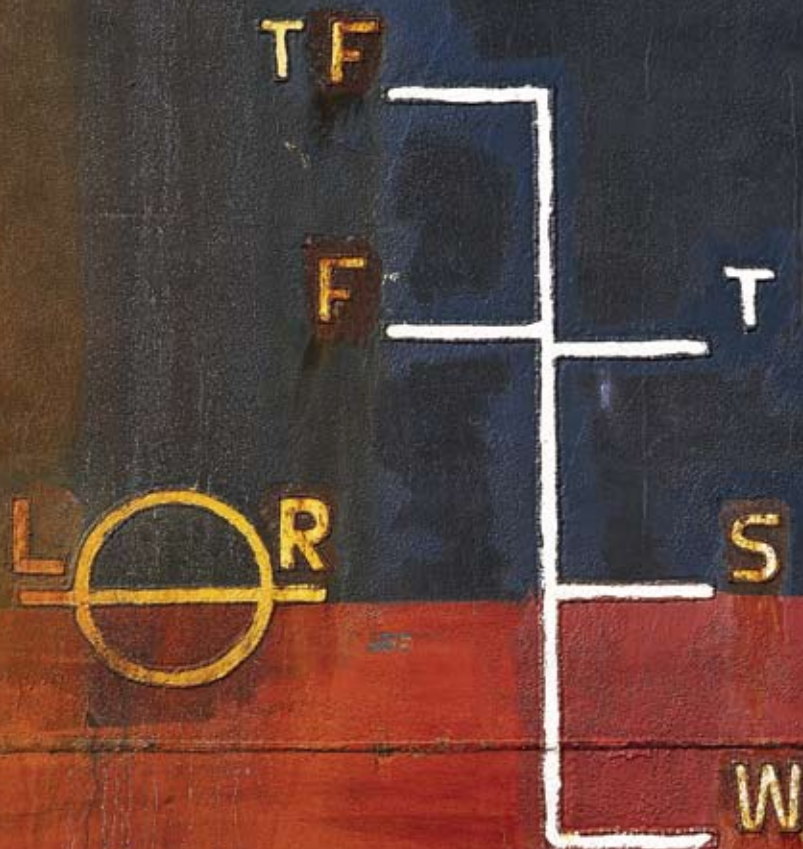


Corporate Watch

Developments on Corporate Reporting and Governance*
August 2007



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Acronyms

AA	Articles of Association
ACRA	Accounting and Corporate Regulatory Authority
CCDG	Council on Corporate Disclosure and Governance
CODM	Chief Operating Decision Maker
ETF	Exchange Traded Fund
FRS	Financial Reporting Standards
FY	Financial Year
GAAP	Generally Accepted Accounting Principles
INT FRS	Interpretations of FRS
PDF	Portable Document Format
REIT	Real Estate Investment Trust
SBP	Share-Based Payment
SGX	Singapore Exchange
XBRL	Extensible Business Reporting Language

Proposed changes to SGX Listing Manual – How might they impact you?

On 10 May 2007, the Singapore Exchange (the Exchange) issued a Public Consultation Paper on proposed changes to the SGX Listing Manual. The proposed changes aim to align the Listing Manual to the changes in Companies Act as well as to enhance transparency and accountability. The key proposals and their implications are summarised below.

Amendments Enhancing Transparency accountability

Suspension of trading

The proposed change would allow the Exchange to suspend trading in securities of an issuer when the issuer is unable to continue as a going concern or when the issuer is unable to demonstrate to the Exchange that it is able to do so. Currently, the inability of the issuer to continue as a going concern is usually demonstrated through an unqualified audit report or when the auditors include an ‘emphasis of matter’ paragraph in the auditors’ report. With the proposed changes, the responsibility is placed on the issuer to demonstrate and determine its financial viability to the Exchange and its shareholders and to inform the market on a timely basis.

Immediate announcement of transactions involving treasury shares

The proposed changes to the Listing Manual would require the issuer to make an immediate announcement for the sale, transfer, cancellation and/or use of treasury shares.

Immediate announcement of employee share options

To prevent back-dating of grant of options, the proposed change would require the issuer to make an immediate announcement of each grant of employee share options together with the details of the grant. Issuers should evaluate its current processes and if necessary, make changes to cater for immediate announcement of such transactions.

Change of auditors

Where there is a change of auditors, the Exchange has proposed that the issuer states in its Articles of Association or other constituent document that the change of auditors is specifically approved by shareholders in the general meeting. The notice of resolution relating to the change of auditors shall be submitted to the Exchange for review and be accompanied by a confirmation from the out-going auditors stating whether they are aware of any circumstances relating to change of auditors that should be brought to the attention of the shareholders. Issuers should plan for processes for amendments to be made to its AA.

Quarterly reporting

Currently, an issuer is required to make quarterly announcements of its financial results when its market capitalisation exceeded \$75 million as at the 31 March 2003 or time of listing, if the issuer is listed after 31 March 2003. Under the proposed change, an issuer would be required to make its quarterly announcement if its market capitalisation is or exceeds \$75 million on the last trading day of the calendar year commencing 31 December 2006. Issuers will be given a 1-year grace period to comply with this requirement. Hence, issuers affected by the proposed new rule should plan for transition to quarterly reporting.

Other amendments

Shortening period of minimum trading halt

The Exchange has proposed to shorten the duration of trading halt for dissemination of material information from one hour to thirty minutes.

Acquisitions and realisations

For purpose of determining value of a transaction to ascertain whether it is discloseable and/or requires shareholder approval, the proposed changes clarify that consideration include deferred consideration payable or receivable by issuer and such further amounts as the Exchange deems appropriate and related to the transaction.

Alignment with the Companies Act

Changes would be made to the Listing Manual to update it to reflect recent changes to the Companies Act including those relating treasury shares and the abolishment of authorised share capital, par value, share premium and capital redemption reserve. All references to amount of share capital are amended to number of ordinary shares outstanding (excluding treasury shares). Consequent to the proposed changes, the monitoring of certain quantitative measurements, previously based on amount of share capital, for compliance with the SGX Listing Manual would be based on number of shares in-issue.

Waivers for Real Estate Investment Trusts and Exchange Traded Funds

For REITs and ETFs, a new rule enumerating the standard waivers will be incorporated. The Exchange has also proposed clarification that REITs are required to comply with all listing rules applicable to equity securities.

Conclusion

The comment period for the consultation has closed and an update will be provided in the subsequent issue. Meanwhile, companies should analyse the impact on the different reporting area and plan for how they will manage changes in systems and/or processes.

XBRL filing with ACRA – A move forward?

The Accounting and Corporate Regulatory Authority of Singapore is mandating the filing of statutory reports in XBRL. XBRL will facilitate one-stop filing; it will also provide a greater access to corporate financial data. What does this mean?

XBRL¹ is a standard for electronic communication of business and financial data. The idea is simple. Instead of treating financial information as a block of text, it provides an identifying tag for each individual item of data. Computers can then treat the data 'intelligently' – they can recognise it, select it, analyse it, store it, and more importantly, exchange it with other computers and present it in a variety of ways for users. There will no longer be any need to copy and input relevant data for analysis. As a result, financial information can be used and analysed more frequently and efficiently than before, both by the regulators and the analysts.

Adoption of XBRL in other countries¹

Filing in XBRL is not new in the global arena. In the United States, more than 8000 banks have filed their quarterly Call Reports in XBRL since October 2005. The Bank of Japan has launched XBRL filing of monthly balance sheets in February 2006 whilst the Bank of Spain has launched XBRL filing of monthly financial statements in May 2006.

As for the listed companies, XBRL has been adopted to some extent in Australia, Japan, South Korea, Sweden, China, United States and United Kingdom. The Securities and Exchange Commission has embarked on a voluntary XBRL pilot programme and is expected to require all regulated entities to report financial information in XBRL soon. The Tokyo stock exchange has also planned to require full XBRL reporting of all listed companies by 2008.

Requirements to file in XBRL

Singapore-incorporated companies that are not exempted must file in XBRL:

- (i) the financial statements ending on or after 30 April 2007; when
- (ii) their Annual Returns are filed on or after 1 November 2007.

These companies can choose to file in full or partial XBRL.

Implementation of XBRL in Singapore

Besides Belgium, Singapore will be among the firsts to require XBRL filing by both listed and non-listed companies except for certain types of exempted companies.

Singapore-incorporated companies that file their Annual Returns (which include financial statements) on or after 1 November 2007 with the ACRA, are required to file this information in XBRL format if their financial statements are for annual period ending on or after 30 April 2007.

¹ Extracted from www.xbrl.org

These companies can choose to file either:

- (a) the full set of statutory accounts in XBRL ('full XBRL'); or
- (b) only balance sheet, income statement and some mandatory information in XBRL ('partial XBRL'), and the full set of statutory accounts in PDF format.

The identifying tags (as a group) are known as taxonomy. It is a point to note that ACRA's taxonomy will remain primarily the line items on the face of the balance sheet and income statement, even for companies which opted for the full XBRL filing. The information in the rest of the statutory accounts to be filed such as those in the directors' report, statement by directors, auditor's report and notes to the financial statements will be entered into "user-described" fields, which are untagged. This renders the submitted information less useful.

To encourage companies to file in full XBRL, ACRA is waiving penalties on late filings for companies which opted for such. Because of the limitation of the current taxonomy, certain companies are also exempted from XBRL filing. They include banks, insurance and finance companies regulated by the Monetary Authority of Singapore, as well as companies allowed by law to prepare accounts based on accounting standards other than the Singapore Financial Reporting Standards or the International Financial Reporting Standards. These companies will continue to file their financial statements in PDF format.

Companies required to file in XBRL must create their filing documents using FS Manager, the free online tool developed by the ACRA. FS Manager is available in <http://www.bizfile.gov.sg>. The software is currently on trial and will go live on 1 November 2007.

Directors' responsibilities

Under the ACRA Practice Direction 2 of 2007 on XBRL filing, the directors remain responsible for ensuring the correctness and accuracy of the financial statements filed with ACRA. It further suggests that directors should ensure the preparers of the financial statements possess the requisite accounting knowledge to prepare the financial statements through FS Manager. Directors are also specifically reminded in that Practice Direction to check the information to be filed prior to authorising the submission to ACRA.

Specific concerns with XBRL filing

- The ACRA's taxonomy is generally limited and this is likely to inhibit management's ability to tailor income statement and balance sheet presentation to suit the entity's circumstances.
- FS Manager cannot be downloaded and this is expected to slow the traffic flow.
- FS Manager is newly developed and its stability has not been proven. Preparers are advised to regularly save the data files.
- FS Manager has some formatting limitations and this may affect the free text presentation in directors' report, statement by directors, auditor's report and notes to the financial statements.

Immediate challenges

The FS Manager is intended for use as a tool to prepare statutory accounts. It should replace the current procedure of using word processing software to create a document and convert it into a PDF format. However, due to the unfamiliarity with FS Manager as well as concerns over the fact that the FS Manager can only be accessed online, preparers may, as a precaution, fall back to their existing procedures. This is likely to increase the preparers' workload and could pose significant concern for groups with many companies.

FS Manager provides the option to convert statutory accounts prepared in XBRL into PDF copies so that a readable copy can be generated. Ideally these statutory accounts should comply with the Singapore FRS so that they can be signed off by the directors and the auditors can give an opinion on. However, the current 'look and feel' of the trial version is significantly different to that of market convention. It remains to be seen whether changes to the trial version are adequate for auditors to sign off on these accounts.

The current ACRA's taxonomy is modelled on the requirements of Singapore FRS, but is significantly limited compared to those set up in other countries. The approach is intentional – a small-step and phased implementation is well placed to gain the public's acceptance of the change, besides allowing time for other practical issues to be addressed. That said, the more comprehensive or granular the taxonomy, the more useful the information will become. A step towards extending the current taxonomy will likely be helpful to reap enhanced benefits from XBRL filing.

The way forward

There are expected teething problems during the initial implementation of XBRL filing. There are also questions over its usefulness, particularly in view of the limited taxonomy and the number of entities exempted from XBRL filing. Yet, with the market economies becoming closely intertwined, some view the day will come when real time data is a necessity and XBRL is perhaps one avenue to facilitate that. Hopefully by then, the accounting software would have linked the back-end reporting to the front-end data. XBRL filing will then be a breeze with a click of a button.

What to look out for beyond FY 2007

It is important to keep track of changes in FRS prior to their effective dates as implementing these changes would require careful considerations and planning both within the organisation and with external parties. The effect of the adoption of standards that are issued but not yet effective is also required to be disclosed in financial statements. The following standard and interpretations that are effective after FY 2007 have been issued:

- FRS 108 *Operating Segments*
- INT FRS 111 *Group and Treasury Share Transactions*
- INT FRS 112 *Service Concession Arrangements*

Table 1 (refer to page 9-10) provides a brief summary of the above standard and interpretations as well as the action required to be taken by the companies.

Table 1 Summary of Standards effective after FY 2007

Standard (effective date)	Key Requirements	Action Points
FRS 108 <i>Operating Segments</i> (1 Jan 2009) – supersedes FRS 14 <i>Segment Reporting</i>	1) Requires reporting entity to report the financial performance of its operating segments based on the information used internally by the Chief Operating Decision Maker for evaluating segment performance and deciding allocation of resources. 2) Basis of its presentation of segment performance may be based on non-GAAP measures with reconciliations to the amounts recognised in the financial statements. 3) Reportable segments include those that generate exclusive inter-segment revenue.	1) Identify CODM 2) Review internal management report to CODM to • Identify reportable segments and their aggregation level • Prepare reconciliation between management reports and statutory financial statement, if necessary 3) Prepare information for FY 2008 as comparative for FY 2009 financial statements
INT FRS 111 <i>Group and Treasury Share Transactions</i> (1 Mar 2007)	1) Reporting entity to account for share-based payment transactions as equity-settled if: • entity receives goods or services as consideration for its own equity-instruments, regardless if treasury shares are used to settle the SBP or if shareholders directly transfers their own shares to the counterparty. 2) Entity to account for the SPB as equity-settled if: • its parent grants its own equity instruments for consideration for goods and services received by the entity and the parent treats the SBP as equity-settled in its consolidated financial statements. 3) Entity accounts for the SBP as cash-settled if • it grants its parent's entity instruments as consideration for goods and services received by the entity.	1) Re-evaluate SBP transactions where treasury shares are used to ensure that they are accounted for as equity settled. 2) If parent grants its equity instrument to the subsidiary's employees OR subsidiary grants its parent's equity instrument to its employees, subsidiary should: • obtain SBP information from parent • where necessary, engage specialists for the valuation of the parent's equity instrument

Standard (effective date)	Key Requirements	Action Points
INT FRS 112 <i>Service Concession Arrangements</i> (1 Jan 2008)	- For service concession arrangements, where control of the infrastructure assets remains with the grantor, the operator shall - Not recognise the infrastructure asset as its property, plant and equipment; - Recognise and measure the revenue into the components of the services, i.e. construction service and operation service. - The operator shall recognise the fair value of construction revenue as financial asset or intangible asset, depending on the characteristics of the arrangement.	- Identify the existence of any service concession arrangement that will be within the scope of INT FRS 112. - Assess the components of service and determine if it involves construction services and/or operation services. - Determine the fair value of consideration.

Other Developments

21 May 2007 – The CCDG invites comments on the Discussion Paper on ‘Preliminary Views on Insurance Contracts’. Comments should be received by 16 October 2007. For more information, please refer to <http://www.ccdg.gov.sg>.

20 July 2007 – The CCDG issued FRS 23 *Borrowing Cost*, effective for financial periods commencing on or after 1 January 2009. For more details, please refer to <http://www.ccdg.gov.sg>.

23 July 2007 – The CCDG issued a draft Interpretation – INT FRS *Real Estate Sales*. Comments should be sent by 15 September 2007. For more details, please refer to <http://www.ccdg.gov.sg>.

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Corporate Watch is a periodic newsletter produced by the Professional Standards Group of Assurance/Business Advisory Department of PricewaterhouseCoopers Singapore, with the objective to apprise corporates of emerging corporate reporting issues.

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