTRUMENTS

The seminar kick-started with an introduction by Mr. Neo Keng Jin, Head of Audit, Assurance and Advisory at Moore Stephens LLP, who gave an overview on the status of financial reporting projects by the International Accounting Standards Board (IASB). Mr. Neo noted that other than leases and insurance, there are no other "big bang" projects at this stage which are on the agenda of IASB.

Next, Mr Wong Koon Min, Partner and Head of Technical, Compliance and Financial Services at Moore Stephens LLP, took the stage to discuss expectations articulated by global regulators on the application of the new financial reporting rules for revenue and financial instruments that took effect in 2018. At the same time, IFRIC has been issuing guidance on the application of these requirements in the form of Agenda Decisions, some of which have come as a surprise to companies, even as they issued their annual reports for the year.

COMPLEXITIES IN NEW LEASE ACCOUNTING RULES

Thereafter, distinguished guest speaker Dr Pearl Tan, Associate Professor (Education) in Accounting at the Singapore Management University, shared insights on areas of complexities relating to the new paradigm on lease accounting that takes effect in 2019. According to Dr. Tan, these areas of complexity include accounting for variable lease payments, renewal and purchase options commonly found in lease arrangements, and sale and lease back arrangements. Illustrated with vivid examples, real-life application scenarios, and case studies, Dr Tan provided participants with a detailed explanation of the technical considerations behind the financial reporting for such arrangements.

OTHER ACCOUNTING UPDATES

After a refreshing break, Mr. Wong returned to speak on the new business combination rules which will take effect for business combinations in financial year 2020. The rules are complex, and centre around a host of considerations, such as whether the acquisition involves the transfer of a skilled workforce, the uniqueness and replaceability of such a workforce, the extent to which the acquisition value is concentrated in a single asset or group of similar assets, and others. The application of the rules can affect conclusions about how the acquisition is recorded, including, inter alia, whether it is permissible to recognise goodwill, bargain purchase gains, and asset fair value lifts upon acquisition. Mr. Wong also discussed other miscellaneous accounting updates relating to, inter alia, cryptocurrencies, joint operations, stepped acquisitions, and partial disposals of subsidiaries.

TAXATION CONSEQUENCES

The final speaker of the seminar, Mr. Yong Jiahao, Director of Taxation Services at Complete Corporate Services, delivered an overview of how the accounting changes impact taxation. According to Mr. Yong, the taxation authorities have worked towards aligning the taxation of revenue and financial instruments with the new accounting rules. However, there are a myriad of exceptions, the details of which are complex, and when in doubt, companies should consider seeking professional expertise. In relation to the new lease accounting rules, Mr. Yong cautioned that lessees still need to distinguish finance leases from operating leases, notwithstanding the accounting changes, as Singapore tax consequences continue to depend upon such a distinction.

PANEL DISCUSSION & CONCLUSION

The seminar concluded with a panel session led by Mr. Neo. Panellists included all of the speakers. Topics discussed included issues associated with transition to the new lease accounting rules, nuances in the taxation definition of "finance lease", the rationales behind some of the new accounting changes discussed during the seminar, and others. Participants and panellists noted that these are complex developments. As regulations grow in volume and complexity, the need for expertise, professionalism, and judgment can only be expected to increase going forward.

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.

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