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Changes to the financial reporting framework in Singapore

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Acronyms

ASC	Accounting Standards Council
ED	Exposure Draft
FASB	United States Financial Accounting Standards Board
FRS	Singapore Financial Reporting Standards
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRIC	Interpretation issued by IFRS IC
IFRS	International Financial Reporting Standards
IFRS IC	IFRS Interpretations Committee
INT FRS	Interpretation of Singapore Financial Reporting Standards
ISCA	Institute of Singapore Chartered Accountants
RAP	Recommended Accounting Practice
SGX	Singapore Exchange Limited
SGX-ST	Singapore Exchange Securities Trading Limited
SIC	Standing Interpretations Committee
US GAAP	United States Generally Accepted Accounting Principles

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Introduction

The purpose of this publication is to provide a roundup of the recent changes in the Singapore financial reporting framework which we believe are important to accounting and audit professionals.

In this edition, we provide a summary of the new/revised FRSs and INT FRSs organised based on their effective dates, an outline of recent exposure drafts and a summary of IFRS 9 *Financial Instruments*. A comparison of the FRS against IFRS has been included, as well as summaries of other financial reporting matters arising from regulatory updates.

We have retained the relevant summaries of new/revised FRSs and INT FRSs included in the 2013 edition. For Standards that are not effective yet, entities will need to consider and disclose in their current financial statements, the possible effects that are new/revised FRSs and INT FRSs might have in the period of initial application.

Singapore-incorporated companies listed on the Singapore Exchange (SGX) will apply a new financial reporting framework identical to the IFRS in 2018. SGX will work closely with the ASC to engage Singapore-listed companies on the transition to the new framework. Leading up to 2018, ASC will engage stakeholders on the future direction of SFRS for other entities that are under its standard-setting mandate.

Section 1:
Financial Reporting Standards

New/revised standards and interpretations effective for annual periods beginning on or after 1 January 2014

	Title	Effective date*	Issue date
FRS 27 (Revised)	*Separate Financial Statements*[1]	1-Jan-14	2011
FRS 28 (Revised)	*Investments in Associates and Joint Ventures*[1]	1-Jan-14	2011
FRS 110	*Consolidated Financial Statements*[1]	1-Jan-14	2011
FRS 111	*Joint Arrangements*[1]	1-Jan-14	2011
FRS 112	*Disclosure of Interests in Other Entities*[1]	1-Jan-14	2011
FRS 27, FRS 28, FRS 110, FRS 111, FRS 112 (Amended)	*Mandatory Effective Date*[1]	1-Jan-14	2012
FRS 110, FRS 111, FRS 112 (Amended)	*Transition Guidance*[1]	1-Jan-14	2012
FRS 27, FRS 110, FRS 112 (Amended)	*Investment Entities*	1-Jan-14	2013
FRS 32 (Amended)	*Financial Instruments: Presentation* - Offsetting Financial Assets and Financial Liabilities	1-Jan-14	2012
FRS 36 (Amended)	*Impairment of Assets* - Recoverable Amount Disclosures for Non-Financial Assets	1-Jan-14	2013
FRS 39 (Amended)	*Financial Instruments: Recognition and Measurement* - Novation of Derivatives and Continuation of Hedge Accounting	1-Jan-14	2013
INT FRS 121	*Levies*	1-Jan-14	2013

*Applies to annual periods beginning on or after the date shown, with early application permitted unless stated otherwise. Initial application is retrospective unless there are specific transitional provisions indicating otherwise.
[1] The summaries for FRS 27, FRS 28, FRS 110, FRS 111, FRS 112 below include the requirements arising from the subsequent amendments on "Mandatory Effective Date" and "Transition Guidance" issued in 2012.

FRS 27 (Revised) *Separate Financial Statements*

Background and amendment

The revised FRS 27 was issued concurrently with FRS 110 (see below). While FRS 27 was superseded by the issuance of FRS 110, the amended FRS 27 retains the current guidance for separate financial statements.

FRS 28 (Revised) *Investments in Associates and Joint Ventures*

Background and amendment

The amended FRS 28 was issued concurrently with FRS 111 (see below). The amendments to FRS 28 are mainly on conforming changes based on the issuance of FRS 111.

The amended FRS 28 now sets out the requirements for the application of the equity method when accounting for investments in joint ventures, as the option for proportionate consolidation has been removed.

FRS 110 *Consolidated Financial Statements*

Background

FRS 110 is a replacement of FRS 27(2009) *Consolidated and Separate Financial Statements* and INT FRS 12 *Consolidation-Special Purpose Entities*.

The objective of FRS 110 is to have a single basis for consolidation, irrespective of the nature of the investee. It is based on its IFRS equivalent – IFRS 10 *Consolidated Financial Statements*.

One of the reasons the IASB issued the amendments is to deal with diversity in practice in applying IAS 27(2008) and SIC 12 (the IFRS equivalents of FRS 27(2009) and INT FRS 12). For example, entities varied in their application of the control concept in circumstances in which a reporting entity controls another entity but holds less than a majority of the voting rights of the entity, and in circumstances involving agency relationships.

In addition, there is a perceived conflict of emphasis between IAS 27(2008) and SIC 12 that has led to inconsistent application of the concept of control. IAS 27(2008) required the consolidation of entities that are controlled by a reporting entity, and it defined control as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. SIC 12, which interpreted the requirements of IAS 27(2008) in the context of special purpose entities, placed greater emphasis on risks and rewards.

Finally, the global financial crisis that started in 2007 highlighted the lack of transparency about the risks to which investors were exposed from their involvement with 'off balance sheet vehicles' (such as securitisation vehicles), including those that they had set up or sponsored. As a result, there was a review by the IASB on the accounting and disclosure requirements for such 'off balance sheet' vehicles.

The above are some of the reasons that led to the development and issuance of IFRS 10 and subsequently adopted as FRS 110 in Singapore.

Concurrent with the issuance of FRS 110, the following standards were also issued (the requirements of these standards are elaborated further below):

- FRS 111 *Joint Arrangements*
- FRS 112 *Disclosures of Interests in Other Entities*
- FRS 27 (Revised) *Separate Financial Statements*
- FRS 28 (Revised) *Investments in Associates and Joint Ventures*

Requirements

FRS 110 uses control as the single basis for consolidation, irrespective of the nature of the investee. Thus, it eliminates the risk and rewards approach in INT FRS 12. The three elements of control in FRS 110 are:
(i) Power over the investee;
(ii) Exposure (or rights) to variable returns from involvement with the investee; and
(iii) Ability to use power over the investee to affect the amount of investor's returns.

All elements above must exist in order to conclude that an investor has control over the investee. If there are any changes to the three elements, the conclusion of control must be reassessed.

(i) Power over the investee

FRS 110 states that power exists when the investor has existing rights that give it the current ability to direct "relevant activities" i.e. the activities that significantly affect the investee's returns. Power most commonly arises through voting rights granted by equity instruments, but can also arise through other contractual arrangements. The following factors should be considered in determining whether an investor has power over an investee:

- The purpose and design of the investee;
- The relevant activities of the investee and how decisions are made about those activities (the concept of relevant activities is summarised below);
- Whether the investor's rights give it the current ability to direct the relevant activities; and
- Relationships with other parties.

Power - relevant activities

The relevant activities for entities whose operations are directed through voting rights will generally be its operating and financing activities.

Examples of what may be relevant activities include (but are not limited to):

- Selling and purchasing of goods or services;
- Managing financial assets during their life (including upon default);
- Selecting, acquiring or disposing of assets;
- Researching and developing new products or processes; and
- Determining a funding structure or obtaining funding.

Examples of decisions about relevant activities include (but are not limited to):

- Establishing operating and capital decisions of the investee; and
- Appointing and remunerating an investee's key management personnel or services providers and terminating their employment.

If two or more investors have rights to direct different relevant activities of an investee, the investors must decide which of the relevant activities most significantly affects the returns of the investee.

Power – Substantive rights versus protective rights

When evaluating investors' rights in determining power to control, FRS 110 further distinguishes between substantive rights and protective rights. Only substantive rights are considered in evaluating power.

An investor has substantive rights when it has the practical ability to exercise the rights when decisions about the direction of the relevant activities (see above) need to be made. Rights need not be currently exercisable for them to be substantive. Also, rights held by other parties may prevent the investor from controlling the investee. FRS 110 provides the following factors to consider when determining whether rights are substantive:

- Whether there are any barriers (economic or otherwise) that prevent the holder (or holders) from exercising the rights;
- When the exercise of rights requires the agreement of more than one party, or when the rights are held by more than one party, whether a mechanism is in place that provides those parties with the practical ability to exercise their rights collectively if they choose to do so; and
- Whether the party or parties that hold the rights would benefit from the exercise of those rights.

An investor who holds only protective rights would not have power over an investee and could not prevent another party from having power over an investee. Protective rights are generally designed to protect the interests of their holder. FRS 110 provides the following examples of protective rights:

- A lender's right to restrict a borrower from undertaking activities that could significantly change the credit risk of the borrower to the detriment of the lender;
- The right of a party holding a non-controlling interest in an investee to approve capital expenditure greater than that required in the ordinary course of business, or to approve the issue of equity or debt instruments; and
- The right of a lender to seize the assets of a borrower if the borrower fails to meet specified loan repayment conditions.

Power – Investor rights and special relationships

FRS 110 also requires an investor to consider special relationships with its investee that indicates that the investor has power over the investee. FRS 110 provides the following examples of such special relationships that may indicate power:

- The investee's key management personnel are current or previous employees of the investor;
- The investee's operations are dependent on the investor;
- A significant portion of the investee's activities either involves or is conducted on behalf of the investor; or
- The investor's exposure, or rights, to investee returns is disproportionately greater than its voting or similar rights.

Power – De facto control

FRS 110 requires an investor that has less than majority voting rights to consider the size of its holdings in voting rights relative to the size and dispersion of holdings of other vote-holders and any additional facts and circumstances that may be relevant (e.g. voting patterns at previous shareholders meetings). After evaluating all facts, such an investor may meet the power criterion despite having less than majority of voting rights.

The assessment may prove quite challenging to apply in practice because it is likely to involve a significant degree of judgement. FRS 110 does not include any bright lines in this area. However, FRS 110 does have examples that illustrate how such judgement is applied. One example is as follows:

An investor acquires 48% of the voting rights of an investee. The remaining voting rights are held by thousands of shareholders, none individually holding more than 1% of the voting rights. None of the shareholders has any arrangements to consult any of the others or make collective decisions. When assessing the proportion of voting rights to acquire, on the basis of the relative size of the other shareholdings, the investor determined that a 48% interest would be sufficient to give it control. In this case, on the basis of the absolute size of its holding and the relative size of the other shareholdings, the investor concludes that it has a sufficiently dominant voting interest to meet the power criterion without the need to consider any other evidence of power.

Power – Principal versus agent relationship

FRS 110 introduces guidance on assessing whether an entity with decision making rights is acting as a principal or agent for another investor. The guidance is particularly relevant for investment managers who make investment decisions on behalf of investors in exchange for a fee. An investment manager may be considered a principal if the manager is deemed not to be making investment decisions solely on behalf of the investors.

In determining whether a decision maker is an agent, the following factors should be considered, along with any other relevant elements of the relationship between the decision maker, the investee and other parties involved with the investee:

- The scope of the decision making authority over the investee;
- Rights held by other parties;
- The remuneration to which it is entitled (including whether it is commensurate with the services provided and whether any non-standard terms are included);
- Their exposure to variability of returns from other interests held in the investee; and
- The rights of a single party to remove the decision maker.

FRS 110 does not provide guidance on how to weigh each of the above criteria, except when a single party has the unilateral ability to remove the decision maker without cause (commonly referred to as “kick-out” or “removal” rights). In those cases, the decision maker would be deemed an agent and the party holding those removal rights would be deemed the principal. However, if removal rights were shared among multiple investors, then each of the factors above would need to be considered in making the principal/agent assessment. FRS 110 indicates that the greater the number of parties required to remove the decision maker, the less weighting should be placed on that factor.

FRS 110 provides the following example of an investment manager that may be considered a principal:

The consideration of other interests held by a decision maker may impact the principal/agent determination as well as the overall conclusion. For example, a different conclusion may be reached for an investment manager with a standard 2% management fee and a 20% incentive fee arrangement who does not hold an equity investment in the managed fund and for an investment manager with the same fee structure who also holds a 35% equity investment. Likewise, a decision maker whose interests are exposed to higher degrees of variability than other investors may also be determined to be a principal. A servicer to a trust of mortgage backed securities who also invests in the 'equity' tranche of securities may be considered to be a principal whereas a servicer who only earns a fee based only on the outstanding receivables may be considered an agent.

Power – Consider relationship with other parties

FRS 110 also provides guidance on when an investor has special relationship with another party such that the investor may direct the other party in acting on the investor's behalf (referred to as "de facto agents").

This guidance in considering an investor's relationship with other parties is necessary to reflect properly the relationship that a group may have with its investee. An investor and its "de facto agents" may each have power and economic involvements that when considered in isolation may not result in either party being identified as having control, but which together result in the group having control.

Examples of "de facto" agents include:

- Related parties of the investor;
- A party who received its interest in the investee as a result of a loan or contribution from the investor;
- A party who has agreed not to sell, transfer or encumber their interest in the investee without prior approval of the investor;
- A party that cannot finance its operations without subordinated financial support from the investor;
- An investee who shares a majority of its board or key management personnel with the investor; and
- A party with a close business relationship with the investor (such as the relationship between a professional service provider and a significant client).

(ii) Exposure (or rights) to variable returns from involvement with the investee

This is the second criterion in control assessment. FRS 110 uses the term 'returns' rather than 'benefits' to clarify that the economic exposure to an investee may be either positive, negative or both. Examples of returns from involvement in investee may include changes in the value of the investment in the entity, residual interests in cash flows of structured entities, dividends, interest, management fee arrangements, guarantees, tax benefits or any other returns that may not be available to other interest holders. While many investors may share in the returns of an investee, only one investor will control the entity.

FRS 110 clarifies that although certain economic interests may be fixed (e.g. fixed coupon debt instrument), they might still result in variable returns as they expose the investor to variability e.g. credit risk from debt instrument.

(iii) Ability to use power over the investee to affect the amount of investor's returns

The third element of control considers the interaction between the two elements elaborated above. To have control over an investee, and investor must be able to use its power to affect its returns from involvement with the investee.

Other considerations

Silos

In some situations, an investor may have interests in a particular set of assets and liabilities (a portion of an investee) by virtue of legal and contractual arrangements. In addition, in some jurisdictions, legal entities are divided into separate parts (often referred to as "silos"). In such circumstances, a question arises as to whether it is possible to consider only an individual silo or a portion of an investee (rather than the entire legal entity) as a separate entity for the purposes of control assessment.

Under FRS 110, the determination of whether a silo exists is based on whether the individual silo is in-substance separate or "ring-fenced" from the overall investee. If the portion of the investee is economically separate from the overall investee and the investor controls the portion of the investee, that portion should be treated as a subsidiary of the investor.

Continuous assessment

FRS 110 requires a continuous assessment of control of an investee based on changes in facts and circumstances. This continuous assessment would consider both changes in an investor's power over the investee and changes in the investor's exposure or rights to variable returns.

Transition

FRS 110 is to be applied retrospectively and with the main transitional provisions outlined below.

Date of initial application

The "date of initial application" in FRS 110 means "the beginning of the annual reporting period in which FRS 110 is applied for the first time" i.e. 1 January 2014 for calendar year-end entity applying FRS 110 for the first time in its 2014 financial statements. An entity will not be required to make adjustments to the previous accounting for its involvement with entities if the consolidation conclusion reached at the date of initial application is the same under FRS 27(2009) and INT FRS 12.

This means that an entity will be relieved from making adjustments in respect of interests in investees that were disposed of before the date of initial application of FRS 110. This is because the consolidation conclusion following the disposal would be not to consolidate, irrespective of whether the investee would have been consolidated prior to disposal under the requirements of FRS 110.

Consolidating an investee on adoption of FRS 110 (previously not consolidated under FRS 27(2009))

If, at the date of initial application (e.g. 1 January 2014), an entity concludes that it should consolidate an investee that was not previously consolidated, the assets, liabilities and non-controlling interests should be measured as if FRS 103(2009) *Business Combinations* had been applied at the date when the investor obtained control under the requirements of FRS 110.

The entity would adjust retrospectively the annual period immediately preceding the date of initial application (e.g. year ended 31 December 2013). If the date the control was obtained is earlier than the beginning of the immediately preceding period (e.g. before 1 January 2013), any difference between the amount of assets, liabilities and non-controlling interests recognised and the previous carrying amount of the investor's involvement in the investee would be recognised as an adjustment to equity at the beginning of the immediately preceding period (e.g. as at 1 January 2013).

If control was obtained before the effective date of FRS 103(2009), an entity can either apply the 2009 version or the 2004 version of FRS 103 in the transition requirements above.

Ceasing to consolidate an investee on adoption of FRS 110 (previously consolidated under FRS 27(2009))

If, at the date of initial application (e.g. 1 January 2014), an entity concludes that it should no longer consolidate an investee that was previously consolidated, the interests in the investee would be measured at the amount which it would have been measured if the requirements of FRS 110 had been effective when the investor became involved, or lost control of, the investee.

The annual period immediately preceding the date of initial application (e.g. year ended 31 December 2013) would be adjusted retrospectively. If the date that the entity became involved with, or lost control of, the investee is earlier than the beginning of the immediately preceding period (e.g. 1 January 2013), any difference between the previous carrying amount of the assets, liabilities and non-controlling interests recognised and the recognised amount of the entity's interest in the investee would be recognised as an adjustment to equity at the beginning of the immediately preceding period (e.g. 1 January 2013).

Impracticability

For investees that are consolidated under FRS 110 but were not previously consolidated, or cease to be consolidated on adoption of FRS 110, if retrospective adjustment is not practicable as defined in FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, the deemed acquisition or deemed disposal should be the beginning of the earliest period for which application of the above requirements is practicable. This period may even be the current period.

Other reliefs

In accordance with the transition guidance on the first-time application of the Standard, an entity needs to present only the quantitative information required by paragraph 28(f) of FRS 8 for the annual period immediately preceding the date of initial application of FRS 110.

FRS 111 *Joint Arrangements*

Background

FRS 111 supersedes FRS 31 *Interests in Joint Ventures* and INT FRS 13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers*.

FRS 111 addresses two aspects of FRS 31 – (1) that the legal structure of an arrangement was the sole determinant of the accounting; and (2) that an investor has a policy choice of equity accounting or proportionate consolidation for interests in jointly controlled entities.

FRS 111 improves on FRS 31 by requiring a party to a joint arrangement to look beyond the legal structure of the arrangement in evaluating the type of joint arrangement (and thus the appropriate accounting) and removes the option for proportionate consolidation.

Requirements

(i) Definition of joint arrangement

FRS 111 defines a joint arrangement as an "arrangement of which two or more parties have joint control" and makes clear that joint control exists only when "decisions about the relevant activities require the unanimous consent of the parties that control the arrangement collectively".

The concept of joint control includes control by more than two parties, but not when decisions may be reached by more than one combination of parties. FRS 111 provides the following example on this point:

Assume an arrangement has three parties: A has 50% of the voting rights in the arrangement and B and C each have 25%. The contractual arrangement between A, B and C specifies that at least 75% of the voting rights are required to make decisions about the relevant activities of the arrangement. Even though A can block any decision, it does not control the arrangement because it needs the agreement of either B or C. In this example, A, B and C collectively control the arrangement. However, there is more than one combination of parties that can agree to reach 75% of the voting rights (i.e. either A and B, or A and C). In such a situation, to be a joint arrangement, the contractual arrangement between the parties would need to specify which combination of the parties is required to agree unanimously to decisions about the relevant activities of the arrangement.

(ii) Joint operation and joint ventures

FRS 111 classifies joint arrangements as either of the following:

- Joint operations – an arrangement where parties that have joint control have rights to the assets and obligations for the liabilities; or
- Joint venture – an arrangement where parties that have joint control have rights to the net assets of the arrangement.

FRS 111 specifies that the existence of a separate vehicle is a necessary but not sufficient condition for a joint arrangement to be considered a joint venture. In an arrangement with a separate vehicle, all relevant facts and circumstances should be considered in determining whether the parties to the arrangement have rights to the net assets of the arrangement. This represents a significant change from FRS 31 which treats the establishment of a separate legal vehicle as the key factor in determining the existence of a jointly controlled entity.

In the absence of a separate vehicle, FRS 111 is clear that the parties to the joint arrangement have direct rights and obligations to the assets and liabilities of the arrangement and thus, it will be classified as a joint operation.

FRS 111 provides further guidance on factors to consider in the identification of a joint venture as outlined below:

Legal form of the separate vehicle

A joint arrangement that is conducted through a separate vehicle may offer the investors no limitation on the liability of the parties to that arrangement. This indicates that the joint arrangement is a joint operation. However, a joint arrangement that limits the liability of the parties would not necessarily indicate that the arrangement is a joint venture because (a) the terms of the contractual arrangement or (b) other facts and circumstances may affect whether the parties have limited liability.

(a) Terms of the contractual arrangement

Contractual arrangements between the parties to the joint arrangement may counteract the legal form of the vehicle. For example, parties may have direct rights to the assets and obligations for the liabilities of the arrangement despite the fact that the legal form of the vehicle would normally shelter the investors from having a direct obligation for its liabilities. This would be the case if the contractual arrangement between the parties establishes that all parties to the arrangement are directly liable for third party claims or establish a sharing of revenues and expenses based on the relative performance of the parties.

(b) Other facts and circumstances

When a separate vehicle is used and the terms of the contractual arrangement do not indicate that the joint arrangement is a joint operation, the parties should consider any other relevant facts and circumstances in determining the type of arrangement. For example, if a separate vehicle is formed to hold the assets and liabilities of the joint arrangement and the parties to the joint arrangement are committed to purchase the entire output of the arrangement, this indicates that the arrangement is a joint operation because the parties have rights to all of the economic benefits generated by the assets of the arrangement, and the parties are required to fund the settlement of the liabilities of the joint arrangement because the arrangement is exclusively dependent on the parties for the generation of cash flows. However, if the joint arrangement was able to sell output to third parties because the joint arrangement would assume demand, inventory and credit risks, this would indicate the joint arrangement is a joint venture.

The following example from FRS 111 illustrates the consideration of other facts and circumstances:

Assume that two parties structure a joint arrangement in an incorporated entity (entity C) in which each party has a 50 per cent ownership interest. The purpose of the arrangement is to manufacture materials required by the parties for their own, individual manufacturing processes. The arrangement ensures that the parties operate the facility that produces the materials to the quantity and quality specifications of the parties.

The legal form of entity C (an incorporated entity) through which the activities are conducted initially indicates that the assets and liabilities held in entity C are the assets and liabilities of entity C. The contractual arrangement between the parties does not specify that the parties have rights to the assets or obligations for the liabilities of entity C. Accordingly, the legal form of entity C and the terms of the contractual arrangement indicate that the arrangement is a joint venture.

However, the parties also consider the following aspects of the arrangement:

- *The parties agreed to purchase all the output produced by entity C in a ratio of 50:50. Entity C cannot sell any of the output to third parties, unless this is approved by the two parties to the arrangement. Because the purpose of the arrangement is to provide the parties with output they require, such sales to third parties are expected to be uncommon and not material.*
- *The price of the output sold to the parties is set by both parties at a level that is designed to cover the costs of production and administrative expenses incurred by entity C. On the basis of this operating model, the arrangement is intended to operate at a break-even level.*

From the fact pattern above, the following facts and circumstances are relevant:

- *The obligation of the parties to purchase all the output produced by entity C reflects the exclusive dependence of entity C upon the parties for the generation of cash flows and, thus, the parties have an obligation to fund the settlement of the liabilities of entity C.*
- *The fact that the parties have rights to all the output produced by entity C means that the parties are consuming, and therefore have rights to, all the economic benefits of the assets of entity C.*

These facts and circumstances indicate that the arrangement is a joint operation. The conclusion about the classification of the joint arrangement in these circumstances would not change if, instead of the parties using their share of the output themselves in a subsequent manufacturing process, the parties sold their share of the output to third parties.

If the parties changed the terms of the contractual arrangement so that the arrangement was able to sell output to third parties, this would result in entity C assuming demand, inventory and credit risks. In that scenario, such a change in the facts and circumstances would require reassessment of the classification of the joint arrangement. Such facts and circumstances would indicate that the arrangement is a joint venture.

(iii) Accounting requirements

It is possible that an investment that previously met the definition of a jointly controlled entity under FRS 31 will be a joint operation under FRS 111. This will change the manner in which the investor accounts the investment.

For joint operations, the joint operator recognises its share of assets, liabilities, revenues and expenses in accordance with applicable FRS while a joint venturer would account for its interest in joint venture using the equity method of accounting under FRS 28 (Revised) (see below). The option of proportional consolidation in FRS 31 has not been retained in FRS 111.

The mechanics of equity accounting, as detailed in FRS 28, have not changed and the accounting for joint operations is consistent with the treatment of jointly controlled operations and jointly controlled assets under FRS 31.

Note that FRS 111 may also affect a party that participates in, but does not have joint control of, a joint operation. Such a party may have previously accounted for its interest in the joint operation under FRS 39. However, FRS 111 requires that if the party has rights to the assets and obligations for the liabilities relating to the joint operation, it would have to recognise directly its share of assets, liabilities, revenues and expenses relating to the joint operation. This will be the case despite the party not having joint control over the operation. If however, the party does not have rights to the assets and obligations for the liabilities relating to the joint operation, it will continue to account for its interest under FRS 39. A party that has joint control over a joint venture will account for its interest using the equity method of accounting. A party that participates in, but does not have joint control of, a joint venture will account for the investee under FRS 28 if it has significant influence over the investee and under FRS 39 if otherwise.

In separate financial statements, joint operations are accounted for in the same manner in consolidated financial statements. Joint ventures, on the other hand, are accounted for either at cost or under FRS 39 in an investor's separate financial statements.

Transition

FRS 111 is to be applied retrospectively and with the main transitional provisions outlined below.

When changing from proportionate consolidation to the equity method, an entity shall recognise its investment in the joint venture as at the beginning of the earliest period presented. That initial investment shall be measured as the aggregate of the carrying amounts of the assets and liabilities that the entity had previously proportionately consolidated, including any goodwill arising from acquisition. An entity shall also assess whether the opening balance of the investment is impaired (by applying the requirements of FRS 28) and shall recognise any impairment loss as an adjustment to retained earnings at the beginning of the earliest period presented.

When changing from the equity method to accounting for assets and liabilities in respect of its interest in a joint operation, an entity shall, at the beginning of the earliest period presented, derecognise (1) the investment that was previously accounted for using the equity method (and any other items that formed part of the entity's net investment in the arrangement) and recognise (2) its share of each of the assets and the liabilities in respect of its interest in the joint operation, including any goodwill that might have formed part of the carrying amount of the investment. If net amount in (2) exceeds the amounts in (1), the excess will be offset against goodwill to the extent it exists, with any remaining excess recognised against retained earnings at the beginning of the earliest period presented. If amounts in (1) exceed the net amount in (2), the excess will be adjusted against retained earnings at the beginning of the earliest period presented.

In accordance with the transition guidance on the first-time application of the Standard, an entity needs to present only the quantitative information required by paragraph 28(f) of FRS 8 for the annual period immediately preceding the date of initial application of FRS 111.

FRS 112 *Disclosure of Interests in Other Entities*

Background

FRS 112 requires extensive disclosures relating to the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. FRS 112 is issued concurrently with four other standards as elaborated above. It is intended to integrate the disclosure requirements on interests in other entities, currently included in several standards, and also adds additional requirements in a number of areas.

Significant judgements and assumptions

An entity should disclose information about significant judgements and assumptions it has made in determining whether it has control, joint control or significant influence over an entity and the type of joint arrangement when the arrangement has been structured through a separate vehicle. An entity should also provide these disclosures when changes in facts and circumstances affect the entity's conclusion during the reporting period.

FRS 112 provides examples of the judgements and assumptions requiring disclosure. These examples (which include the basis for concluding that holding more than half of the voting rights of an entity does not result in control or, conversely, that control is achieved with less than half the voting rights) make it clear that particular care should be taken in explaining departures from the assumed correlation between voting rights and level of influence or control over an entity.

Interests in subsidiaries

An entity that is a parent should disclose information regarding:

- The composition of the group;
- Non-controlling interests (including summarised financial information about each subsidiary with material non-controlling interests);
- Significant restrictions on the parent's ability to access or use the assets and settle liabilities of its subsidiaries;
- The nature of, and changes in, the risks associated with interests in consolidated structured entities; and
- The effects of changes in ownership interest that did or did not result in loss of control during the reporting period.

Disclosure is also required when the financial statements of a subsidiary are as of a date for a period that is different from that of the consolidated financial statements.

Interests in joint arrangements and associates

An entity should disclose information about the nature, extent and financial effects of its interests in joint arrangements and associates, including information about contractual relationships with other parties to the joint arrangements or other investors that have interests in associates. An entity should also disclose the nature of, and changes in, the risks associated with its interest in joint ventures and associates.

Interests in unconsolidated structured entities

FRS 112 defines a structured entity as "an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity". Examples of structured entities include securitisation vehicles, asset-backed financings and certain investment funds.

FRS 112 requires extensive disclosures to help users understand the nature and extent of an entity's interests in unconsolidated structured entities and the risks associated with those interests, including:

- The nature, purpose, size and activities of the structured entity;
- How the structured entity is financed;
- The carrying amounts of assets and liabilities relating to interests in unconsolidated structured entities and how they compare to the maximum exposure to loss from those interests; and
- Any support provided to an unconsolidated structured entity when there is no contractual obligation to do so (including the reasons for providing such support).

Aggregation of information

FRS 112 requires granular information in a number of areas (for example, in respect of each material associate, joint arrangement and each subsidiary with non-controlling interests material to the group) and specifies that information relating to interests in subsidiaries, joint ventures, joint operations, associates and unconsolidated structured entities be presented separately, but does permit some aggregation of information within these classes of entities.

FRS 112 requires that the level of detail provided through disclosures should satisfy the needs of users of financial statements but should not result in excessive detail that may not be helpful to those users. An entity may aggregate information but only if that does not obscure the information provided.

When considering the appropriate level of aggregation, FRS 112 indicates that consideration should be given to both quantitative and qualitative information about the risks and returns of each entity as well as consideration of the overall significance of the entity.

Transition

FRS 112 is to be applied retrospectively and with certain transitional provisions which include providing relief by eliminating the requirement to present comparatives for the disclosures relating to unconsolidated structured entities for any period before the first annual period for which FRS 112 is applied.

Amendments to FRS 110 *Consolidated Financial Statements*, FRS 112 *Disclosure of Interests in Other Entities and* FRS 27 *Separate Financial Statements* – Investment Entities

Background

The amendments to FRS 110 are principally concerned with establishing whether an entity qualifies as an 'investment entity'. FRS 110 emphasises that the definition does not set a 'bright-line' but establishes the typical features of an entity that meets the notion of an 'investment entity'. Accordingly, in applying the definition judgement will need to be exercised.

Where an entity qualifies as an 'investment entity', it shall not consolidate particular subsidiaries in accordance with the consolidation provisions of FRS 110 but instead to measure those subsidiaries at FVTPL (in accordance with FRS 39 *Financial Instruments: Recognition and Measurement*). The rationale for this exception to the principle of consolidation of controlled investees is that to consolidate such entities that are controlled by an investment entity may reduce the comparability of different investments reported in an investment entity's financial statements and that the fair value of the investment of the investee with changes in that value recognised in profit or loss provides more relevant information for users of the financial statements of investment entities.

Defining an 'investment entity'

The exception to consolidation is based on the type of entity that owns the subsidiary.

To qualify as an 'investment entity' an entity is required to:

- Obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- Commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- Measure and evaluate performance of substantially all of its investments on a fair value basis.

An entity that meets the definition is expected to have the following 'characteristics':

- Multiple investments
- Multiple investors
- Investors that are not related to the parent entity or the investment manager
- Ownership interests in the form of equity or partnership interests

If an entity does not display one of more of the typical characteristics, additional judgement is required in determining whether the entity meets the definition of an investment entity but this does not necessarily mean that the definition is not met.

In satisfying the business purpose aspect of the definition, the notion of an investment time frame is critical. The investment entity should not hold its investments indefinitely but should have some exit strategy for their realisation. Exit strategies need not be documented for each investment but an entity will have to "identify different potential strategies for different types or portfolios of investments, including a substantive time frame for exiting the investments". Holding debt securities (other than those that have the potential to be held indefinitely) to maturity can be considered an exit strategy.

The existence of benefits other than capital appreciation and/or investment income may indicate that the business purpose aspect of the definition is not met.

Such benefits include:
- The acquisition, use, exchange or exploitation of the processes, assets or technology of an investee.
- Joint arrangements or other agreements between the entity or another group member and an investee.
- Financial guarantees or assets provided by investee to serve as collateral for borrowing arrangements of the entity.
- An option held by a related party of the entity to purchase an ownership interest in an investee of the entity.
- Transactions between the entity or another group member and an investee that are not on normal market terms or represent a substantial portion of the investee's or the entity's business activity.

The fair value aspect of the definition requires that investments are measured and evaluated on a fair value basis. That is, the entity provides investors with fair value information and its key management personnel use fair value information as the primary basis for evaluating the performance of substantially all of its investments.

An entity is required to account for any investment property, investments in associates and joint ventures and financial assets using the fair value model set out in FRS 40 *Investment Property*, FRS 28 *Investments in Associates and Joint* Ventures and FRS 39 respectively but is not required to measure and manage its financial liabilities on a fair value basis.

Investments in associates and joint ventures

The consequential amendments to other standards do not include the changes to FRS 28 *Investments in Associates and Joint* Ventures which were proposed in the exposure draft. The 'investment entity' provisions are achieved by electing to measure such investments at fair value under FRS 28.18 where the investment is held by an entity that is venture capital organisation, mutual fund, unit trust and similar entities including investment-linked insurance funds.

Non-investment entity parent

A non-investment entity parent is not provided with relief from consolidation and the general requirements of FRS 110 apply even if it has subsidiaries that are themselves investment entities. This means that a non-investment entity parent has to consolidate all of its subsidiaries, including those controlled via a subsidiary that is an investment entity.

Subsidiaries providing investment-related services

The Standard also allows for investment entities to have a business model that encompasses subsidiaries providing investment-related services, even if these services constitute a substantive part of their activities. Where this is the case, the servicing subsidiary itself is required to be consolidated but other subsidiaries are still measured at fair value.

Disclosures (Amendments to FRS 112)

Disclosure requirements for investment entities are set out in FRS 112 *Disclosure of Interests in Other Entities*. An investment entity is required to disclose information about significant judgements and assumptions made in determining that it has met the definition of an investment entity.

In particular, the entity will disclose:

(a) That it is an investment entity and as such has not consolidated controlled investees; and

(b) How it has met the definition and typical characteristics to be an investment entity, with specific reasons given if it has not met one or more of them.

An entity beginning or ceasing to be considered an investment entity triggers disclosure with information required on both the reason for the change and the impact on the financial statements.

An investment entity is required to provide details about each unconsolidated subsidiary including any significant restrictions on it to transfer funds to the investment entity; any support the investment entity (or its subsidiaries) has provided an unconsolidated entity without having a contractual obligation to do so. Disclosures are also required for any structured entity that it controls.

FRS 32 *Financial Instruments: Presentation*

– Offsetting Financial Assets and Financial Liabilities

Background

FRS 32 (Amended) was issued together with FRS 107 (Amended) *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*. FRS 107 (Amended), which requires an entity to disclose information about rights of offset and related arrangements for financial instruments under an enforceable master netting agreement or similar arrangement, was effective for annual periods beginning on or after 1 January 2013.

Amendment

The amendments to FRS 32 on the criteria for offset clarify that to result in offset of a financial asset and a financial liability, a right to set-off must be available currently rather than being contingent on a future event, and must be exercisable by any of the counterparties, both in the normal course of business and in the event of default, insolvency or bankruptcy. Also the amendments clarify that the determination of whether the right meets the legally enforceable criterion will depend on both the contractual terms as well as the governing laws.

Entities may not have considered events of default, insolvency or bankruptcy in the assessment of offsetting rules or may have only considered the counterparty instead of all parties to the arrangement. Thus, entities may need to reconsider their existing arrangements to determine if items currently being offset would qualify for such a presentation under the amendments.

The amendments also provide clarification on which settlement processes would meet the requirement for offsetting that an entity has ‘the intention to settle a financial asset and a financial liability net or simultaneously’. The realisation of a financial asset and settlement of a financial liability is simultaneous if the settlements occur ‘at the same moment’. However, gross settlement that does not occur simultaneously may also meet the principle and criteria for offsetting if a single settlement process results in cash flows being equivalent to a single net amount. The amendments specify characteristics that must be met for a gross settlement system to meet the criteria for net settlement.

FRS 36 *Impairment of Assets*

– Recoverable Amount Disclosures for Non-Financial Assets

Background

FRS 113 *Fair Value Measurement* made some consequential amendments to the disclosure requirements in FRS 36. Those changes had a broader impact than intended. In particular, introducing a requirement to disclose in every reporting period the recoverable amount of each cash-generating unit (CGU) or group of units to which a significant portion of the overall carrying amount of goodwill (or other intangible assets with indefinite useful lives) had been allocated. It was intended to limit such disclosures to reporting periods in which an impairment loss was recognised or reversed.

Amendment

In addition to removing the unintended requirement to disclose recoverable amounts as described above, the amendments require the following disclosures (in addition to the others already required by FRS 36) when an impairment is recognised or reversed and recoverable amount is based on fair value less costs of disposal:

- The level of the FRS 113 ‘fair value hierarchy’ within which the fair value measurement of the asset or CGU has been determined.

- For fair value measurements at Level 2 or Level 3 of the fair value hierarchy:
  - A description of the valuation techniques used and any changes in that valuation technique.
  - Key assumptions used in the measurement of fair value, including the discount rate(s) used in the current measurement and previous measurement if fair value less costs of disposal is measured using a present value technique.

The disclosure requirements for impairments and reversals based on the value in use of an asset or CGU under FRS 36 have not been amended.

FRS 39 *Financial Instruments: Recognition and Measurement*
– Novation of Derivatives and Continuation of Hedge Accounting

Background

This amendment provides some relief from the requirement to cease hedge accounting when a derivative is required to be novated to a central counterparty (CCP) or entity acting in a similar capacity, under certain circumstances.

Laws and regulations on over-the-counter (OTC) derivatives are changing in several jurisdictions (based on the G20 commitments arising out of the financial crisis), requiring many of them to be transacted with a CCP or with an entity acting in a similar capacity.

Many derivatives that are subject to these laws and regulations have been designated in hedging relationships. Prior to this amendment, FRS 39 requires an entity to discontinue hedge accounting in these circumstances (assuming the novation was not contemplated in the original hedging documentation) because the novation involves the termination or expiration of the original hedging instrument. Discontinuation of hedge accounting, particularly for cash flow hedges, is particularly problematic as it makes it more difficult for entities to apply hedge accounting in future periods.

Amendment

The amendment states that the novation of a hedging instrument should not be considered an expiration or termination giving rise to the discontinuation of hedge accounting when a hedging derivative is novated:
- As a consequence of laws and regulations, or the introduction of laws and regulations, where one or more clearing counterparties replace the original counterparty; and
- Where any changes in terms of the novated derivative are limited to those necessary to effect the replacement of the counterparty (for example, changes in all collateral requirement, rights to offset receivables and payables balances, and charges levied).

Any changes to the derivative's fair value arising from the novation would be reflected in its measurement and therefore in the measurement and assessment of hedge effectiveness.

There are no additional disclosures introduced by this amendment.

However, even with retrospective application, if an entity had previously discontinued hedge accounting, as a result of novation, that (pre-novation) hedge accounting relationship cannot be reinstated because doing so would be inconsistent with the requirements for hedge accounting (i.e. hedge accounting cannot be applied retrospectively).

INT FRS 121 *Levies*

Background

The Interpretation defines a levy as "an outflow of resources embodying future economic benefits that is imposed by governments on entities in accordance with legislation". Taxes within the scope of FRS 12 *Income Taxes* are excluded as are fines and penalties.

Payments to governments for services or the acquisition of an asset under a contractual arrangement are also outside the scope. That is, the levy must be a non-reciprocal transfer to a government where the entity paying the levy does not receive specific goods and services in exchange.

For the purpose of the Interpretation, a 'government' is defined in accordance with FRS 20 *Accounting for Government Grants and Disclosures of Government Assistance*. When an entity acts as an agent for a government to collect a levy, the agency cash flows collected are outside the scope of the Interpretation.

How does the Interpretation impact the accounting for levies?

Consistent with FRS 37 *Provisions, Contingent Liabilities and Contingent Assets*, a liability is recognised when the obligating event occurs. The obligating event is the activity that triggers payment of the levy. This is typically specified in the legislation that imposes the levy.

For example, if an entity pays a levy on the previous period's (20X2) revenue but the levy is only payable if the entity is operating at 1 January (20X3), the obligating event is being in operation on 1 January and the levy should not be accrued until that date. The logic is that generating revenue in the previous year is a necessary but not a sufficient condition to trigger the recognition of a liability.

The Interpretation also considers a range of different levy arrangements. The table below summarises different types of levy arrangements dealt with by the Interpretation.

Levy Arrangement	When would a liability be recognised?
Levy is triggered progressively as the entity generates revenue.	The obligating event is the generation of revenue as specified in legislation. An entity accrues a liability to pay the levy as it generates revenue.
Levy triggered in full as soon as the entity generates revenue.	The obligating event is initial revenue generated by entity. In these arrangements a levy is typically payable based on the revenue of a previous period. Accordingly, earning revenue in the previous period is a necessary but not a sufficient condition to recognise a liability for the payment of the levy.
Levy triggered in full if the entity is operating on a specific date.	The obligating event is being in operation on a specified date and until that date, the entity can avoid paying the levy. In this case, even though the amount of levy is calculated based on balance in a previous period, no obligation is accrued until the specified date has been reached.
Levy triggered if the entity generates revenue above a specified minimum amount of revenue.	The obligating event is generating revenue about the trigger level. No liability is accrued until the trigger level is reached, irrespective of the likelihood of that even occurring. Accordingly, even if that minimum is always reached each period and it is reasonably certain that the threshold will be met in the current period, the liability is not booked until the obligating event has been reached.

When should an obligation to pay a levy be recognised in interim financial statements?

The Interpretation makes it clear that a liability to pay a levy should only be recognised in interim reports once the obligating event has occurred.

New/revised standards effective for annual periods beginning on or after 1 July 2014

	Title	Effective date*	Issue date
FRS 19 (Amended)	*Employee Benefits* - Defined Benefit Plans: Employee Contributions	1-Jul-14	2014
Various	*Improvements to FRSs (January 2014)*	Various	2014
Various	*Improvements to FRSs (February 2014)*	Various	2014

*Applies to annual periods beginning on or after the date shown, with early application permitted unless stated otherwise. Initial application is retrospective unless there are specific transitional provisions indicating otherwise.

FRS 19 *Employee Benefits*
– Defined Benefit Plans: Employee Contributions

Background
Defined benefit plans may require employees or third parties to make contributions to the plan. FRS 19 (2011) treats such contribution as part of the post-employment benefit and requires them to be attributed to periods of service as negative benefit.

Amendment
The methods permitted for attributing contributions from employees or third parties to periods of service now differ depending on whether those contributions are dependent on the number of years of service provided by the employee.

Contributions that are independent of the number of years of service (and, as such, are considered to be linked solely to the employee's service rendered in the same period in which they are payable) may be recognised as a reduction in the service cost as they fall due. This would be the case for contributions that are a fixed percentage of the employee's salary, contributions that are fixed throughout the service period or contributions that depend on the employee's age.

For contributions that are not solely linked to current year service, the negative benefit arising from those contributions should be attributed to periods of service either using the plan's contribution formula or on a straight-line basis.

Improvements to Financial Reporting Standards (January 2014)

This is a set of Improvements to FRSs that is intended to deal with non-urgent, minor amendments to FRSs. These amendments focus on areas of inconsistency in FRSs or where clarification of wording is required. The improvements are effective from annual periods beginning on or after 1 July 2014. They are to be applied retrospectively, and with early application permitted unless stated otherwise.

Details of amendments
The following table provides a summary of each of the amendments.

Standard	Subject of amendment	Amendments
FRS 102 *Share-based Payment*	Definition of vesting condition	Amended definitions of 'vesting condition' and 'market condition' and added definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'. Amendments apply prospectively to share-based payment transactions with a grant date on or after 1 July 2014, with earlier application permitted.
FRS 103 *Business Combinations*	Accounting for contingent consideration in a business combination	Clarified that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of FRS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit or loss.
FRS 108 *Operating Segments*	Aggregation of Operating Segments	Amendments require an entity to disclose the judgement made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have 'similar economic characteristics'.
	Reconciliation of the total of the reportable segments' assets to the entity's assets	Clarifies that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.
FRS 16 *Property, Plant and Equipment* and FRS 38 *Intangible assets*	Revaluation method: proportionate restatement of accumulated depreciation/ amortisation	Removed perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended requirements clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset. For example, the gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the carrying amount. The amended requirements also clarify that the accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.
FRS 24 *Related Party Disclosures*	Key Management Personnel	Clarified that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity must disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However disclosure of the components for such compensation is not required.

Improvements to Financial Reporting Standards (February 2014)

This is another set of Improvements to FRSs that is intended to deal with non-urgent, minor amendments to FRSs. These amendments focus on areas of inconsistency in FRSs or where clarification of wording is required. The improvements are effective from annual periods beginning on or after 1 July 2014. They are to be applied retrospectively, and with early application permitted unless stated otherwise.

Details of amendments

The following table provides a summary of each of the amendments.

Standard	Subject of amendment	Amendments
FRS 103 *Business Combinations*	Scope exception for joint ventures	Scope section amended to clarify that FRS 103 does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangements itself.
FRS 113 *Fair Value Measurement*	Scope of portfolio exception	The scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis was amended to clarify that it includes all contracts that are within the scope of, and accounted for in accordance with, FRS 39, even if those contracts do not meet the definitions of financial assets or financial liabilities within FRS 32. Consistent with the prospective initial application of FRS 113, the amendment must be applied prospectively from the beginning of the annual period in which FRS 113 was initially applied.
FRS 40 *Investment Property*	Interrelationship between FRS 40 and FRS 103	Amended to clarify that FRS 40 and FRS 103 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring an investment property must determine whether (a) the property meets the definition of investment property in FRS 40 and (b) the transaction meets the definition of a business combination under FRS 103. The amendment applies prospectively for acquisitions of investment property in periods commencing on or after 1 July 2014. An entity is only permitted to adopt the amendments early and/ or restate prior periods if the information to do so is available.

New/revised standards effective for annual periods beginning on or after 1 January 2016

	Title	Effective date*	Issue date
FRS 114	*Regulatory Deferral Accounts*	1-Jan-16	2014
FRS 27 (Amended)	*Consolidated and Separate Financial Statements* - Equity Method in Separate Financial Statements	1-Jan-16	2014
FRS 16, FRS 38 (Amended)	*Property, Plant and Equipment, Intangible Assets* - Clarification of Acceptable Methods of Depreciation and Amortisation	1-Jan-16	2014
FRS 16, FRS 41 (Amended)	*Property, Plant and Equipment, Agriculture* - Bearer Plants	1-Jan-16	2014
FRS 111 (Amended)	*Joint Arrangements* - Accounting for Acquisitions of Interests in Joint Operations	1-Jan-16	2014
FRS 110, FRS 28 (Amended)	*Consolidated Financial Statements, Investments in Associates* - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1-Jan-16	2014
Various	*Improvements to FRSs (November 2014)*	Various	2014

*Applies to annual periods beginning on or after the date shown, with early application permitted unless stated otherwise. Initial application is retrospective unless there are specific transitional provisions indicating otherwise.

FRS 114 *Regulatory Deferral Accounts*

Background

This limited-scope Standard arises as a short-term, interim solution which provides specific guidance on the accounting for regulatory deferral account balances that arise from rate regulation, and is available only to first-time adopters of FRSs who had recognised regulatory deferral account balances under their previous GAAP. This Standard is an interim solution to promote the adoption of FRS and to aid comparability by ensuring that amounts of regulatory deferral account balances and movements therein are clearly identified in the financial statements.

Which entities are eligible to apply the new Standard?

An entity is permitted (but not required) to apply FRS 114 if it:
- adopts FRS for the first time;
- is involved in rate-regulated activities; and
- had recognised amounts for regulatory deferral account balances under its previous GAAP.

Under the Standard, rate regulation is defined as “a framework for establishing the prices that can be charged to customers for goods or services and that framework is subject to oversight and/or approval by a rate regulator”. A rate regulator is an authorised body that is empowered by statute or regulation to establish the rate or a range of rates that bind an entity.

What are the accounting implications/presentation/disclosure requirements of applying FRS 114?

Under the Standard, eligible first-time adopters are permitted to continue their previous GAAP rate-regulated accounting policies, with limited changes. The Standard also requires separate presentation of regulatory deferral account balances in the statement of financial position and of movements in those balances in the statement of profit or loss and other comprehensive income. Disclosures are required to identify the nature or, and risk associated with, the form of rate regulation that has given rise to the recognition of regulatory deferral account balances.

FRS 27 *Consolidated and Separate Financial Statements*
– Equity Method in Separate Financial Statements

Background and amendment

FRS 27 requires an entity to account for its investments in subsidiaries, joint ventures and associates either at cost or in accordance with FRS 39.

Due to the law in some countries, listed companies are required to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. In most cases, the only difference between the entity's separate financial statements in accordance with FRS and those prepared under local regulation was the use of the equity method.

In view of the above, FRS 27 was amended to allow an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements

- at cost,
- in accordance with FRS 39, or
- using the equity method (FRS 28).

The accounting option must be applied by category of investments.

FRS 16 *Property, Plant and Equipment*, FRS 38 *Intangible Assets*
- Clarification of Acceptable Methods of Depreciation and Amortisation

Background and amendment

Guidance is introduced into both standards to explain that expected future reductions in selling prices could be indicative of a higher rate of consumption of the future economic benefits embodied in an asset.

Amendments to FRS 16 *Property, Plant and Equipment*

The amendments clarify that a depreciation method that is based on revenue is not appropriate as such method reflects a pattern of generation of economic benefits that arise from the operation of the business of which an asset is part of, rather than the pattern of consumption of an asset's expected future economic benefits. The amendments clarify that there are multiple factors that influence revenue and that not all of these factors are related to the way the asset is used or consumed.

Amendments to FRS 38 *Intangible Assets*

The amendments introduce a rebuttable presumption that a revenue-based amortisation method for intangible assets is inappropriate for the same reasons as in FRS 16.

However, there are limited circumstances when the presumption can be overcome:

- The intangible asset is expressed as a measure of revenue (the predominant limiting factor inherent in an intangible asset is the achievement of a revenue threshold); and
- It can be demonstrated that revenue and the consumption of economic benefits of the intangible asset are highly correlated (i.e. the consumption of the intangible asset is directly linked to the revenue generated from using the asset).

FRS 16 *Property, Plant and Equipment,* FRS 41 *Agriculture*
– Bearer Plants

Background and amendment
The amendments require bearer plants to be accounted for in the same way as property, plant and equipment in FRS 16, because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of FRS 16, instead of FRS 41.

The produce growing on bearer plants will remain within the scope of FRS 41.

A bearer plant is a living plant that:
- is used in the production or supply of agricultural produce;
- is expected to bear produce for more than one period; and
- has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.

FRS 111 *Joint Arrangements*
– Accounting for Acquisitions of Interests in Joint Operations

Background and amendment
The amendments provide new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions.

The acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in FRS 103, is required to apply all of the principles on business combinations accounting in FRS 103 and other FRSs with the exception of those principles that conflict with the guidance in FRS 111.

Accordingly, a joint operator that is an acquirer of such an interest has to:
- measure most identifiable assets and liabilities at fair value;
- expense acquisition-related costs (other than debt or equity issuance costs);
- recognise deferred taxes;
- recognising any goodwill or bargain purchase gain;
- perform impairment tests for the cash generating units to which goodwill has been allocated; and
- disclose information required relevant for business combinations.

The amendments apply to the acquisition of an interest in an existing joint operation and also to the acquisition of an interest in a joint operation on its formation, unless the formation of the joint operation coincides with the formation of the business.

FRS 110 ***Consolidated Financial Statements,*** **FRS 28** ***Investments in Associates and Joint Ventures***

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

Background and amendment

The amendments address an acknowledged inconsistency between the requirements in FRS 110 and those in FRS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture.

In a transaction involving an associate or a joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business.

When an entity:

- sells or contributes assets that constitute a business to a joint venture or associate; or
- loses control of a subsidiary that contains a business but it retains joint control or significant influence;

the gain or loss resulting from that transaction is recognised in full.

When an entity:

- sells or contributes assets that do not constitute a business to a joint venture or associate; or
- loses control of a subsidiary that does not contain a business but it retains joint control or significant influence in a transaction involving an associate or a joint venture;

the gain or loss resulting from that transaction is recognised only to the extent of the unrelated investors' interests in the joint venture or associate, i.e. the entity's share of the gain or loss is eliminated.

Improvements to Financial Reporting Standards (November 2014)

This is another set of Improvements to FRSs that is intended to deal with non-urgent, minor amendments to FRSs. These amendments focus on areas of inconsistency in FRSs or where clarification of wording is required. The improvements are effective from annual periods beginning on or after 1 January 2016. They are to be applied retrospectively, and with early application permitted unless stated otherwise.

Details of amendments

The following table provides a summary of each of the amendments.

Standard	Subject of amendment	Amendments
FRS 105 *Non-current Assets Held for Sale and Discontinued Operations*	Changes in methods of disposal	Provides additional guidance on when an entity reclassifies an asset (disposal group) from held-for-sale to held-for-distribution to owners (or vice versa), or when held-for-distribution accounting is discontinued: • Reclassifications from held-for-sale to held-for distribution to owners (or vice versa) should not be considered changes to a plan of sale or a plan of distribution to owners, and the classification, presentation and measurement requirements applicable to the new method of disposal should be applied. • Assets that no longer meet the criteria for held-for-distribution to owners (and do not meet the criteria for held-for-sale) should be treated in the same way as assets that cease to be classified as held-for-sale.
FRS 107 *Financial Instruments: Disclosures*	Servicing contracts	Provides additional guidance to clarify whether a servicing contract has continuing involvement in a transferred asset for the purpose of determining the disclosures required.
	Applicability of the amendments to FRS 107 to condensed interim financial statements	Clarifies that the offsetting disclosures are not explicitly required for all interim periods. However, the disclosures may need to be included in condensed interim financial statements to comply with FRS 34 *Interim Financial Reporting.*
FRS 19 *Employee Benefits*	Discount rate: regional market issue	Clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid.
FRS 34 *Interim Financial Reporting*	Disclosure of information 'elsewhere in the interim financial report'	Clarifies the meaning of 'elsewhere in the interim report' and requires a cross-reference of the interim financial statements to the other part of the interim financial report that is available to users on the same terms and at the same time as the interim financial statements.

New standards effective for annual periods beginning on or after 1 January 2017

	Title	Effective date*	Issue date
FRS 115	*Revenue from Contracts with Customers*	1-Jan-17	2014

*Applies to annual periods beginning on or after the date shown, with early application permitted unless stated otherwise. Initial application is retrospective unless there are specific transitional provisions indicating otherwise.

FRS 115 *Revenue from Contracts with Customers*

Background
FRS 115 is intended to bring revenue accounting principles centrally into one standard and will replace several existing standards and interpretations, such as FRS 11 *Construction Contracts*, FRS 18 *Revenue* and INT FRS 115 *Agreements for the Construction of Real Estate*. For numerous entities, particularly those engaged in long-term contracts and bundled arrangements with customers, FRS 115 provides a comprehensive framework on how to account for such contracts. New concepts are introduced to address recognition of revenue at a point in time or over time, as well as variable consideration and contract modification, which may impact the amount and/or timing of revenue recognition.

The core principle of FRS 115 is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is delivered in a five-step model framework.

Overview of the new revenue model
Step 1 – Identify the contract with a customer
A contract with a customer, can be written, oral, or implied and must create enforceable rights and obligations between two or more parties. The Standard provides specific criteria for entities to consider in determining whether a contract exists. If all parties to a wholly unperformed contract can unilaterally terminate the contract without penalty, a contract would not be deemed to exist.

Criteria
- The parties to the contract have approved the contract (in writing, orally, or in accordance with other customary business practices) and are committed to perform their respective obligations;
- The entity can identify the following to be transferred:
  - Each party's rights regarding the goods or services;
  - The payment terms for the goods and services.
- The contract has commercial substance (that is, the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract); and
- It is probable that the entity will collect the consideration to which it is entitled in exchange for the goods or services that will be transferred to the customer.

A group of contracts entered into at or near the same time with the same customers (or parties related to the customer) may be combined and not account each contract separately if:

- The contracts are negotiated as a package with a single commercial objective;
- The amount of consideration to be paid in one contract depends on the price or performance of the other contract; or
- The goods or services promised in the contracts (or some goods or services promised in the contracts) are a single performance obligation.

Sometimes, prices or scope of a contract may be revised. A contract modification that has been "approved" (i.e. the terms of the modification create enforceable rights and obligations) is accounted for as a separate contract if both (i) it results in a separate performance obligation that is "distinct" (see Step 2 below) and (ii) the additional price reflects the stand-alone selling price of that separate performance obligation. Otherwise, the modification is treated as an adjustment to the original contract. The impact is accounted for prospectively, by allocating the remaining revised transaction price to the remaining performance obligations in the contract. For certain performance obligations that are satisfied over time (see Step 5 below), the impact is accounted for retrospectively, which results in a cumulative catch up adjustment to revenue.

Step 2 – Identify the separate performance obligations in the contract

A good or service would be accounted for as a separate performance obligation if it is deemed "distinct". A good or service is distinct if both of the following conditions are met:

- The customer can benefit from the good or service either on its own or together with resources that are readily available to the customer; and
- The entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract.

Step 3 – Determine the transaction price

The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goals or services to a customer, excluding amounts collected on behalf of third parties. The transaction price can be fixed or it can vary because of discounts, rebates, refunds, credits, incentives, performance bonuses, penalties, concessions and other similar items. The Standard provides guidance with respect to variable consideration and determining financing component.

Variable consideration is only included in the transaction price if it is highly probable that its inclusion will not result in a "significant revenue reversal" in the future as a result of re-estimation. A significant revenue reversal occurs when a subsequent change in the estimate of variable consideration results in significant reduction to the cumulative amount of revenue recognised from the customer. This constraint should be applied considering factors such as:

- The amount of consideration is susceptible to factors outside the entity's influence (e.g. volatility in a market, the judgement of third parties, or a high risk of obsolescence);
- The uncertainty is not expected to be resolved for a long period of time; or
- There is limited prior experience with similar performance obligations or there is a broad range of possible consideration amounts.

The Standard introduces a separate rule in respect of sales- or usage-based royalties from licenses of intellectual property. An entity is not permitted to recognise revenue for such royalties until its customer has made the associated sale or usage that gives rise to the revenue. This restriction will apply even when the entity has past evidence supporting the level of onward sales or usage made by a customer.

The Standard also requires impairment losses on uncollectible revenue to be recognised separately as an expense in profit or loss.

When a contact contains a significant financing component, the effects of time value of money are taken into account by adjusting the transaction price and recognising interest income or expense over the financing period. This is not required if the time period between the transfer of goods or services and payment is less than one year.

Step 4 – Allocate the transaction price to the separate performance obligations in the contract
When a contract contains more than one performance obligation, an entity allocates the transaction price to each separate performance obligation on the basis of their relative stand-alone selling price. Where the stand-alone selling price is not directly observable, the entity shall estimate the stand-alone selling price using suitable methods (or a combination of methods), such as an adjusted-market-assessment approach, expected-cost-plus-margin approach and a residual approach, which can be used only if certain criteria is met.

Step 5 – Recognise the revenue when (or as) the entity satisfies each performance obligation
The Standard provides guidance as to when a customer obtains control at a point in time and also provided additional guidance that an entity must consider in determining whether control transfers continuously over time.

Revenue recognised over time
An entity is required to recognise revenue over time when at least one of the criteria is met:

- The customer receives and consumes the benefits of the entity's performance as the entity performs.
- The entity's performance creates or enhances an asset that the customer controls.
- The entity's performance does not create an asset with an alternative use to the entity and the entity has a right to payment for performance completed to date.

Revenue recognised at a point in time
The following are considered in assessing the point in time for the transfer of control to customer if a performance obligation does not meet the above criteria to be satisfied over time:

- The entity has transferred physical possession of the asset.
- The entity has present right to demand payment for the asset.
- The customer has accepted the asset.
- The customer has the significant risk and rewards of the asset.
- The customer has legal title to the asset.

Costs relating to a contract
Costs of obtaining a contract are capitalised when and only when such costs are incremental to obtaining a contract (e.g. sales commissions) and are expected to be recovered. As a practical expedient, entities are permitted to expense qualifying costs to obtain a contract as incurred when the expected amortisation period is one year or less.

Costs to fulfil a contract are capitalised when and only when they relate directly to a contract, generate or enhance resources that will be used to satisfy performance obligations, and are expected to be recovered (unless the costs fall under the scope and requirements of other FRSs). In both cases, capitalised costs are amortised in a manner consistent with the pattern of transfer of the goods or services to which the capitalised costs relate. In certain circumstances, the amortisation period may extend beyond the original contract term with the customer (e.g. future anticipated contracts, expected renewal periods).

Additional guidance
In addition to the above, there are other implementation guidance topics such as licensing, sale with a right of return, warranties, principal versus agent considerations, repurchase agreements, consignment and bill-and-hold arrangements.

Disclosure and presentation

The Standard also significantly expands the current disclosure requirements about revenue recognition. The required disclosures include:

- A disaggregation of revenue to "depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors";
- Certain information about changes in contract balances, e.g. opening and closing balances of receivables, contract assets and liabilities, revenue recognised in the current period that was previously included in the contract liability balance and revenue recognised in the current period that relates to performance obligations satisfied in a prior period;
- For contracts that are expected to extend beyond one year, the aggregate amount of the transaction price allocated to the remaining performance obligations and an explanation of when the entity expects to recognise that revenue;
- Information about assets recognised for costs to obtain or fulfil a contract;
- Qualitative descriptions of the types of goods or services, significant payment terms and typical timing of satisfying obligations of an entity's contracts with customers;
- A description of the significant judgements about the amount and timing of revenue recognition;
- Policy decisions made by the entity related to time value of money and costs to obtain or fulfil a contract; and
- Information about the methods, input and assumptions used to determine the transaction price and to allocate amounts to performance obligations.

Effective date and transition

Entities have the option of using either retrospective application (with certain practical expedients) or a modified approach in applying the Standard. If an entity applies this Standard earlier, it shall disclose that fact.

Retrospective application (with certain practical expedients)

In accordance with the transition guidance on the first-time application of the Standard, an entity needs to present only the quantitative information required by paragraph 28(f) of FRS 8 for the annual period immediately preceding the date of initial application of the Standard. An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.

Practical expedients

For any of the practical expedients below that an entity uses, the expedient shall be applied consistently to all contracts within all reporting periods presented:

(a) Completed contracts - an entity need not restate contracts that begin and end within the same annual reporting period;

(b) Completed contracts that have variable consideration - an entity may use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods; and

(c) All reporting periods presented before the date of initial application - an entity need not disclose the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the entity expects to recognise that amount as revenue.

An entity shall disclose the expedients that have been used, and to the extent reasonably possible, a qualitative assessment of the estimated effect of applying each of the expedient.

Modified approach

Under the modified approach, comparative years are not restated. Instead, the entity recognises the cumulative effect of initially applying the Standard as an adjustment to the opening balance of retained earnings on the date of initial application. An entity shall apply this Standard retrospectively only to contracts that are not completed contracts at the date of initial application. If an entity elects to use the modified approach, it must disclose the impact of the change on the financial statement line items in the current reporting period that includes the date of initial application and an explanation of the reasons for the significant changes.

Planning for impact

Entities will need to consider the wider implications of changes to the timing of revenue recognition and these may include:

- Significant changes to key performance indicators and other key metrics;
- Significant change to the profile of tax cash payments;
- Availability of profits for distribution;
- For compensation and bonus plan, impact of timing of targets being achieved and the likelihood of targets being met; and
- Potential impact on loan covenants.

Outline of recent exposure drafts

Below are highlights of the proposed changes in recent exposure drafts (ED) issued by the IASB since 31 October 2013 of which the ASC has similarly sought comments through the public consultation process.

Exposure Drafts	Main proposals
Amendments to IAS 1 - Disclosure Initiative	The ED proposes to clarify the following: **Materiality** An entity shall not obscure useful information by aggregating or disaggregating information and materiality considerations apply to the primary statements, notes and any specific disclosure requirements in IFRSs. **Statement of financial position and statement of profit or loss and other comprehensive income** The list of line items to be presented in these statements can be aggregated or disaggregated as relevant. Guidance on subtotals in these statements has also been proposed. **Notes** Entities have flexibility when designing the structure of the notes and to introduce guidance on how to determine a systematic order of the notes. In addition, unhelpful guidance and examples with regard to the identification of significant accounting policies are proposed to be removed. **Presentation of items of other comprehensive income (“OCI”) arising from equity-accounted investments** An entity’s share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single items based on whether or not it will subsequently be reclassified to profit or loss.
Amendments to IFRS 10 and IAS 28 - Investment Entities: Applying the Consolidation Exception	The ED proposes that: • The exemption from preparing consolidated financial statements is available to a parent entity that is subsidiary of an investment entity, even though the investment entity measures its subsidiaries at fair value in accordance with IFRS 10; • The requirement for an investment entity to consolidate a subsidiary applies only to subsidiaries that are not themselves investment entities and whose main purpose is to provide services related to parent’s investment activities; • In applying the equity method to an associate that is an investment entity, an investor should retain the fair value measurements that the associate used for its subsidiaries. However, in applying the equity method to a joint venture that is an investment entity, a joint venturer shall not retain the fair value measurements applied by the joint venture used for its subsidiaries and instead make adjustments to the joint venture's accounting policies to conform to the joint venturer's accounting policies, which shall include the consolidation of all subsidiaries.

Amendments to IAS 12 - Recognition of Deferred Tax Assets for Unrealised Losses	The ED proposes that: • Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes can give rise to deductible temporary differences; and • The carrying amount of an asset does not limit the estimation of probable future taxable profits. When comparing deductible temporary differences with future taxable profits, the future taxable profits would exclude tax deductions resulting from the reversal of those deductible temporary differences.
Amendments to IFRS 10, IFRS 12, IAS 27, IAS 28 and IAS 36 and Illustrative Examples for IFRS 13 - Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value	The ED proposes that an entity should measure the fair value of quoted investments and quoted cash-generating units as the product of the quoted price for the individual financial instruments that make up the investments held by the entity and the quantity of the financial instruments.
Amendments to IFRS 2 - Classification and Measurement of Share-based Payment Transactions	The proposals provide guidance on: (a) the accounting for the effects of vesting conditions on the measurement of a cash settled share-based payment; (b) the classification of share-based payment transactions with net settlement features; and (c) the accounting for 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.

For more information on the exposure drafts, please download the respective IFRS in Focus newsletters at **www.iasplus.com.**

IFRS 9 *Financial Instruments*

IFRS 9 *Financial Instruments*

This Standard is effective for annual periods beginning on or after 1 January 2018 and shall be applied retrospectively subject to certain exceptions. It introduces new requirements for (i) Classification and measurement of financial assets and financial liabilities, (ii) Hedge Accounting and (iii) Impairment.

IFRS 9 *Financial Instruments* is not adopted as an FRS at the time of this publication.

CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets

In summary, IFRS 9 requires recognised financial assets that are currently in the scope of IAS 39 *Financial Instruments - Recognition and Measurement* to be measured at either amortised cost or fair value. The classification and measurement requirements for financial liabilities remain largely similar as under IAS 39 with the exception of own credit risk (see below).

Debt instruments

A debt instrument (e.g. loan receivable) that (1) is held within a business model whose objective is to collect the contractual cash flows (i.e. "business model test") and (2) has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (i.e. "contractual cash flow characteristic test") generally must be measured at amortised cost. A debt instrument whose business objective is to hold to both collect contractual cash flows and to sell is classified as fair value through other comprehensive income (FVTOCI). All other debt instruments must be measured at fair value through profit or loss (FVTPL). A fair value option is also available as an alternative, where an entity may irrevocably elect on initial recognition to measure a financial asset at FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortised cost.

Equity instruments

All equity investments within the scope of IFRS 9 are to be measured on the statement of financial position at fair value with the default recognition of gains and losses in profit or loss. Only if the equity investment is not held for trading can an irrevocable election be made at initial recognition to measure it at FVTOCI with only dividend income recognised in profit or loss.

If the equity investment is designated as at FVTOCI then all gains or losses (except dividend income) are recognised in other comprehensive income without any subsequent reclassification to profit or loss (although a transfer of the cumulative gain within equity is permitted). Dividend income is recognised in profit or loss. Designation as at FVTOCI means that the current requirements in IAS 39 to perform an assessment of impairment and to reclassify cumulative fair value gains or losses on disposal no longer apply because all fair value movements other than dividend income remain permanently in equity.

The current exemption in IAS 39 that requires unquoted equity investments to be measured at cost less impairment where fair valuation is not sufficiently reliable is not available under the new Standard. In the scope of IFRS 9, there is no 'cost exception' for unquoted equities.

Derivatives

All derivatives within the scope of IFRS 9 are required to be measured at fair value. This includes derivatives that are settled by the delivery of unquoted equity instruments where only in limited circumstances, cost may be an appropriate estimate of fair value.

Derivatives embedded in a financial host that is within the scope of IFRS 9 shall not be bifurcated. Instead the contractual cash flow of the hybrid financial asset (i.e. financial host and the embedded derivative) are assessed in their entirety (see above) and the hybrid financial asset as a whole is required to be classified as FVTPL if any of its cash flows do not represent payments of principal and interest. The embedded derivatives concept is retained for all hybrid financial liabilities and asset host contracts that are outside the scope of IAS 39.

Financial liabilities

Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. Under IAS 39 most liabilities were subsequently measured at amortised cost or bifurcated into a host, which is measured at amortised cost, and an embedded derivative, which is measured at fair value. Liabilities that are held for trading (including all derivative liabilities) were measured at fair value.

Consistent with the requirements in IFRS 9 for investments in unquoted equity instruments (and derivative assets linked to those investments), the exception from fair value measurement was eliminated for derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument. Under IAS 39, if those derivatives were not reliably measurable, they were required to be measured at cost. IFRS 9 requires them to be measured at fair value.

The requirements related to the fair value option for financial liabilities were changed to address own credit risk. Those improvements respond to consistent feedback from users of financial statements and others that the effects of changes in a liability's credit risk ought not to affect profit or loss unless the liability is held for trading. With the new requirements, an entity choosing to measure a liability at fair value will present the portion of the change in its fair value due to changes in the entity's own credit risk in the other comprehensive income (OCI) section of the income statement, rather than within profit or loss.

HEDGE ACCOUNTING

The IFRS 9 hedge accounting requirements were introduced in response to criticism of those under IAS 39 which were often viewed as too stringent and not capable of reflecting risk management policies.

The three types of hedge accounting models remain: fair value, cash flow and net investment hedges. However there have been significant changes to the types of transactions eligible for hedge accounting, specifically a broadening of the risks eligible for hedge accounting of non-financial items.

Changes in the way forward contracts and derivative options are accounted for when they are in a hedge accounting relationship will reduce profit or loss volatility when compared with IAS 39 and therefore will be attractive for some entities.

In addition, the 80-125% effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is no longer required.

The flexibility of the new requirements is counter-balanced by enhanced disclosure requirements about an entity's risk management activities.

IMPAIRMENT: EXPECTED CREDIT LOSSES

The Standard introduces an expected-loss model on all financial assets subject to impairment as well as some loan commitments and financial guarantee contracts.

General approach

With the exception of purchased or originated credit-impaired financial assets (see below), expected credit losses are required to be measured through a loss allowance at an amount equal to:

- 12 month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date); or
- Full lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument).

A loss allowance for full lifetime expected credit losses is required if the credit risk of that financial instrument has increased significantly since initial recognition. If the credit risk has not increased significantly, expected credit losses are measured at an amount equal to the 12 month expected credit losses.

Significant increase in credit risk

With the exception of purchased or originated credit-impaired financial assets (see below), the loss allowance for financial instruments is measured at an amount equal to lifetime expected losses if the credit risk of a financial instrument has increased significantly since initial recognition, unless the credit risk of the financial instrument is low at the reporting date.

Credit risk is considered low if the cases where there is a low risk of default or the borrower has a strong capacity to meet its contractual cash flow obligations in the near future. The assessment of whether there has been a significant increase in credit risk is based on an increase in the probability of a default occurring since initial recognition.

The requirements also requires that (other than for purchased or originated credit-impaired financial instruments) if a significant increase in credit risk that had taken place since initial recognition and has reversed by a subsequent reporting period (i.e. cumulatively credit risk is not significantly higher than at initial recognition), then the expected credit losses on the financial instrument revert to being measured based on an amount equal to the 12 month expected credit losses.

Purchased or originated credit-impaired financial assets

An entity would recognise changes in lifetime expected losses since initial recognition as a loss allowance with any changes recognised in profit or loss for purchased or originated credit-impaired financial assets, as these assets are credit-impaired at initial recognition. Any favourable changes for such assets are recognised as impairment gain even if the resulting expected cash flows of a financial asset exceed the estimated cash flows on initial recognition.

Basis for estimating expected credit losses

The estimate of expected credit losses reflects an unbiased and probability weighted amount (determined by evaluating the range of possible outcomes) as well as the time value of money. Depending on the status of a financial asset with regard to credit impairment, interest revenue is calculated differently. IFRS 9 also amended IFRS 7 *Financial Instruments - Disclosures* to include extensive disclosure requirements aimed at identifying and explaining amounts in the financial statements arising from expected credit losses and the effect of deterioration and improvement in the credit risk of the financial instruments subject to the requirements.

MACRO HEDGE ACCOUNTING

Macro hedge accounting which was subsequently separated from the phase on general hedge accounting and treated as a separate project by the IASB has yet to be finalised at the date of issuance of IFRS 9 *Financial Instruments.* The IASB has retained the existing macro hedge accounting requirements under previous IFRSs whilst this project is finalised. Whilst the macro hedge accounting project is on-going, adopters of IFRS 9 may, as an accounting policy choice, continue to apply the macro fair value hedge accounting model for interest rate risk in IAS 39.

On 17 April 2014, the IASB published discussion paper DP/2014/1 *Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging* where comments were due on 17 October 2014 and comment letter analysis is expected in the first quarter of 2015.

Summary of differences between FRS and IAS/IFRS

The FRSs and INT FRSs issued by the Accounting Standards Council (ASC) are largely aligned with the IFRS and interpretations issued by the IASB and the IFRS IC respectively. Differences in effective dates related to periods before 2011 are not included here. Below, we identify the key differences between FRS and IAS/IFRS as at the date of this publication:

FRS	Content	IAS/IFRS	Comments
SFRS for Small Entities	Accounting Framework for Small Entities	IFRS for SMEs	The IFRS for SMEs provides an alternative framework that can be applied by eligible entities in place of the full set of IFRSs in issue. It is effective immediately on issue. SFRS for Small Entities is based on the IFRS for SMEs and includes additional eligibility criteria specific to local context. This Standard is available for eligible entities to apply for financial periods beginning on or after 1 Januray 2011.
FRS 16	Property, Plant and Equipment	IAS 16	FRS 16 exempts regular revaluation of assets for which any one-off revaluation was performed between 1 January 1984 and 31 December 1996 (both dates inclusive) or for assets that were revalued prior to 1 January 1984. IAS 16 does not give such an exemption.
FRS 27(2012), FRS 28(2012), FRS 110(2012), FRS 111(2012) and FRS 112(2012)	Consolidated Financial Statements, Joint Arrangements, Disclosure of Interests in Other Entities, Separate Financial Statements and Investments in Associates and Joint Ventures: Mandatory Effective Date	IAS 27(2011), IAS 28(2011), IFRS 10(2011), IFRS 11(2011) and IFRS 12(2011)	IAS 27(2011), IAS 28(2011), IFRS 10(2011), IFRS 11(2011) and IFRS 12(2011) are effective for annual periods beginning on or after 1 January 2013. The ASC adopted these new/revised Standards as new/revised FRSs in September 2011. Subsequently on 31 August 2012, the ASC issued amendments to change the effective dates of these new/revised FRSs to annual periods beginning on or after 1 January 2014.
FRS 27(2012), FRS 28(2012) and FRS 110(2012)	Consolidated Financial Statements and Accounting for Investments in Subsidiaries, Associates and Joint Ventures	IAS 27(2011), IAS 28(2011) and IFRS 10(2012)	FRS 27(2012) and FRS 110(2012) exempt a parent from presenting consolidated financial statements if its holding company (immediate or ultimate) produces consolidated financial statements available for public use. Under IAS 27(2011) and IFRS 10(2012), such an exemption applies only if the holding company produces consolidated financial statements available for public use that comply with IFRS. Similar differences apply to the exemption from equity accounting for associates and joint ventures in FRS 28(2012), compared to IAS 28(2011).
FRS 102	Share-based Payment	IFRS 2	The cut-off grant date for retrospective treatment of equity-settled share-based payment is 7 November 2002 under IFRS 2 and 22 November 2002 under FRS 102.

ED Financial Instruments (IAS 39 replacement project)	Financial Instruments	IFRS 9	IFRS 9 issued on 24 July 2014 is the IASB's replacement of IAS 39 *Financial Instruments*. The Standard includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. The version of IFRS 9 issued in 2014 supersedes all previous versions and is mandatorily effective for annual periods beginning on or after 1 January 2018 with early adoption permitted. For a limited period, previous versions of IFRS 9 may be adopted early if not already done so provided the relevant date of initial application is before 1 February 2015. This Standard has not been adopted in Singapore at the time of this publication.
ED INT FRS	Members’ Shares in Co-operative Entities and Similar Instruments	IFRIC 2	IFRIC 2 is effective for annual periods beginning on or after 1 January 2005. This Interpretation has not been adopted in Singapore yet.
INT FRS 115	Agreements for the Construction of Real Estate	IFRIC 15	IFRIC 15 is effective for annual periods beginning on or after 1 January 2009 whereas INT FRS 115 is effective from 1 January 2011. In addition, INT FRS 115 contains an Accompanying Note that takes into account the legal framework in Singapore that is directly relevant to the application of INT FRS 115 in Singapore and summarises the ASC’s considerations in reaching its consensus on the accounting treatment for a specific type of sale of uncompleted residential properties.
RAP 8	Foreign Income Not Remitted to Singapore	IAS 12	IAS 12.39 provides an exception to the recognition of deferred tax liability in the case of profits that are retained in subsidiaries, branches, associates and joint ventures that would be taxable if these were to be distributed to the investor. The exception applies provided the parent, investor or venturer is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. IAS 12 does not extend this exception to other types of temporary differences e.g. foreign-sourced income not remitted to Singapore that would be taxable if remitted. RAP 8 recommends that a deferred tax liability in respect of foreign-sourced income not remitted to Singapore (e.g. interest income earned from deposits placed outside of Singapore) should be recognised and accounted for in the same way as temporary differences associated with the unremitted profits from subsidiaries etc.

Section 2: Other Financial Reporting Matters

Practice Direction No. 2 of 2014

On 23 April 2014, the Accounting and Corporate Regulatory Authority (ACRA) issued a practice direction setting out the following:

- Directors' duties in relation to financial reporting
- Review and sanction process of ACRA's Financial Reporting Surveillance Programme (FRSP)

This practice direction which applies to financial statements reviewed under the FRSP is effective from 1 April 2014.

Directors' duties in relation to financial reporting

In accordance with *sections 201(1A), 201(3) and 201(3A)* of the Companies Act, Chapter 50 (the "Act"), directors of a company incorporated in Singapore are required to present and lay before the company, at its Annual General Meeting, financial statements that:

- comply with Accounting Standards issued by the Accounting Standards Council; and
- give true and fair view of the profit and loss, as well as the state of affairs of the company.

Sections 199(1) and 199(2A) of the Act states that directors are required to maintain a system of internal accounting controls and keep proper accounting and other records respectively that will enable the preparation of true and fair profit and loss accounts and balance-sheets.

A financial reporting breach occurs when a director has failed to comply with *sections 201(1A), 201(3) and 201(3A)* and/or *sections 199(1) and/or 199(2A).*

Financial Reporting Surveillance Programme (FRSP)

In 2011, the FRSP was established where financial statements are selected for review to determine if the requirements set out above in accordance with *sections 201* have been complied with. Regulatory sanctions will be imposed on directors when a financial reporting breach is established.

Annual reports summarising findings of FRSP for the past year will be published to assist companies in improving their financial reporting in terms of their understanding of the application and interpretation of accounting standards and requirements. In addition, areas of the FRSP's review focus in the coming year will be published in advance to guide directors and other financial statements preparers.

Financial Reporting Practice Guidance No. 1 of 2014

Financial Reporting Practice Guidance No. 1 of 2014 details the areas of focus for FRSP reviews, to be conducted from 1 April 2014 to 31 May 2015, on financial statements for financial years ended in 2013 (FY2013). The FRSP's review focus areas are published to remind directors of the risks of misstatements and/or non-disclosures in the financial statements as well as the information needs of shareholders and other stakeholders.

The areas of focus for the FY2013 financial statements review are:

- New standards
- Significant accounting policies
- Going concern
- Accounting judgement and estimation uncertainties
- Asset value and impairment testing
- Financial risk and capital management disclosures
- Related party disclosures
- Consolidated financial statements

Further Guidance and Support for Directors

Directors are advised to read Annex A of the Practice Direction which provides further guidance to directors on carrying out their duties in relation to financial reporting which includes the following scope:

- Duties to prepare financial statements
- Review of financial statements
- Financial literacy
- Appointment of management
- Competent and adequately resourced finance function
- Using external help
- Working with the independent auditors
- Directors' duties to maintain internal control system and keep accounting and other records

For more details, visit the ACRA website at **http://www.acra.gov.sg.**

The Companies (Amendment) Bill 2014

In September 2014, proposed changes to the Singapore Companies Act (the "Act") were tabled in the Parliament for readings. The amendments set out in the Companies (Amendment) Bill 2014, aim to reduce regulatory burden on companies, provide greater business flexibility and improve the corporate governance landscape in Singapore.

We provide a summary of the key changes identified below:

<table>
<tr><th colspan="2">Accounts and audit</th></tr>
<tr><td>Audit exemption for "small companies"</td><td>A "small company" will be exempted from audit in a particular financial year ("FY") if it is a private company(1) which meets two of the following criteria for each of the two FYs immediately preceding that particular FY:
• Its revenue for each FY does not exceed S$10 million;
• Its gross assets at the end of each FY do not exceed S$10 million; or
• It has not more than 50 employees at the end of each FY.

A company in a group of companies may only be exempted from audit it is qualifies as a "small company" and the group qualifies under the "small company" criteria on a consolidated basis.

(1) A company that is restricted the right to transfer its shares and does not have more than 50 members.</td></tr>
<tr><td>Exemption of non-listed dormant companies from preparation of accounts</td><td>A dormant company will be exempted from preparation of financial statements for a FY if:
• It is not a listed company or a subsidiary of a listed company;
• Its total assets during the FY does not exceed S$500,000; or
• It has been dormant since its time of formation or since end of previous FY.</td></tr>
<tr><td>New requirements allowing auditors to resign before the end of the term of office</td><td>
<table>
<tr><th></th><th>Resignation requirements</th><th>Disclosure</th></tr>
<tr><td>Non-public interest company (other than subsidiary of public interest company)</td><td>• Notify company in writing</td><td>N/A</td></tr>
<tr><td>Public interest company or Subsidiary of a public interest company</td><td>• Obtain consent from ACRA; and
• Notify company in writing</td><td>Written statement of reason to be sent to every member of the company</td></tr>
</table>
Non-public interest company
• Company other than a public interest company

Public interest company
• Listed company or company in the process of issuing its debt or equity instruments for trading on a securities exchange in Singapore
• The Minister of Finance may prescribe additional categories to be included as "public interest"companies</td></tr>
</table>

New framework for revision of defective accounts	**Voluntary revision by directors** Directors may voluntarily revise in accordance with the procedures set out in the Companies Act. **Enforcement by ACRA** ACRA may apply to the court • to declare non-compliance with requirements of the Act (including Accounting Standards); and • for court order requiring directors to make the revisions.
New limits relating to serious offence involving fraud or dishonesty	In section 207(9D)(b), the value of the property obtained or likely to be obtained from the commission of a serious offence involving fraud or dishonesty is now amended to not less than $100,000.
Duties and obligations of directors and Chief Executive Officers (CEOs)	
No maximum age limit for directors	Shareholders' approval for the appointment of a person who is above 70 years old and above as a director of a public company or a subsidiary of a public company is no longer required.
CEOs required to disclose conflict of interests in transactions or property/ other office held by them Disclosures by directors and CEOs may be made in writing	CEO of the company (not also a director) is required to disclose conflict of interest in transactions/proposed transactions with the company or arising from any offices held or properties possessed by him. An interest of the CEO includes an interest of his family members. To provide flexibility on the manner of disclosures, a director or CEO will be allowed to disclose his interests: • at a directors' meeting; or • by sending a written notice to the company (new alternative for disclosure).
CEOs required to disclose interests in securities of company	CEO of a non-listed company (not also a director) is required to disclose his or his family members' interest in securities of the company or its related corporations, and changes in such interests, with the following exemptions: • Disclosure of interests in participatory interests made available by the company; and • Disclosure of his or his family members' interests in securities of the company's related corporations.
Abolition of a separate directors' report	Directors' report and disclosure of directors' benefits will no longer be required. Instead, two directors will be required to sign, on behalf of all directors, a statement with information set out in the new Twelfth Schedule of the Companies Act, which includes disclosures in the current directors's statement whether in the opinion of the directors - a. the financial statements and, where applicable, the consolidated financial statements are drawn up so as to give a true and fair view of the financial position and performance of the company and, if applicable, of the financial position and performance of the group for the period covered by the financial statements or consolidated financial statements; and b. at the date of the statement there are reasonable grounds to believe that the company will be able to pay its debts as and when they fall due.

Express provision on directors' responsibility for summary financial statements	There will be a new provision stating that the directors of the listed public company are responsible for ensuring that the summary financial statements comply with the requirements in the Act.
New debarment regime for director or company secretary	Any director or company secretary of a company who has failed to lodge any documents within ACRA for a continuous period of at least three months after the deadline set will be debarred under the new debarment regime. A debarred person will not be permitted to assume a new appointment as director/ company secretary. However, he will be allowed to continue with existing appointments. The debarment may be lifted when the default has been rectified.
Company administration	
Private companies no longer required to keep register of members	Private companies will not be required to keep the register. Public companies are required to continue to keep their register of members at their registered office.
Companies no longer required to keep register of directors/managers/ secretaries/auditors	All companies will not be required to keep the register, which will be maintained electronically through ACRA.
New requirement to retain financial statements or documents laid at Annual General Meetings for five years	A company will be required to keep a copy of each document that was laid before the company at its Annual General Meetings for a period of not less than five years after the date of the meeting.
Foreign companies	
Increased disclosure of financial information of foreign companies with a Singapore Branch	Foreign company that is required to file its financial statements in its place of incorporation is now required to file its financial statements* (currently balance sheet only) prepared in accordance with the requirements of the place of its incorporation. Foreign company that is *not* required to file its financial statements in its place of incorporation is now required to file its financial statements* (currently balance sheet only) as if it is a Singapore public company. *Financial statements will include similar components as those expected of a Singapore-incorporated company, such as income statement, statement of changes in equity and notes to accounts.
Disclosing name of auditors	A foreign company will be required to lodge with ACRA a statement with the name of the auditor who audited its Singapore branch accounts and its financial statements.

The above is not a comprehensive list of all the proposed changes. The Companies (Amendment) Bill 2014 includes various other proposed changes in areas such as accounts and audit, duties and obligations of directors and CEOs, company administration, foreign companies, shareholders' rights and meetings, share capital and capital maintenance regime and scheme of arrangement and amalgamations. Companies should consult with their legal advisers if they have queries on the proposed changes. The effective date of the amendments has not been released yet.

Section 3: Resources

Resources

IASPlus – **www.iasplus.com** - provides Deloitte IFRS e-Learning modules, newsletters, IAS/IFRS model financial statements, disclosure checklist and a wealth of information on IAS/IFRS projects and issues.

www.deloitte.com provides a links to websites of member firms around the world.

This booklet has been prepared by Deloitte Singapore for general information purposes. Users of the information may wish to contact the Clients & Markets Department for further information:

Deloitte & Touche LLP
6 Shenton Way, OUE Downtown 2, #32-00
Singapore 068809
Telephone: +65 6224 8288
Facsimile: +65 6538 6166