



Changes to the financial reporting framework in Singapore

November 2018

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Acronyms

ASC	Accounting Standards Council
ED	Exposure Draft
FRS	Singapore Financial Reporting Standards
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRIC	Interpretations issued by the 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
SFRS(I)	Singapore Financial Reporting Standards (International)
SFRS(I) INT	Interpretation of Singapore Financial Reporting Standards (International)
SGX	Singapore Exchange Limited
SGX-ST	Singapore Exchange Securities Trading Limited
SIC	Standing Interpretations Committee

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New/amended standards/interpretation effective for annual periods beginning after 1 January 2018

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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 December 2017, the Accounting Standards Council (ASC) issued a new financial reporting framework - Singapore Financial Reporting Standards (International) ("SFRS(I)") which is identical to the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB).

All SGX-listed companies and Business Trusts, previously reporting under FRS are required to apply the new SFRS(I) framework from annual periods beginning on or after 1 January 2018. Non-listed Singapore incorporated companies may voluntarily apply the new framework from the same time.

In this edition we retained the relevant summaries of new/ revised FRSs included in the 2017 edition which are similar to those required under the SFRS(I) except for difference in transition provisions for a first-time adopter of SFRS(I) as explained in the relevant sections. For Standards that are not effective yet, entities will need to consider and disclose in their current financial statements, the possible effects that these new/ revised FRSs might have in the period of initial application.

Starting from this edition, we will be providing updates on financial reporting standards issued in Singapore effective for annual periods beginning after 1 January 2018 with reference to SFRS(I) pronouncements, by including summaries of the new/ revised SFRS(I) organised based on their effective dates and an outline of recent exposure drafts, and a comparison of the SFRS(I) against IFRS and FRS against IFRS. Summaries of other financial reporting matters arising from regulatory updates are also provided.

We have retained the relevant summaries of new/ revised FRSs included in the 2017 which are similar to those required under the SFRS(I). For Standards that are not effective yet, entities will need to consider and disclose in their current financial statements, the possible effects that these new/ revised FRSs might have in the period of initial application.

Section 1: Financial reporting standards

New Financial Reporting Framework in Singapore

Background

In May 2014, the Accounting Standards Council (ASC) announced that Singapore-incorporated companies listed on the Singapore Exchange (SGX) are required to apply a new financial reporting framework identical to the IFRS for annual periods beginning on or after 1 January 2018. Non-listed Singapore-incorporated companies may also voluntarily apply the new framework at the same time.

In November 2016, the ASC and ISCA jointly developed a set of Q&As to provide guidance on the IFRS convergence, including the types of companies affected and some of the potential implications for a first time adopter of the IFRS-identical framework.

In December 2016, SGX clarified that all SGX-listed companies and Business Trusts, regardless of their place of incorporation currently reporting under FRS, will be required to adopt the new Singapore IFRS-identical framework. Real estate investment trusts ("REITs") must comply with the Code on Collective Investment Schemes issued by the Monetary Authority of Singapore, and continue to prepare their financial statements in the manner prescribed under ISCA's Statement of Recommended Accounting Practice 7 ("RAP 7") *Reporting Framework for Unit Trusts*. RAP 7 requires that the accounting policies generally comply with FRS principles relating to recognition and measurement, unless prescribed by RAP 7.

In January 2017, MAS announced that the financial reporting frameworks that will be applicable for the respective entities for annual periods beginning on or after 1 January 2018, and entities that lodge prospectus with MAS on or after 1 January 2018.

- Registered Business Trusts: IFRS-identical financial reporting standards;
- Authorised Collective Investment Schemes: RAP 7 as issued by ISCA; and
- Entities that lodge prospectus, including Business Trusts: Restatement of up to 3 years of historical audited financial statements in accordance with the IFRS-identical financial reporting framework in the prospectus with some transitional reliefs available (available at the [MAS website](#)).

In December 2017, ASC issued the first volume of the Singapore Financial Reporting Standards (International) (SFRS(I)s). It contains the equivalent text of IFRS standards and interpretations issued by the IASB and the IFRS IC respectively at 31 December 2017 that are applicable for annual reporting period beginning on 1 January 2018.

The SFRS(I)s include paragraphs with prefix 'IFRS' which refer to effective date, transition provisions and/or other text that are extracted from IFRSs. These paragraphs are only applicable to a 'transitioning entity'. A 'transitioning entity' is an entity that presents its first SFRS(I) financial statements, and that presented its annual financial statements in the most recent previous year that contained an explicit and unreserved statement of compliance with IFRSs. Paragraphs that are specific to SFRS(I)s are indicated with a prefix 'SG'.

Guidance on IFRS Convergence 2018 Implementation Roadmap

In October 2017, the ISCA's Financial Reporting Committee (FRC), in collaboration with the Singapore Institute of Directors (SID), developed a publication to provide guidance on the application of IFRS Convergence and the key considerations for entities converging to the IFRS-identical framework. The publication serves as a practical guide to aid entities in their transition to the new framework. A copy of the publication can be obtained from the [ISCA website](#).

New/amended standards/interpretation effective for annual periods beginning on or after 1 January 2018

		Title	Effective Date*
SFRS(I) 15	FRS 115	<i>Revenue from Contracts with Customers</i>	1-Jan-18
	FRS 115 (Amended)	<i>Revenue from Contracts with Customers</i> - Effective Date of FRS 115#	1-Jan-18
	FRS 115 (Amended)	<i>Revenue from Contracts with Customers</i> - Clarifications to FRS 115 <i>Revenue from Contracts with Customers</i>	1-Jan-18
SFRS(I) 9	FRS 109	Financial Instruments	1-Jan-18
SFRS(I) 2	FRS 102 (Amended)	<i>Share-based Payment</i> - Classification and Measurement of Share-based Payment Transactions	1-Jan-18
SFRS(I) 1-40	FRS 40 (Amended)	<i>Investment Property</i> - Transfers of Investment Property	1-Jan-18
SFRS(I) 1	FRS 101 (Amended)	<i>First-time Adoption of Financial Reporting Standards</i> - Improvements to FRSs (December 2016)	1-Jan-18
SFRS(I) 1-28	FRS 28 (Amended)	<i>Investments in Associates and Joint Ventures</i> - Improvements to FRSs (December 2016)	1-Jan-18
SFRS(I) 4	FRS 104 (Amended)	FRS 104 <i>Insurance Contracts</i> - Applying FRS 109 <i>Financial Instruments</i> with FRS 104 <i>Insurance Contracts</i>	1-Jan-18
SFRS(I) INT 22	INT FRS 122	<i>Foreign Currency Transactions and Advance Consideration</i>	1-Jan-18

*Applies to annual periods beginning on or after the date shown, with early application permitted¹ unless stated otherwise. Initial application is retrospective unless there are specific transitional provisions indicating otherwise.

#Effective date of FRS 115 was revised by amendments to FRS 115 Effective Date of FRS 115 issued in November 2015.

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 unbundling of multi-element contracts, recognition of revenue at a point in time or over time, as well as variable consideration and contract modifications, 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.

¹For SFRS(I), the framework is effective only from annual periods beginning on or after 1 January 2018.

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 any party 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 have to be combined 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 (or both) 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 as 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 (i.e. the promise to transfer the good or service is distinct within the context of 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 goods 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 significant financing components.

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 the resolution of the contingent event giving rise to the variability in consideration. A significant revenue reversal occurs when it 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 contract 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 a contract; and
- information about the methods, input and assumptions used to determine the transaction price and to allocate amounts to performance obligations.

Transition

Entities have the option of using either retrospective application (with certain practical expedients) or a modified retrospective 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 amount of adjustment for each financial statement line item affected and if relevant, basic and diluted earnings per share 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) For completed contracts, an entity need not restate contracts that
 - (i) begin and end within the same annual reporting period; or
 - (ii) are completed contracts at the beginning of the earliest period presented.
- (b) For 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;
- (c) For contracts that were modified before the beginning of the earliest period presented, an entity need not retrospectively restate the contracts for those modifications. Instead, an entity shall reflect the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented when:
 - (i) identifying the satisfied and unsatisfied performance obligations;
 - (ii) determining the transaction price; and
 - (iii) allocating the transaction price to the satisfied and unsatisfied performance obligations.
- (d) For 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 retrospective approach

Under the modified retrospective 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 retrospective 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.

Transition for a first-time adopter of SFRS(I)

As the effective date of the SFRS(I) framework coincides with the effective date of SFRS(I) 15, entities are required to consider the specific requirements of SFRS(I) 1 when it applies SFRS(I) 15 at the same time. SFRS(I) 1 stipulates that a first-time adopter would not be able to apply the transitional provisions in other SFRS(I)s, except as specified in the appendices of SFRS(I) 1. As provisions for the modified retrospective approach in SFRS(I) 15 are not included in those appendices of SFRS(I) 1, a first-time adopter will only be able to apply the retrospective application provisions of SFRS(I) 15 (with certain practical expedients).

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 changes to systems;
- 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.

Amendments to FRS 115 Clarifications to FRS 115

The amendments provide clarifications on (i) identifying performance obligations (ii) principal versus agent considerations and (iii) licensing application guidance. The amendments also included two additional transition reliefs on contract modifications and completed contracts.

Revenue recognition for sale of uncompleted residential properties in Singapore

In October 2017, the ISCA's Financial Reporting Committee (FRC), issued a guidance discussing the application of FRS 115 to some types of real estate sales commonly seen in Singapore (i.e. sale of the standard residential properties, executive condominiums, design, build and sell scheme properties and mixed development properties) on whether revenue from such sales could be recognised over time. The guidance is also applicable to the equivalent revenue standard under the new financial reporting framework identical to IFRS that would be issued by the ASC. A copy of the guidance can be obtained from the [ISCA website](#).

FRS 109 *Financial Instruments*

Background

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.

Classification and measurement of financial assets and financial liabilities

Financial assets

In summary, FRS 109 requires recognised financial assets that are currently in the scope of FRS 39 *Financial Instruments - Recognition and Measurement* to be measured at either amortised cost or fair value.

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 that are solely payments of principal and interest 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 FRS 109 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 nor contingent consideration recognised by an acquirer in a business combination to which FRS 103 Business Combinations applies, can an irrevocable election be made at initial recognition to measure it at FVTOCI. 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 FRS 39 to perform an assessment of impairment and to reclassify cumulative fair value gains or losses on disposal to profit or loss no longer apply because all fair value movements other than dividend income remain permanently in equity.

The current exemption in FRS 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. Only in limited circumstances, cost may be an appropriate estimate of fair value.

Derivatives

All derivatives within the scope of FRS 109 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 asset host that is within the scope of FRS 109 shall not be bifurcated. Instead the contractual cash flows of the hybrid financial asset (i.e. financial host and the embedded derivative) are assessed in its 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 host contracts that are outside the scope of FRS 109.

Financial liabilities

Most of the requirements in FRS 39 for classification and measurement of financial liabilities are carried forward unchanged to FRS 109. Under FRS 39, two measurement categories exist: FVTPL and amortised cost. Liabilities that are held for trading (including all derivative liabilities) are measured at fair value, and all other financial liabilities are measured at amortised cost unless the fair value option is applied.

Consistent with the requirements in FRS 109 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 FRS 39, if those derivatives were not reliably measurable, they were required to be measured at cost. FRS 109 requires them to be measured at fair value.

The requirements related to the fair value option for financial liabilities are 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 financial 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 statement of profit or loss and other comprehensive income, rather than within profit or loss unless the treatment of the effects of changes in the liability's credit risk described previously would create or enlarge an accounting mismatch in profit or loss. That determination is made at initial recognition and is not reassessed. Amounts presented in other comprehensive income are not subsequently transferred to profit or loss.

Hedge accounting

The FRS 109 hedge accounting requirements are introduced in response to criticism of those under FRS 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, including hedge of specific risk components.

It introduces a new way to account for the change in time value of an option when the intrinsic value is designated in the hedging relationship, resulting in less volatility in profit or loss. The alternative accounting treatment for forward points and currency basis (when excluded from the designated hedge) can also result in less volatility in profit or loss.

The 80-125% effectiveness test has also been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is no longer required. Additionally, the FRS 109 hedge accounting model allows the entity to refine its hedge ratio without having to discontinue the hedge relationship.

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), depending on whether the credit risk of the financial asset has significantly increased since initial recognition, 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.

The assessment of whether there has been a significant increase in credit risk is based on the change in the risk of a default occurring over the expected life of the financial instrument. Under the Standard, an entity may use various approaches to assess whether credit risk has increased significantly (provided that the approach is consistent with the requirements). The application guidance provides a list of factors that may assist an entity in making the assessment.

The requirements also require 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 in 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 at the end of the reporting period, only the cumulative 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 a credit to profit or loss 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. FRS 109 also amended FRS 107 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.

Practical expedients / simplified approaches

To ensure the general approach to impairment in FRS 109 can be applied practically, FRS 109 introduces a number of simplifications as an exception to the general approach.

An entity may assume that the credit risk on a financial instrument has not increased significantly since initial recognition, and therefore the loss allowance is measured at an amount equal to 12-month expected credit losses, if the financial instrument is determined to have low credit risk at the reporting date. Credit risk is considered low if 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.

Additionally, the impairment model does not require the general approach to be applied for all trade receivables, contract assets (in scope of FRS 115 Revenue from Contracts with Customers) and lease receivables (resulting from transactions that are within the scope of FRS 17 Leases). Instead a simplified approach can apply for these assets under which a lifetime expected loss allowance is always recognised. In some cases the simplified approach is required and in other cases it is an accounting policy choice. For trade receivables and contract assets that do not contain a financing component, it is a requirement to recognise a lifetime expected loss allowance. For other trade receivables, other contract assets, operating lease receivables and finance lease receivables it is an accounting policy choice that can be separately applied for each type of asset.

Transition for a first-time adopter of SFRS(I)

As the effective date of the SFRS(I) framework coincides with the effective date of SFRS(I) 9, entities are required to consider the specific requirements of SFRS(I) 1 because a first-time adopter would not be able to apply the transitional provisions in other SFRS(I)s, except as specified in the appendices of SFRS(I) 1.

SFRS(I) 1 provides a short-term exemption to SFRS(I) 9 if an entity's first SFRS(I) reporting period begins before 1 January 2019. The comparative information in the entity's first SFRS(I) financial statements need not comply with SFRS(I) 7 or SFRS(I) 9, to the extent that the disclosures required by SFRS(I) 7 relate to items within the scope of SFRS(I) 9. For such entities, references to the 'date of transition to SFRS(I)s' shall mean, in the case of SFRS(I) 7 and SFRS(I) 9 only, the beginning of the first SFRS(I) reporting period.

FRS 102 Share-based Payment

- Classification and Measurement of Share-based Payment Transactions

Background

The amendments are effective for annual periods beginning on or after 1 January 2018 and shall be applied prospectively subject to transitional requirements.

Accounting for the effects of vesting conditions on cash-settled share-based payments

The amendments to FRS 102 clarify that the accounting for the effects of vesting and non-vesting conditions on cash-settled share-based payments should follow the same approach as for equity-settled share-based payments.

This means that:

- market and non-vesting conditions are taken into account in estimating the fair value of the cash-settled share-based payment; whilst
- service and non-market conditions are not taken into account when estimating the fair value, but are instead taken into account by adjusting the number of awards included in the measurement of the liability.

The effects of all conditions will be revised at the end of each reporting period (unlike equity-settled share-based payments, for which the fair value is fixed at grant date), meaning that the cumulative liability recognised equals the cash eventually paid.

Classification of share-based payments transactions with net settlement features

The amendments specifically apply to circumstances in which tax law or regulation requires an entity to withhold on behalf of their employees a specified number of equity instruments to meet the employee's tax liability which is then remitted to the tax authority (typically in cash). The amendments state that such an arrangement should be classified as equity-settled in its entirety, provided the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

The amendments also add a requirement to disclose an estimate of the amount of cash expected to be transferred to the tax authority as a result of such arrangement.

Accounting for a modification to the terms and conditions of a share-based payment transaction that changes the transaction from cash-settled to equity-settled

The amendments clarify that a modification of a share-based payment that changes the transaction from cash-settled to equity-settled be accounted for as follows:

- the original liability is derecognised;
- the equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and
- any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

Transition

The amendments are to be applied prospectively with the following transitional requirements:

- The amendments on the accounting treatment for the effects of vesting and non-vesting conditions on cash-settled share-based payments apply to share-based payment transactions that: (i) are unvested at the date that an entity first applies the amendments; or (ii) were granted on or after the date that an entity first applies the amendments. For unvested share-based payments transactions that were granted prior to the date of initial application of the amendments, an entity is required to (i) remeasure the liability at initial application; and (ii) recognise the effect in opening equity.
- The amendments on the classification of share-based payment transactions with net settlement features apply to share-based payment transactions that (i) are unvested (or vested but unexercised); or (ii) were granted on or after the date that an entity first applies the amendments. For unvested (or vested but unexercised) share-based payment transactions that were previously classified as cash-settled and now must be reclassified to equity-settled, an entity is required to reclassify the carrying amount of the liability to equity at the date that an entity first applies the amendments.
- The accounting for a modification of a share-based payment transaction that changes its classification from cash-settled to equity-settled only applies to modifications that occur on or after the date an entity first applies the amendments.

Entities are permitted to apply the amendments retrospectively only if it is possible to do so without using hindsight.

Transition for a first-time adopter of SFRS(I)

The transition provisions in the amendment are only available for a transitioning entity and are not available for a first-time adopter of SFRS(I).

FRS 40 Investment Property**- Transfers of Investment Property****Background**

FRS 40 requires transfers to, or from, investment property when, and only when, there is a change in use of property supported by evidence. This suggested that the circumstances listed in paragraph 57(a) – (d) are exhaustive. This is precluding some entities from transferring a property to, or from, investment property in other instances even when there is evidence of a change in use.

Amendments

The amendments

- clarify that an entity can only reclassify a property to/from investment property when, and only when, there is evidence that a change in the use of the property has occurred.
- clarify that the list of circumstances that evidence a change in use which was perceived by some as exhaustive, are only examples.

Effective date and transition

The amendments are effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted². An entity applies the amendments to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is also permitted if that is possible without the use of hindsight.

Transition for a first-time adopter of SFRS(I)

The transition provisions in the amendment are only available for a transitioning entity and are not available for a first-time adopter of SFRS(I).

²For SFRS(I), the framework is effective only from annual periods beginning on or after 1 January 2018.

FRS 101 First-time Adoption of Financial Reporting Standards and FRS 28 Investments in Associates and Joint Ventures
- Improvements to FRSs (December 2016)

Background and amendments

The Annual Improvements process provides a mechanism for dealing efficiently with a collection of minor amendments to FRSs. These amendments are part of the Improvements to FRSs (December 2016) and are effective for annual periods beginning on or after 1 January 2018.

The following table provides a summary of the amendments.

Standard	Topic	Key amendment
FRS 101 First-time Adoption of Financial Reporting Standards	Deletion of short-term exemptions for first-time adopters	<p>The amendments removed short-term exemptions in paragraphs E3-E7 of FRS 101, because the relief provided in those exemptions were relevant for reporting periods that have now passed and, as such, have served its intended purpose.</p> <p>The exemptions in these paragraphs allowed first-time adopters the same transition relief as existing FRS preparers with respect to:</p> <ul style="list-style-type: none"> • providing certain comparative disclosures about financial instruments, which were required as a result of several amendments to FRS 107; • providing comparative information for the disclosures required by FRS 19 about the sensitivity of the defined benefit obligation to actuarial assumptions; and • retrospective application of the investment entities requirements of FRS 110, FRS 112 and FRS 27. <p>The amendments also remove the requirement in FRS 101 on assessing whether an entity is an investment entity based on facts and circumstances at the date of transition to FRSs on the basis that this has the same outcome as requiring the assessment to be made retrospectively.</p>
FRS 28 Investments in Associates and Joint Ventures	Measuring investees at fair value through profit or loss on an investment-by-investment basis	<p>The amendments clarify</p> <ul style="list-style-type: none"> • that the option for a venture capital organisation or other qualifying entity to measure associates and joint ventures at fair value through profit or loss (rather than equity method) is made on an investment-by-investment basis upon initial recognition of each investment. • for an entity that is not an investment entity (IE) and that has an associate or joint venture that is an IE, <ul style="list-style-type: none"> – the entity may elect to retain the fair value measurement used by that IE associate or joint venture on their subsidiaries, when applying the equity method. – the choice to retain the fair value measurement above is available on an investment-by-investment basis, and the election will be made for each IE associate or joint venture at the later of: <ul style="list-style-type: none"> (i) initial recognition of the IE associate or joint venture; (ii) when an associate or joint venture becomes an IE; and (iii) when an IE associate or joint venture first becomes a parent.

FRS 104 Insurance Contracts

- Applying FRS 109 Financial Instruments with FRS 104 Insurance Contracts

Background

The amendments address concerns arising from implementing the new financial instruments Standard, FRS 109, before implementing the replacement Standard for FRS 104.

Amendments

The amendments provide two options for entities that issue insurance contracts within the scope of FRS 104:

- an option when applying FRS 109, that permits entities to reclassify from profit or loss to other comprehensive income, some of the income or expenses arising from designated qualifying financial assets (overlay approach), and this is available on an asset by asset basis with specific requirements around designation and de-designation;
- an optional temporary exemption from applying FRS 109 for entities whose predominant activity is issuing contracts within the scope of FRS 104 (deferral approach) until the earlier of the application of the new insurance Standard or periods beginning on or after 1 January 2021.

An insurer's activities are predominantly connected with insurance if

- the carrying amount of its liabilities arising from contracts within the scope of FRS 104 is significant compared to the total carrying amount of all its liabilities; and
- the percentage of the total carrying amount of its liabilities connected with insurance relative to the total carrying amount of all its liabilities is either greater than 90 per cent; or less than or equal to 90 per cent but greater than 80 per cent and the insurer does not engage in significant activity unconnected with insurance.

Effective date and transition

An entity applies the overlay approach retrospectively to qualifying financial assets when it first applies FRS 109. Application of the overlay approach requires disclosure of sufficient information to enable users of financial statements to understand how the amount reclassified in the reporting period is calculated and the effect of that reclassification on the financial statements.

An entity applies the deferral approach to defer the application of FRS 109 for annual periods beginning before 1 January 2021. The insurance activities predominance is assessed at the reporting entity level at the annual reporting date immediately preceding 1 April 2016 and is only reassessed if there is a significant change in the entity's activities. Application of the deferral approach needs to be disclosed together with information that enables users of financial statements to understand how the insurer qualified for the temporary exemption and to compare insurers applying the temporary exemption with those that do not.

Transition for a first-time adopter of SFRS(I)

A first-time adopter can apply the temporary exemption, provided it has not already applied SFRS(I) 9 (other than requiring presentation of changes in credit risk of liabilities designated at FVTPL in OCI). In assessing the predominance criterion, a first-time adopter would look to the carrying amounts determined in the application of SFRS(I)s at its date of assessment. The date of the assessment would be the last annual reporting date before 1 April 2016, or a subsequent annual reporting date if there has been a significant change in the entity's activities. A first-time adopter is also restricted from changing its accounting policies unless the changes make the financial statements more relevant to the economic decision-making needs of users and no less reliable, or more reliable and no less relevant to those needs.

INT FRS 122 Foreign Currency Transactions and Advance Consideration

Background

The Interpretation covers foreign currency transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income.

Consensus

The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability.

If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

Effective date and transition

The interpretation is effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted. Entities can elect to apply the Interpretation either retrospectively, in accordance with FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, or prospectively to all foreign currency assets, expenses and income in the scope of the interpretation initially recognised on or after the beginning of the reporting period an entity first applies the interpretation, or the beginning of a prior reporting period presented as comparative information.

Transition for a first-time adopter of SFRS(I)

A first-time adopter need not apply SFRS(I) INT 22 to assets, expenses and income in the scope of that Interpretation initially recognised before the date of transition to SFRS(I) Standards.

New/amended standards/interpretation effective for annual periods beginning after 1 January 2018

	Title	Effective Date*
Various	<i>Annual Improvements to SFRS(I)s 2015-2017 Cycle</i>	1-Jan-19
SFRS(I) 1-19 (Amended)	<i>Plan Amendment, Curtailment or Settlement</i>	1-Jan-19
SFRS(I) 1-28 (Amended)	<i>Long-term Interests in Associates and Joint Ventures</i>	1-Jan-19
SFRS(I) 9 (Amended)	<i>Prepayment Features with Negative Compensation</i>	1-Jan-19
SFRS(I) 16	<i>Leases</i>	1-Jan-19
SFRS(I) INT 23	<i>Uncertainty over Income Tax Treatments</i>	1-Jan-19
SFRS(I) 17	<i>Insurance Contracts</i>	1-Jan-21

*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.

Annual Improvements to SFRS(I)s 2015-2017 Cycle

The Annual Improvements process provides a mechanism for dealing efficiently with a collection of minor amendments to existing standards and interpretation. These amendments are effective for annual periods beginning on or after 1 January 2019.

The following table provides a summary of the amendments.

Standard	Topic	Key amendments
SFRS(I) 3 <i>Business Combinations</i>	Previously held interest in joint operation	The amendments clarify that when a party to a joint arrangement obtains control of a business that is a joint operation, and had rights to the assets and obligations for the liabilities relating to that joint operation immediately before the acquisition date, the transaction is a business combination achieved in stages. The acquirer shall therefore apply the requirements for a business combination achieved in stages and shall remeasure its entire previously held interest in the joint operation.
SFRS(I) 11 <i>Joint Arrangements</i>		The amendments clarify that when a party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business. In such cases, previously held interests in the joint operation are not remeasured.
SFRS(I) 1-12 <i>Income Taxes</i>	Income tax consequences of payments on financial instrument classified as equity	The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.
SFRS(I) 1-23 <i>Borrowing Costs</i>	Borrowing costs eligible for capitalisation	The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

Amendments to SFRS(I) 1-19 Plan Amendment, Curtailment or Settlement

The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position).

On measuring the current service cost and the net interest on the net defined benefit liability (asset), an entity will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under SFRS(I) 1-19.99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

Amendments to SFRS(I) 1-28 Long-term Interests in Associates and Joint Ventures

There was uncertainty in practice about whether SFRS(I) 9, in particular its impairment requirements, applies to an entity's long-term interests in an associate or joint venture to which the equity method is not applied but that form part of the entity's net investment in the investee ('long-term interests'). Such long-term interests include long-term loans for which settlement is neither planned nor likely to occur in the foreseeable future.

The amendments clarify that SFRS(I) 9, including its impairment requirements, applies to long-term interests in associates and joint ventures to which the equity method is not applied but that form part of an entity's net investment in the investees. It includes an example illustrating how the requirements of SFRS(I) 1-28 and SFRS(I) 9 interact. The amendments include specific transition provisions depending on whether the first-time application of the amendments coincides with that of SFRS(I) 9.

Amendments to SFRS(I) 9 Prepayment Features with Negative Compensation

Under the current SFRS(I) 9 requirements, the solely payments of principal and interest (SPPI) condition is not met if the lender has to make a settlement payment in the event of termination by the borrower (also referred to as early repayment gain).

The amendments clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI. The amendments include specific transition provisions depending on when the amendments are first applied, relative to the initial application of SFRS(I) 9.

SFRS(I) 16 Leases

Background

SFRS(I) 16 replaces SFRS(I) 1-17 *Leases* and its associated interpretative guidance. The Standard applies to all leases, except for specific items covered by other standards. The Standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less with no purchase options or the underlying asset has a low value when new.

Overview

A lessee is generally required to present right-of-use asset and lease liabilities separately in the statement of financial position with some exceptions. The lessor accounting approach under SFRS(I) 16 is substantially unchanged from its predecessor SFRS(I) 1-17. The Standard also provides guidance on sale and leaseback transactions applicable to both the seller-lessee and buyer-lessor.

SFRS(I) 16 applies a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer. Control is conveyed where the customer has (a) the right to direct the identified asset's use and (b) to obtain substantially all the economic benefits from that use. The Standard provides detailed guidance on whether conditions for control are met.

Lessee accounting

Upon lease commencement, a lessee recognises a right of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the lease liability plus any initial direct costs incurred by the lessee. Adjustments may also be required for lease incentives, payments at or prior to commencement and restoration obligations or similar.

Subsequently, an entity will measure the right-of-use assets using either the cost or revaluation model of SFRS(I) 1-16 *Property, Plant and Equipment*. However, SFRS(I) 16 requires the right-of-use asset of leased investment property to be measured at fair value if the entity uses the fair value model under SFRS(I) 1-40 *Investment Property* to its other investment properties.

Lease liability

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use its incremental borrowing rate.

The lease payments should include the following items:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable from the lessor;
- variable lease payments that depend on an index or a rate (such as the Consumer Price Index or a benchmark interest rate), using the index or rate as at the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequently, a lessee will increase the lease liability to reflect interest accrued (and recognised in profit or loss), deduct lease payments made from the liability and measure the carrying amount to reflect any reassessment, lease modification, or revision to in-substance fixed payments.

Variable lease payments that are not included in the measurement of the lease liability are recognised in profit or loss in the period in which the event or condition that triggers payment occurs, unless the costs are included in the carrying amount of another asset under another Standard.

Reassessment of the lease liability

A lessee is required to remeasure the lease liability in the following circumstances:

- when there is a change in the
 - amount expected to be payable under a residual value guarantee;
 - future lease payments to reflect a change in an index or rate used to determine those payments;
 - lease term resulting from a change in non-cancellable period of the lease; or
 - assessment of an option to purchase underlying asset.

A lessee is required to recognise the amount of remeasurement of the lease liability as an adjustment to the right-of-use asset unless the carrying amount of the right-of-use asset is reduced to zero. In this case, a lessee will recognise any remaining amount in profit or loss.

Exemptions

A lessee may elect to account for lease payments as an expense on a straight-line basis over the lease term or another systematic basis (similar to the current off-balance sheet operating lease accounting) for the following two types of leases:

- leases without purchase option and with a lease term of 12 months or less – this election is made by class of underlying asset; and
- leases where the underlying asset has a low value when new (such as personal computers or small items of office furniture) – this election can be made on a lease-by-lease basis.

Lessor accounting

SFRS(I) 16 maintains substantially the lessor accounting requirements in SFRS(I) 1-17. Lessors will continue to classify leases as operating leases or finance leases.

Subleases

The Standard requires an intermediate lessor to account for a head lease and a sublease as two separate contracts, applying both the lessee and lessor accounting requirements.

In classifying a sublease, the intermediate lessor should classify the sublease as follows:

- if the head lease is a short-term lease that the entity, as a lessee, has applied the short-term lease exemption, the sublease should be classified as an operating lease;
- otherwise, the sublease should be classified by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset.

Sale and leaseback transactions

The Standard includes guidance on sale and leaseback transactions applicable to both the seller-lessee and buyer-lessor. The treatment of such transactions depends on whether the transfer of the asset in question meets the criteria of SFRS(I) 15 *Revenue from Contract with Customers* for recognition as a sale.

If the sale criteria are met:

- the seller-lessee recognises a right-of-use asset calculated as the proportion of the asset's previous carrying amount relating to the right-of-use it has retained (as a result, a gain or loss on disposal is recognised only to the extent that rights of use have transferred to the buyer-lessor); and
- the buyer-lessor accounts for the purchase of the underlying asset under the applicable Standards (for example, SFRS(I) 1-16 for a purchase of property, plant and equipment) and the lease under SFRS(I) 16's lessor accounting model.

If the sale proceeds do not reflect the fair value of the asset, or if the lease payments are not at a market rate, adjustments are made to reflect a prepayment of lease payments or additional financing provided by the buyer-lessor.

If the sale criteria are not met:

- the seller-lessee continues to recognise the underlying asset and recognises a financial liability in respect of the sales proceeds received; and
- the buyer-lessor recognises a financial asset in respect of the payment made.

Presentation

The main presentation requirements for a lessee are summarised below:

Statement of financial position	Statement of profit or loss and other comprehensive income	Statement of cash flows
<ul style="list-style-type: none"> • Right-of-use assets • Lease liabilities <p>Distinguished from other assets and liabilities either by separate presentation in the statement of financial position or by disclosure of the line item that they are included in.</p>	<ul style="list-style-type: none"> • Interest expense on the lease liability (a component of finance costs) • Depreciation charge from the right-of-use asset 	<ul style="list-style-type: none"> • Cash payments for the principal portion of the lease liability, presented within financing activities. • Cash payments for the interest portion of the lease liability, presented consistently with other interest payments. • Short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability, presented within operating activities.

SFRS(I) 16 maintains substantially the lessor presentation requirements in SFRS(I) 1-17.

Disclosure

The disclosure objective of SFRS(I) 16 is that an entity is required to provide information that gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of a lessee and a lessor.

For a lessee, SFRS(I) 16 significantly expands the current disclosure requirements about leases. The required quantitative disclosure requirements include:

- depreciation charge for right-of-use assets by class of underlying asset;
- interest expense on lease liabilities;
- the expense relating to short-term leases;
- the expense relating to leases of low-value assets;
- the expense relating to variable lease payments not included in the measurement of lease liabilities;
- income from subleasing right-of-use assets;
- total cash outflow for leases;
- additions to right-of-use assets;
- gains or losses arising from sale and leaseback transactions; and
- the carrying amount of right-of-use assets at the end of the reporting period, by class of underlying asset.

In addition, a lessee is required to disclose a maturity analysis of lease liabilities (separately from other financial liabilities) in accordance with SFRS(I) 7 *Financial Instruments: Disclosures*.

For a lessor, SFRS(I) 16 also requires the disclosure of how the lessor manages the risk associated with any rights it retains in underlying assets. In particular, a lessor shall disclose its risk management strategy for the rights it retains in underlying assets, including any means by which the lessor reduces that risk. Such means may include, for example, buy-back agreements, residual value guarantees or variable lease payments for use in excess of specified limits.

Effective date and transition

SFRS(I) 16 applies to annual reporting periods beginning on or after January 1, 2019, with early application permitted if SFRS(I) 15 has also been applied. Several transitional reliefs are available on initial application.

As a practical expedient, an entity is not required to reassess whether a pre-existing contract is, or contains, a lease at the date of initial application. It is allowed to carry forward the conclusion reached under SFRS(I) 1-17 and SFRS(I) INT 4 *Determining whether an Arrangement contains a Lease* in respect of contracts entered into prior to the date of initial application of SFRS(I) 16.

A lessee shall either apply SFRS(I) 16 with full retrospective effect or alternatively not restate comparative information but recognise the cumulative effect of initially applying SFRS(I) 16 as an adjustment to opening equity at the date of initial application.

SFRS(I) INT 23 *Uncertainty over Income Tax Treatments*

Background

The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under SFRS(I) 1-12.

Consensus

Whether tax treatments should be considered collectively

An entity is required to use judgement to determine whether each tax treatment should be considered independently or whether some tax treatments should be considered together. The decision should be based on which approach provides better predictions of the resolution of the uncertainty.

Assumptions for taxation authorities' examinations

An entity is to assume that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so.

Determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates

An entity has to consider whether it is probable that the relevant authority will accept each tax treatment, or group of tax treatments, that it used or plans to use in its income tax filing.

- if the entity concludes that it is probable that a particular tax treatment is accepted, the entity has to determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment included in its income tax filings.
- if the entity concludes that it is not probable that a particular tax treatment is accepted, the entity has to use the most likely amount or the expected value of the tax treatment when determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. The decision should be based on which method provides better predictions of the resolution of the uncertainty.

Effect of changes in facts and circumstances

An entity has to reassess its judgements and estimates if facts and circumstances change.

Effective date and transition

The interpretation is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted.

The requirements are applied by recognising the cumulative effect of initially applying them in retained earnings, or in other appropriate components of equity, at the start of the reporting period in which an entity first applies them, without adjusting comparative information. Full retrospective application is permitted, if an entity can do so without using hindsight.

SFRS(I) 17 Insurance Contracts

Introduction

SFRS(I) 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes SFRS(I) 4 Insurance Contracts. The objective of SFRS(I) 17 is to ensure that an entity provides relevant information that faithfully represents rights and obligations from insurance contracts it issues. It provides a single principle-based framework to account for all types of insurance contracts, including reinsurance contracts that an insurer holds.

SFRS(I) 17 specifies how an entity recognises, measures, presents and discloses:

- insurance contracts (a contract under which one party (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder) it issues.
- reinsurance contracts (an insurance contract issued by one entity (the reinsurer) to compensate another entity for claims arising from one or more insurance contracts issued by that entity (underlying contracts)) it holds or issues.
- investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts.

Main features

The Standard measures insurance contract either under the General Model or a simplified version of this, called the Premium Allocation Approach (PAA).

The main features of the measurement approach applied in the General Model are that:

- estimates and assumptions of future cash flows are always current;
- measurement reflects the time value of money;
- estimates make maximum use of observable market consistent information;
- there is a current and explicit measurement of risk;
- expected profit is deferred and aggregated in groups of insurance contracts at initial recognition; and
- expected profit is recognised over the coverage period after adjustments from changes in the cash flows assumptions related to each group of contracts.

Aggregation of insurance contracts

SFRS(I) 17 requires entities to identify portfolios of insurance contracts, which comprise contracts that are subject to similar risks and managed together. Contracts within a product line would be expected to have similar risks and hence would be expected to be in the same portfolio if they are managed together.

Recognition

A group of insurance contracts is recognised from the earliest of:

- the beginning of the coverage period of the group of contracts;
- the date when the first payment from a policyholder in the group becomes due; and
- for a group of onerous contracts, when the group becomes onerous.

Initial measurement

On initial recognition, an entity measures a group of insurance contracts at the total of:

- estimates of future cash flows;
- an adjustment to reflect the time value of money (“TVM”) and the financial risks associated with the future cash flows; and
- a risk adjustment for non-financial risk (together, the ‘fulfilment cash flows’ (‘FCF’))
- plus, the contractual service margin (“CSM”).

The CSM represents the unearned profit of the group of insurance contracts that the entity will recognise as it provides services in the future and is measured on initial recognition of a group of insurance contracts at an amount that, unless the group of contracts is onerous, results in no income or expenses arising from:

- the initial recognition of the FCF;
- the derecognition at that date of any asset or liability recognised for insurance acquisition cash flows; and
- any cash flows arising from the contracts in the group at that date.

Subsequent measurement

The carrying amount of a group of insurance contracts at the end of each reporting period is the sum of:

- the liability for remaining coverage (comprising the FCF related to future services and the CSM at that date); and
- the liability for incurred claims, comprising the liability to handle and pay already incurred claims arising from past coverage service.

The CSM is adjusted at the end of each reporting period to reflect the profit on a group of insurance contracts that relates to the future service to be provided.

Premium allocation approach

An entity may simplify the measurement of the liability for the remaining coverage of a group of insurance contracts using the PAA on the condition that, at initial recognition, the entity reasonably expects that this will be an approximation of the General Model. Where, at the inception of the group, an entity expects significant variances in the FCF during the period before a claim is incurred, such contracts are not eligible to apply the PAA. Contracts with a coverage period of one year or less are automatically eligible for PAA.

The simplifications arising from the PAA do not apply to the measurement of the group’s liability for incurred claims, measured under the General Model. However, there is no need to discount those cash flows if the balance is expected to be paid or received one year or less from the date the claims are incurred.

Using the PAA, the liability for remaining coverage shall be initially recognised at the premiums, if any, received at initial recognition, minus any insurance acquisition cash flows. This is subsequently adjusted for change in the composition of the group and amortisation of acquisition cash flows and reduced over the coverage period, with the reduction recorded as revenue, excluding any investment component paid or transferred to the liability for incurred claims.

If insurance contracts in the group have a significant financing component, the liability for remaining coverage needs to be discounted, however, this is not required if, at initial recognition, the entity expects that the time between providing each part of the coverage and the due date of the related premium is no more than one year.

In applying PAA, an entity may choose to recognise any insurance acquisition cash flows as an expense when it incurs those costs, provided that the coverage period at initial recognition is no more than a year.

Onerous contracts

Insurance contract is onerous at initial recognition if the total of the FCF, any previously recognised acquisition cash flows and any cash flows arising from the contract at that date is a net outflow. An entity shall recognise a loss in profit or loss for the net outflow, resulting in the carrying amount of the liability for the group being equal to the FCF and the CSM of the group being zero.

On subsequent measurement, if a group of insurance contracts becomes onerous (or more onerous), that excess shall be recognised in profit or loss. Additionally, the CSM cannot increase and no revenue can be recognised, until the onerous amount previously recognised has been reversed in profit or loss as part of insurance service expense.

Reinsurance contracts held

The requirements of the standard are modified for reinsurance contracts held.

In estimating the present value of future expected cash flows for reinsurance contracts, entities use assumptions consistent with those used for the underlying direct insurance contracts. Additionally, estimates include the effect of any risk of the reinsurer's non-performance.

The risk adjustment for non-financial risk is estimated to represent the transfer of risk from the holder of the reinsurance contract to the reinsurer.

On initial recognition, the CSM is determined similarly to that of direct insurance contracts issued, except that the CSM represents net gain or cost on purchasing reinsurance. On initial recognition, this net gain or cost is deferred, unless the net cost relates to events that occurred before purchasing a reinsurance contract (in which case it is expensed immediately).

Subsequently, reinsurance contracts held are accounted similarly to insurance contracts under the general model. Changes in reinsurer's risk of non-performance are reflected in profit or loss, and do not adjust the CSM.

Insurance contracts with direct participating features (direct par insurance contracts)

Many insurance contracts allow policyholders to participate in investment returns with the insurer, in addition to compensation for losses from insured risk. Not all participating contracts meet the definition of direct par insurance contracts, which need to satisfy all three of the following criteria:

- the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items;
- the entity expects to pay to the policyholder an amount equal to a substantial share of the fair value returns from the underlying items; and
- a substantial proportion of the cash flows that the entity expects to pay to the policyholder should be expected to vary with the cash flows from the underlying items.

Direct par insurance contracts are viewed as creating an obligation for the entity to pay to the policyholder an amount equal to the underlying items less a variable fee for service. A variable fee comprises the entity's share of the fair value of the underlying items less amounts payable to the policyholder that do not vary based on the underlying items (e.g., expenses paid to fulfil the contract). The General Model is modified for such contracts and it is referred to as the "variable fee approach" or "VFA".

Those participating contracts not meeting the definition of direct par insurance contracts are called indirect participation contracts, and are accounted for using the General Model.

Investment contracts with discretionary participation features

An investment contract with discretionary participation features does not include a transfer of significant insurance risk. Consequently, the requirements are modified as follows:

- the date of initial recognition is the date the entity becomes party to the contract.
- the contract boundary is modified so that cash flows are within the contract boundary if they result from a substantive obligation of the entity to deliver cash at a present or future date. The entity has no substantive obligation to deliver cash if it has the practical ability to set a price for the promise to deliver the cash that fully reflects the amount of cash promised and related risks.
- the allocation of the contractual service margin is modified so that the entity shall recognise the contractual service margin over the duration of the group of contracts in a systematic way that reflects the transfer of investment services under the contract.

Variable Fee Approach

For direct par insurance contracts, the CSM is adjusted for any new contracts added to the group and the effects of foreign exchange movements. However, it is also adjusted for the changes in the entity's share of the fair value of the underlying items, except to the extent the changes give rise to a loss or a reversal of such loss. It is adjusted for the changes in the FCF relating to future coverage or other services (except to the extent that the changes give rise to a loss or its reversal). Unlike in the General Model, under the VFA this includes changes in estimates relating to the time value of money and financial risks, since for direct par insurance contracts these are considered related to future coverage. After making all these adjustments, part of the CSM is released and recognised as revenue because of the transfer of services in the period. This is determined by the allocation of the CSM at the end of the reporting period (before any allocation) over the current and remaining coverage period.

Changes in the obligation to pay the policyholder an amount equal to the fair value of the underlying items or changes in estimates of incurred claims and incurred expenses do not relate to future service and therefore do not adjust the CSM.

Presentation in the statement of financial position

Separate presentation is required of:

- Insurance contracts issued that are assets
- Insurance contracts issued that are liabilities
- Reinsurance contracts issued that are assets
- Reinsurance contracts issued that are liabilities

Presentation in the statements of financial performance

Amounts recognised in the statements of financial performance are disaggregated into:

- a) An insurance service result comprising insurance revenue (from the provision of services under the insurance contract) and insurance service expenses (e.g. incurred claims and other incurred expenses). These amounts are presented in profit or loss.
- b) Insurance finance income or expenses reflecting changes arising from the effect of the time value of money and financial risk (excluding any such changes for groups of insurance contracts with direct participating insurance contracts that would instead adjust the CSM).

SFRS(I) 17 provides an accounting policy choice to present all insurance finance income or expenses in profit or loss or to present in profit or loss only an amount determined by a systematic allocation of the expected total insurance finance income or expenses over the duration of a group of contracts. If the latter option is taken, the remaining insurance finance income or expense is presented in other comprehensive income.

Effective date and transition

The Standard is applicable for annual reporting periods beginning on or after 1 January 2021. Early application is permitted for entities that apply SFRS(I) 9 and SFRS(I) 15 at or before the date of initial application of the Standard. For the purpose of the transition requirements, the date of initial application is the start of the annual reporting period in which an entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application.

Deferred indefinitely, effective date to be determined by the ASC

	Title	Effective Date
SFRS(I) 10, SFRS(I) 1-28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	To be determined

SFRS(I) 10 Consolidated Financial Statements, SFRS(I) 1-28 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 SFRS(I) 10 and those in SFRS(I) 1-28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture.

In such a transaction, 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; 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.

Effective date of amendments to SFRS(I) 10 and SFRS(I) 1-28

The ASC has deferred the effective date of the amendments indefinitely. Early application of the amendment remains to be permitted.

Practice Statement 2: Making Materiality Judgements (non-mandatory guidance)

Applying materiality requires judgement. Some stakeholders have cited the difficulty and lack of guidance in applying materiality judgements as contributing to the disclosure problem, i.e. disclosing too much irrelevant information and too little relevant information.

The ASC has issued a non-mandatory Practice Statement for SFRS(I)/FRS providing guidance on how to make materiality judgements when entities prepare financial statements. The Practice Statement does not change any requirements in SFRS(I)/FRS or introduce any new requirements. It includes a four-step process as an example of how management could make materiality judgements when preparing financial statements. The objective of the Practice Statement is to help those responsible for financial statements make judgement about what information is likely to be material to the primary users of those financial statements.

The Practice Statement emphasises the following points when assessing whether information is material for the purpose of preparing financial statements:

- Meeting the information needs of primary users
 - The financial statements should address the information needs of existing and potential investors, lenders and other creditors, they being the primary users of an entity's financial statements.
 - The financial statements should provide information that will satisfy the needs that are common within each of the three groups of primary users. In other words, an entity need not address information needs that are unique to particular users or to niche groups. This requirement would also prevent an entity from identifying only those information needs that are simultaneously common to all categories of an entity's primary users, as that might exclude the information needs of only one category.
 - When making materiality judgements, an entity needs to assess whether information can reasonably be expected to influence primary users' decisions, rather than whether that information alone would be capable of changing their decisions.
 - The fact that information is available publicly from other sources does not affect the assessment of whether the information is material for the purposes of the financial statements. It also does not relieve the entity of the obligation to disclose that information, if material, in the financial statements.
- Interaction with local laws and regulations
 - An entity may provide additional information to meet legal or regulatory requirements, even if that information is not material within the context of IFRS requirements. However, such information must not obscure information that is material according to IFRS Standards.
- Prior period information
 - An entity should provide prior period information to the extent that it is relevant to an understanding of the current period financial statements. This means that an entity should expand or summarise prior period disclosures to suit the needs of the current year, regardless of how much information was included in the prior period financial statements.
- Errors
 - If an error is assessed to be individually material, it cannot be passed over for correction because of the offsetting effect of other errors.
 - In assessing whether errors that have accumulated over time have become material to the current period, an entity should consider whether any further accumulation of errors have occurred in the current period, or whether the circumstances of the entity have changed that would result in a different materiality assessment for the current period.

- Covenants
 - In assessing the materiality of information about the existence and the terms of a covenant, or a breach of covenant, an entity should consider both:
 - The consequences of breaching a covenant, i.e., the impact a covenant breach would have on the entity's financial position, performance and cash flows. If the consequences would be material, then information about the covenant would likely be material. Conversely, if the consequences would not be material, then disclosures about the covenant might not be needed; and
 - The likelihood of breaching a covenant. The more likely the breach, the more likely that information about the covenant would be material.

- Interim reporting considerations
 - An entity should apply the same materiality process in preparing both the annual and the interim financial statements. However, an entity should take into account that the time period and the purpose of an interim financial report differ from those of an annual report when determining what is material for the purposes of the interim financial statements.
 - Information that is material to the interim period, but that was already disclosed in the latest annual financial statements, does not need to be reproduced in the interim financial report, unless something new occurred during the interim period or an update is needed.

A four-step materiality process

The Practice Statement also includes a four-step process as an example of how management could make materiality judgements when preparing financial statements. The steps involved are as follows:

Step 1 – identify potentially material information, taking into account the requirements of the applicable Standards and the information needs of primary users.

Step 2 – assess whether the information identified in Step 1 is material by considering quantitative and qualitative factors. The Practice Statement gives various examples of quantitative and qualitative factors, and contains further guidance on how they affect the materiality assessment, both individually and on a combined basis.

Step 3 – organise the information identified in Step 2 in the draft financial statements in a way that communicates the information effectively and efficiently. The Principles of Disclosure Discussion Paper includes further proposals on how an entity can organise its financial statements, e.g., whether to disclose something in the primary financial statements or in the notes, and the extent to which line items should be disaggregated.

Step 4 – review the draft financial statements as a whole to determine whether all material information has been identified, including a consideration of materiality from an aggregated perspective. Information that is judged not to be material on its own may be material when considered in combination with other information in the context of a complete set of financial statements.

The process described above is just one example of how the materiality assessment could be performed. Other methods may be appropriate.

Effective date

An entity that chooses to apply the guidance in the Practice Statement is permitted to apply it to financial statements prepared from 1 August 2018.

Withdrawal of Recommended Accounting Practices (RAPs)

The following RAPs have been withdrawn by ISCA for annual periods beginning on or after 1 January 2018.

- RAP 8 Foreign Income Not Remitted to Singapore
- RAP 10 FRS 103, Business Combinations – Clarification of Transitional Provisions

RAP 8 sets out recommendations on the way in which an entity accounts for deferred tax in respect of foreign-sourced income not remitted to Singapore. With its withdrawal, entities should to exercise their professional judgement in accounting for deferred tax liability in respect of foreign-sourced income not remitted to Singapore in accordance with FRS 12 Income Taxes and other relevant standards.

RAP 10 clarified the transitional provisions relating to FRS 103 Business Combinations (revised in 2004) and has been withdrawn as it is no longer relevant.

Recent pronouncements issued by the IASB

	Title	Effective Date*
Framework (Revised)	<i>Conceptual Framework for Financial Reporting</i>	1-Jan-20
IFRS 3 (Amended)	<i>Definition of a Business</i>	1-Jan-20
IAS 1, IAS 8 (Amended)	<i>Definition of Material</i>	1-Jan-20

*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.

Conceptual Framework for Financial Reporting

Overview

The main purpose of the Framework is to guide the IASB when it develops International Financial Reporting Standards. The Framework can also be helpful for preparers and auditors when there are no specific or similar standards that address a particular issue.

The new Framework has an introduction, eight chapters and a glossary. Five of the chapters are new, or have been revised substantially: Financial statements and the reporting entity; The elements of financial statements; Recognition and derecognition; Measurement; and Presentation and disclosure. The revised Framework is about three times the length of the version it replaces.

The Framework does not override the requirements in any Standard. If there is a conflict, or inconsistency, between the Framework and a Standard, the requirements in the Standard take precedence.

The new Framework:

- Reintroduces the terms stewardship and prudence.
- Introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument.
- Removes from the asset and liability definitions references to the expected flow of economic benefits—this lowers the hurdle for identifying the existence of an asset or liability and puts more emphasis on reflecting uncertainty in measurement.
- Discusses historical cost and current value measures, and provides some guidance on how the IASB would go about selecting a measurement basis for a particular asset or liability.
- States that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances will the IASB use other comprehensive income and only for income or expenses that arise from a change in the current value of an asset or liability.
- Discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

The IASB has also updated references in Standards so that they will refer to the new Framework, but it has not made consequential amendments to Standards to reflect changes in the Framework such as changing the asset and liability definitions in the Standards.

The new Framework came into effect on publication by the IASB.

Amendments to IFRS 3 *Definition of a Business*

Background

The IASB's post-implementation review (PIR) of IFRS 3 revealed that many stakeholders have concerns about how to interpret and apply the definition of a business when applying IFRS 3. As the accounting requirements for goodwill, acquisition costs and deferred tax differ between the acquisition of a business and on the acquisition of a group of assets, the IASB responded to the concerns by issuing these amendments aimed at clarifying the definition of a business.

The amendments

Minimum requirements to meet the definition of a business

The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. However, to meet the definition of a business, an integrated set of activities and assets must include, as a minimum, an input and a substantive process that together significantly contribute to the ability to create output. The IASB also clarifies that outputs in and of themselves are not sufficient to determine that an integrated set of activities and assets is a business. Instead, the entity needs to demonstrate that both an input and a substantive process have been acquired.

To clarify that a business can exist without including all of the inputs and processes needed to create outputs, the IASB replaced the term 'ability to create outputs' with 'ability to contribute to the creation of outputs'.

Assessing whether an acquired process is substantive

To determine whether an acquired process is substantive, different criteria apply, depending on whether there are outputs at the acquisition date.

For integrated sets of activities and assets that have outputs at the acquisition date (i.e. those that generate revenue at the acquisition date), an acquired process is substantive in either one of the following two scenarios:

- a) The process is critical to the ability to continue producing outputs, and the inputs acquired include an organised workforce with necessary skills, knowledge or experience to perform that process (or group of processes)
- b) The process significantly contributes to the ability to continue producing outputs and is considered unique or scarce or cannot be replaced without significant cost, effort or delay in the ability to continue producing outputs

For integrated sets of activities and assets that do not have outputs at the acquisition date, an acquired process

is considered substantive if both of the following criteria are met:

- a) The process is critical to the ability to develop or convert an acquired input or inputs into outputs
- b) The inputs acquired include both an organised workforce that has the necessary skills, knowledge or experience to perform that process (or group of processes) and other inputs that the workforce could develop or convert into outputs

The IASB has added several examples to the Illustrative Examples of IFRS 3 to demonstrate how the new guidance is applied in certain scenarios.

Market participant's ability to replace missing elements

Before the amendments, IFRS 3 stated that a business did not need to include all of the inputs or processes that the seller used in operating the business if market participants are capable of acquiring the business and continuing to produce outputs, for example, by integrating the business with their own inputs and processes.

The IASB has now removed this reference as participants in the PIR of IFRS 3 have indicated that it is challenging to assess whether market participants are capable of performing such an integration. Instead, as described above, the IASB decided to focus on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs.

Narrowed definition of outputs

To narrow the definition of outputs, the IASB has amended the definition of a business in Appendix A of IFRS 3 as well as the definition of outputs in the Application Guidance to IFRS 3. These amendments put the focus of outputs on goods and services provided to customers. By that, the IASB wants to achieve consistency with the notion of outputs in IFRS 15 Revenue from Contracts with Customers.

The amendments remove from the new definitions references to returns in the form of lower costs and other economic benefits provided directly to investors or other owners, members or participants. In the IASB's view, the reduction of costs is not a helpful concept to distinguish between acquisitions of a business and asset acquisitions. Many asset acquisitions that do not include a substantive process may also be made with the motive of lowering costs.

Optional test to identify concentration of fair value

The IASB has introduced an optional test that provides a simplified assessment of whether an acquired set of activities and assets is not a business (the concentration test). If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed. If the test is not met, an entity performs the assessment set out above to determine whether or not the acquired set of activities and assets is a business.

The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The IASB decided to focus on gross assets rather than net assets in the test as the existence of debt or other liabilities has no relevance on whether an acquisition is a business combination. In addition, the concentration test excludes cash and cash equivalents acquired, deferred tax assets and goodwill resulting from the effects of deferred tax liabilities. Those items are independent of whether the acquired set of activities and assets includes a substantive process. An example of how the test is performed is added to the Illustrative Examples that accompany IFRS 3.

Effective Date

An entity shall apply the amendments to business combinations and asset acquisitions that occur on or after the beginning of the first annual reporting period beginning on or after 1 January 2020. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.

Amendments to IAS 1 and IAS 8 Definition of Material

Background

The IASB has responded to concerns that some entities experience difficulties in making materiality judgements when preparing financial statements. Although these difficulties are generally behavioural, rather than related to the definition of material, feedback suggested that a number of areas, such as the wording of the definition differing between IAS 1 and the *Conceptual Framework for Financial Reporting (Conceptual Framework)*, could be addressed by refining the definition.

The amendments

Primarily, the IASB amended the definition of material in IAS 1:7. It has been replaced with the following: *"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."*

The amendments set out that the changes are the same for those that have adopted the 2018 Amendments to References to the *Conceptual Framework* in IFRS Standards, and for those who have not.

The key refinements to the definition include:

- Replacing the threshold 'could influence' with 'could reasonably be expected to influence' as the former may be understood as being too broad, given that almost anything "could" influence the decisions of some users of the financial statements, even if remote.
- Using the wording of the definition of material in the *Conceptual Framework*, which the IASB consider to be clearer. This includes use of the phrase 'primary users' rather than simply referring to 'users' as the unaccompanied term was considered too broad.
- Including 'obscuring' in the definition of material to incorporate the existing concept in IAS 1:30A and address concerns that the effect of including immaterial information should also be considered in addition to 'misstating' and 'omitting'.
- Relocating explanatory wording from the definition to explanatory paragraphs to clarify those requirements that are part of the definition and those that explain the definition.
- Replacing the term 'economic decisions' with 'decisions', which is expected to be interpreted in the same way.

Apart from the definition of material, additional explanatory guidance was added to IAS 1:7.

In addition, the IASB made consequential amendments to align the definition of 'material' across the respective IFRS Standards and other publications.

Effective Date

The changes take effect for materiality judgements made in annual periods beginning on or after 1 January 2020, and are applied prospectively. Earlier application is permitted (the entity must disclose that fact).

Outline of recent exposure drafts issued by the IASB

Below are highlights of the proposed changes in recent exposure drafts (ED) issued by the IASB since 30 November 2017 of which the ASC has similarly sought comments through the public consultation process.

Exposure Drafts	Main proposals
Accounting Policy Changes (Proposed amendments to IAS 8)	<p>The proposed amendments:</p> <ul style="list-style-type: none"> • make it easier for an entity to change an accounting policy in response to an agenda decision issued by the IFRS Interpretations Committee. • allow an entity to depart from full retrospective application of the new policy if it can demonstrate that the cost of determining the effects of the retrospective application would exceed the expected benefits to users.

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

Summary of differences between SFRS(I) and IFRS

Accounting Standards Council (ASC) issued the first volume of the SFRS(I) in December 2017. It contains the equivalent text of IFRS standards and interpretations issued by the IASB and the IFRIC respectively at 31 December 2017 that are applicable for annual reporting period beginning on 1 January 2018.

In the SFRS(I)s, paragraphs with prefix 'IFRS' refer to effective date, transition provisions and/or other text extracted from IFRSs. An entity that is not a first-time adopter shall apply those requirements, if applicable (e.g. a transitioning entity which stated compliance with IFRSs in its most recent previous year financial statements).

Paragraphs that are specific to SFRS(I)s are indicated with a prefix 'SG'.

Below are the key difference between SFRS(I) and IFRS.

Content	IFRS	SFRS(I)
Consolidation exemption criteria (parent's reporting framework)	Parent produces consolidated financial statements that comply with IFRS [IFRS 10.4(a)]	Parent produces consolidated financial statements that comply with SFRS(I) or IFRS [SFRS(I) 10.4(a)]

Issue dates by IASB and ASC may also differ, for example

			Issue dates		
	Pronouncements	Effective	IFRS	SFRS(I)	FRS
IFRS 17	Insurance Contracts	2021	18 May 17	29 Mar 18	29 Mar 18
IFRS 9	Prepayment Features with Negative Compensation	2019	12 Oct 17	29 Dec 17	29 Dec 17
IAS 28	Long-term Interests in Associates and Joint Ventures	2019	12 Oct 17	29 Dec 17	29 Dec 17
Practice Statement	Making Materiality Judgements	2018	14 Sep 17	1 Aug 18	1 Aug 18
Improvements	Annual Improvements to IFRS® Standards 2015–2017 Cycle	2019	11 Dec 17	7 Mar 18	7 Mar 18
IAS 19	Plan Amendment, Curtailment or Settlement	2019	7 Feb 18	1 Aug 18	1 Aug 18
Framework	Conceptual Framework for Financial Reporting	2020	29 Mar 18	Not yet	Not yet
IFRS 3	Definition of a Business	2020	22 Oct 18	Not yet	Not yet
IAS 1, IAS 8	Definition of Material	2020	31 Oct 18	Not yet	Not yet

Summary of differences between FRS and 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	<p>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.</p> <p>SFRS for Small Entities is based on the IFRS for SMEs and includes additional eligibility criteria specific to local context.</p>
ED FRS	References to the Conceptual Framework in IFRS Standards	Framework	<p>The amendments to references to the Conceptual Framework in IFRS Standards is effective for annual periods beginning on or after 1 January 2020.</p> <p>It contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.</p> <p>This amendment has not been adopted in Singapore yet.</p>
ED FRS	Definition of Material	IAS 1 and IAS 8	<p>The amendments to IAS 1 and IAS 8 are effective for annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted.</p> <p>The amendment has not been adopted in Singapore yet.</p>
FRS 16	Property, Plant and Equipment	IAS 16	<p>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.</p>

FRS	Content	IAS/IFRS	Comments
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)	<p>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.</p> <p>Similar differences apply to the exemption from equity accounting for associates and joint ventures in FRS 28(2012), compared to IAS 28(2011).</p>
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 FRS	Definition of a Business	IFRS 3	<p>The amendments to IFRS 3 is effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020. Earlier application is permitted.</p> <p>The amendment has not been adopted in Singapore yet.</p>
FRS 109	Financial Instruments	IFRS 9	<p>The IASB has previously published versions of IFRS 9 that introduced new classification and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). The July 2014 publication represents the final version of the Standard, replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 <i>Financial Instruments: Recognition and Measurement</i>.</p> <p>The final version of IFRS 9 and FRS 109 are both effective for annual periods beginning on or after 1 January 2018.</p> <p>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.</p> <p>However, FRS 109 does not have earlier versions as it was issued in a single version, equivalent to the final version of IFRS 9.</p>

FRS	Content	IAS/IFRS	Comments
ED INT FRS	Members' Shares in Co-operative Entities and Similar Instruments	IFRIC 2	<p>IFRIC 2 is effective for annual periods beginning on or after 1 January 2005.</p> <p>This Interpretation has not been adopted in Singapore.</p>
INT FRS 115	Agreements for the Construction of Real Estate	IFRIC 15	<p>IFRIC 15 is effective for annual periods beginning on or after 1 January 2009 whereas INT FRS 115 is effective from 1 January 2011.</p> <p>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.</p> <p>(Note: INT FRS 115 and IFRIC 15 will be superseded by FRS 115 and IFRS 15 respectively, effective for annual periods beginning on or after 1 January 2018.)</p>
RAP 8	Foreign Income Not Remitted to Singapore	IAS 12	<p>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.</p> <p>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.</p> <p>(Note: RAP 8 is withdrawn for annual reporting periods beginning on or after 1 January 2018.)</p>

Section 2: Other financial reporting matters

FAQs on Auditor's Report on Financial Statements Prepared in Accordance with SFRS(I)

Background

In April 2018, the ISCA Auditing and Assurance Standards Committee released a FAQ publication (available at the ISCA website) to address some of the common questions relating to the auditor's report on financial statements prepared in accordance with SFRS(I)s.

The publication provides FAQs on the following

- Guidance on comparatives and the impact on the auditor's report on the first set of financial statements prepared in accordance with SFRS(I)s for listed entities and non-listed entities
- Guidance on comparatives and the impact the auditor's review report on the interim financial statements issued in accordance with Singapore Standard on Review Engagement 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity
- The impact to the auditor's opinion if an entity elects to state simultaneous compliance with SFRS(I) and IFRS
- How to present the audit opinion if the auditor is reporting on the compliance of both SFRS(I) and IFRS

FAQs Enhanced Auditor Reporting - Implementation of New and Revised Standards

In June 2018, the ISCA Auditing and Assurance Standards Committee released an updated FAQ publication (available at the ISCA website) to address some of the common questions relating to the Enhanced Auditor's Report.

New FAQs have been added on

- Whether the sustainability report is considered Other Information within the scope of SSA 720 (Revised); and
- Description of auditor's responsibilities when financial statements are prepared on a basis other than going concern

Companies (Revision of Defective Financial Statements, or Consolidated Financial Statements or Balance-Sheet) Regulations 2018

Section 121 of the Companies (Amendment) Act 2014 came into effect on 20 April 2018. It introduced new sections 202A on voluntary revision of defective financial statements and 202B on registrar's application to Court in respect of defective financial statements. The Companies (Revision of Defective Financial Statements, or Consolidated Financial Statements or Balance-sheet) Regulations 2018 (Regulations) also came into effect on the same date. The ACRA issued guidance relating to Sections 202A and 202B to help companies understand and comply with the requirements of the Regulations.

If it appears to the directors that the financial statements (or, in the case of a parent company, consolidated financial statements and balance-sheet) ("Financial Statements") do not comply with the requirements of the Act (including compliance with the Accounting Standards), they may voluntarily revise the Financial Statements. Such revisions are confined to those areas of non-compliance and any necessary consequential revisions. The revised Financial Statements should also be accompanied by the new directors' statement and the amended auditor's report.

Accounting Standards that were applied in the original Financial Statements continue to be applied in the revised Financial Statements and reliefs from requirements granted by the registrar on the original Financial Statements do not automatically apply to the revised Financial Statements and new directors' statement.

The following information should be included prominently in the revised Financial Statements

- that the revised Financial Statements replace the original Financial Statements
- that the revised Financial Statements are taken as having been prepared on the date of the original Financial Statements and do not deal with events occurring after that date
- which parts of the original Financial Statements did not appear to comply with the Act and the material revisions to the original financial statements
- that the directors have approved the revised Financial Statements and the date of that approval

The directors must take reasonable steps to ensure that the revised Financial Statements are sent to all persons who were sent a copy of the original Financial Statements/summary Financial Statements and to all persons entitled as at the date of revision to receive notice of general meetings. The revised Financial Statements must be laid at the next general meeting after the date of the revision. The revised Financial Statements must also be filed with the Registrar within 30 days after the date of revision.

In August 2018, ACRA issued an Audit Practice Bulletin No. 1 of 2018, which highlights some of the legislative requirements and provides guidance to auditors on the audit procedures and the auditor's report on the revised Financial Statements.

In October 2018, ISCA amended the Audit Guidance Statement 1 (AGS 1) Sample Independent Auditor's Reports and included an illustrative auditor's report on a revised Financial Statements of a Singapore incorporated listed company prepared in accordance with a fair presentation framework.

Some key areas to note in preparing the auditor's report

- The revised Financial Statements is taken as being prepared on date of original Financial Statements
- Assessment of going concern is based on audit evidence obtained up to date of original auditor's report
- Consider whether the revision will give rise to additional Key Audit Matters (KAMs) or relate to a matter previously communicated
- Consider whether the revision affects "Other Information", such as the new Directors' Statement or revised annual report
- Include an "Other Matter" section to draw attention to the disclosures on aspects in which the original Financial Statements did not comply with the Act and the material revisions to the original Financial Statements

Revised Code of Corporate Governance and amended SGX Listing Rules (SGX LR)

In August 2018, the Monetary Authority of Singapore (MAS) accepted the recommendations by the Corporate Governance Council (Council), and issued the revised Code of Corporate Governance (Code). The Code is applicable to listed companies in Singapore on a comply-or-explain basis.

The Code is streamlined to be more focused and concise. Important requirements or baseline market practices are shifted to the SGX LR and overly-prescriptive or duplicative requirements already in SGX LR are removed from the Code. It includes an introduction explaining the broad intent of the Code and clarify the expectations under the comply-or-explain regime. Compliance with the Principles is mandatory and companies are expected to comply with the Provisions. Companies that vary from the Provisions are required to state explicitly and explain how their practices are consistent with the objective of the Principle. To complement the Code, a new voluntary Practice Guidance provides guidance on compliance with the application of the Principles and Provisions and sets out best practices.

2012 Code	2018 Code	Requirement
16 Principles	13 Principles	Comply
82 Guidelines ¹	51 Provisions	Comply or explain ²
-	13 Practice Guidance	Voluntary application - provides guidance on compliance and sets out best practices

¹SGX LR amended to include important or baseline market practices previously under Guidelines

²For any variation, explain reason and how entity's practices are consistent with intent of relevant principle

The table below lists some of the key changes to the Code and the SGX LR

Key changes (non-exhaustive)	
Board matters	<ul style="list-style-type: none"> • Board to comprise <ul style="list-style-type: none"> – At least one-third Independent Directors (IDs) [SGX LR] – Majority IDs if Chairman is not independent – Majority Non-Executive Directors (NEDs) • Age as additional aspect of board diversity • Enhanced disclosures on diversity policy and progress in achieving objectives • Requirement for directors with no prior experience to undergo relevant training [SGX LR] • Requirement to disclose key information on directors (on appointment or reappointment) [SGX LR] • Requirement to establish audit, nominating and remuneration committees with written terms of reference and disclosure of activities [SGX LR]
Director independence	<ul style="list-style-type: none"> • Assessing director independence relating to relationship with substantial shareholders (threshold revised from 10% to 5%) • Tests of director independence, <ul style="list-style-type: none"> – Whether the director is employed by issuer or any related corporation for current or any of the past 3 years or his immediate family is employed by issuer or any related corporation for current or any of the past 3 years, and whose remuneration determined by remuneration committee of the issuer [SGX LR] • 2 tiered shareholder vote for appointment of IDs who served for more than 9 years [SGX LR] • Non-independence of Chairman if he has close family ties with CEO • Disclosure of relationship between Chairman and CEO if they are immediate family members [SGX LR]
Remuneration	<ul style="list-style-type: none"> • Disclosure of relationship between remuneration, performance and value creation • Disclosure of name and remuneration of employees who are substantial shareholders, or immediate family members of a director, the CEO or a substantial shareholder if their remuneration exceeds S\$100,000 during the year, in bands of S\$100,000

Key changes (non-exhaustive)	
Accountability and audit	<ul style="list-style-type: none"> • Comment by the board on adequacy and effectiveness of internal controls and risk management systems [SGX LR] • Statement of whether the audit committee (AC) concurs with the board's comment [SGX LR] • Disclosure of material weaknesses identified by the board or AC [SGX LR] • Establishment of an internal audit function and AC to comment whether the function is independent, effective and adequately resourced [SGX LR] • 2 years cooling off for former partners or directors of existing external auditor to be on AC • Communication of whistle-blowing policy and procedures to employees • Disclosure of whether board has received assurance from <ul style="list-style-type: none"> – CEO and CFO that the financial records have been properly maintained and financial statements give a true and fair view of the operations and finances and AC to review that assurance – CEO and other key management responsible on the adequacy and effectiveness of the risk management and internal control systems
Stakeholder management	<ul style="list-style-type: none"> • New Principle with accompanying Provisions on managing stakeholder relationships <ul style="list-style-type: none"> – To identify, engage and manage material stakeholder groups – Disclosure of strategy and key areas of focus in relation to management of stakeholder relationships – To maintain a current corporate website to communicate and engagement with stakeholders
Shareholder Rights and Engagement	<ul style="list-style-type: none"> • Disclosure of director's attendance at general meetings in annual report • Publishing minutes of general meeting on corporate website as soon as practicable • Establishment of dividend policy and communicating it to shareholders • Disclosure of reason if directors decide not to declare or recommend a dividend [SGX LR]

When

The Code will take effect for Annual Reports covering financial years commencing from 1 January 2019.

The amendments to the SGX LR take effect on 1 January 2019, except for rules relating to the nine-year tenure for independent directors and the requirement for the board to comprise of at least one-third independent directors, which come into effect on 1 January 2022.

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:

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