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Changes to the financial reporting framework in Singapore

December 2020

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Acronyms

ACRA	Accounting and Corporate Regulatory Authority
AD	Agenda Decision issued by the IFRS IC
ASC	Accounting Standards Council
ED	Exposure Draft issued by the IASB
FRB	Financial Reporting Bulletin issued by the ISCA
FRG	Financial Reporting Guidance issued by the ISCA
FRS	Singapore Financial Reporting Standards issued by the ASC
IAS	International Accounting Standards issued by the IASB
IASB	International Accounting Standards Board
IFRIC	Interpretation of International Financial Reporting Standards issued by the IFRS IC
IFRS	International Financial Reporting Standards issued by the IASB
IFRS IC	IFRS Interpretations Committee
INT FRS	Interpretation of Singapore Financial Reporting Standards issued by the ASC
ISCA	Institute of Singapore Chartered Accountants
RAP	Recommended Accounting Practice issued by the ISCA
SFRS(I)	Singapore Financial Reporting Standards (International) issued by the ASC
SFRS(I) INT	Interpretation of Singapore Financial Reporting Standards (International) issued by the ASC
SGX	Singapore Exchange Limited
SGX-ST	Singapore Exchange Securities Trading Limited
SIC	Standing Interpretations Committee

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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.

The outbreak of Coronavirus disease 2019 (COVID-19) is having a widespread impact on the global economy. Entities must carefully consider their unique circumstances and risk exposures and consider the impact the outbreak may have on their financial reporting.

In this edition, we provide a summary of the new/revised SFRS(I) organised based on their effective dates and an outline of recent exposure drafts. A comparison of the SFRS(I) against IFRS and FRS against IFRS has been included, as well as summaries of other financial reporting matters arising from regulatory updates and publications related to COVID-19.

We have retained the relevant summaries of new/revised SFRS(I)s included in the 2019 edition. 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 SFRS(I)s might have in the period of initial application.

Section 1: Financial reporting standards

New/amended standards/interpretation effective for annual periods beginning on 1 January 2020

	Title	Effective Date*	Year Issued
Conceptual Framework	*Conceptual Framework for Financial Reporting and Amendments to References to the Conceptual Framework in SFRS(I) Standards*	1-Jan-20	2019
SFRS(I) 1-1, SFRS(I) 1-8 (Amended)	*Definition of Material*	1-Jan-20	2019
SFRS(I) 3 (Amended)	*Definition of a Business*	1-Jan-20	2019
SFRS(I) 9, SFRS(I) 1-39 and SFRS(I) 7 (Amended)	*Interest Rate Benchmark Reform – Phase 1*	1-Jan-20	2019

*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 and Amendments to References to the Conceptual Framework in SFRS(I) Standards

Overview

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

The revised 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 revised 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 revised 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 to 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 ASC 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 revised Framework, issued in 2019, replaces the Conceptual Framework for Financial Reporting issued together with the first volume of Singapore Financial Reporting Standards (International).

Amendments to References to the Conceptual Framework in SFRS(I) Standards

Amendments to References to the Conceptual Framework in SFRS(I) Standards sets out amendments to Singapore Financial Reporting Standards (International) (SFRS(I) Standards), their accompanying documents and SFRS(I) practice statements to reflect the issue of the revised Conceptual Framework for Financial Reporting in 2019. The amendments update some of those references and quotations so that they refer to the 2019 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

These amendments amend SFRS(I) Standards, their accompanying documents and SFRS(I) practice statements that will be effective for annual reporting periods beginning on or after 1 January 2020.

Amendments to SFRS(I) 1-1 and SFRS(I) 1-8 *Definition of Material*

Overview

The amendments refine the definition of material to make it easier to understand but are not intended to alter the underlying concept of materiality in SFRS(I) Standards.

Primarily, the definition of material was amended in SFRS(I) 1-1.7. 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 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*. 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 SFRS(I) 1-1.30A 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 SFRS(I) 1-1.7.

In addition, consequential amendments were made to align the definition of 'material' across the respective SFRS(I) 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).

Amendments to SFRS(I) 3 *Definition of a Business*

Overview

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 amendments 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 term 'ability to create outputs' was replaced 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

Several examples were added to the Illustrative Examples of SFRS(I) 3 to demonstrate how the new guidance is applied in certain scenarios.

Market participant's ability to replace missing elements

Before the amendments, SFRS(I) 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.

This reference is now removed as it was challenging to assess whether market participants are capable of performing such an integration. Instead, as described above, the focus was 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 definitions of a business in Appendix A of SFRS(I) 3 as well as the definition of outputs in the Application Guidance to SFRS(I) 3 were amended. These amendments put the focus of outputs on goods and services provided to customers to achieve consistency with the notion of outputs in SFRS(I) 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. 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

An optional test was introduced to provide 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 test focused on gross assets rather than net assets 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 SFRS(I) 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 SFRS(I) 9, SFRS(I) 1-39 and SFRS(I) 7 *Interest Rate Benchmark Reform*

Overview

Interest rate benchmarks such as interbank offered rates (IBORs) play a key role in global financial markets and index trillions of dollars in financial products. Work is underway in multiple jurisdictions to transition to alternative risk free rates (RFRs). This is intended to result in rates that are more reliable and provide a robust alternative for products and transactions that do not need to incorporate the credit risk premium embedded in the IBORs.

The project is split into two phases: Phase 1 deals with pre-replacement issues (issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark); and Phase 2 deals with replacement issues (issues that might affect financial reporting when an existing interest rate benchmark is replaced).

Phase 1 has been finalised and the amendments was issued to address accounting issues arising from the uncertainty about the long-term viability of some interest rate benchmarks. With these amendments, specific hedge accounting requirements were modified to provide entities with relief to apply hedge accounting assuming that the interest rate benchmark on which the hedged cash flows and cash flows of the hedging instrument are based is not altered as a result of the interest rate benchmark reform.

The amendments apply to all hedging relationships that are directly affected by the interest rate benchmark reform. New disclosure requirements arising from the amendments include:

- the significant interest rate benchmarks to which the entity's hedging relationships are exposed;
- the extent of the risk exposure the entity manages that is affected by the interest rate benchmark reform;
- how the entity is managing the process to transition to alternative benchmark interest rates;
- a description of significant assumptions or judgements the entity made in applying the amendments to IFRS 9 and IAS 39; and
- the nominal amount of the hedging instrument in the hedging relationship for which the entity is applying the exceptions in the scope of the amendments.

Effective Date

An entity applies the amendments to SFRS(I) 9, SFRS(I) 1-39 and SFRS(I) 1-7 for annual periods beginning on or after 1 January 2020, with early application permitted. The amendments are applied retrospectively to those hedging relationships that existed at the beginning of the reporting period in which an entity first applies the amendments or were designated thereafter, and to the gain or loss recognised in other comprehensive income that existed at the beginning of the reporting period in which an entity first applies the amendments.

New/amended standards/interpretation effective for annual periods beginning after 1 January 2020

	Title	Effective Date*	Year Issued
SFRS(I) 16 (Amended)	*Covid-19-Related Rent Concessions*	1-Jun-20	2020
SFRS(I) 9, SFRS(I) 1- 39, SFRS(I) 7, SFRS(I) 4, SFRS(I) 16 (Amended)	*Interest Rate Benchmark Reform – Phase 2*	1-Jan-21	2020
SFRS(I) 3 (Amended)	*References to the Conceptual Framework*	1-Jan-22	2020
SFRS(I) 1-16 (Amended)	*Property, Plant and Equipment—Proceeds before Intended Use*	1-Jan-22	2020
SFRS(I) 1-37 (Amended)	*Onerous Contracts—Cost of Fulfilling a Contract*	1-Jan-22	2020
Various	*Annual Improvements to SFRS(I)s 2018-2020*	1-Jan-22	2020
SFRS(I) 1-1 (Amended)	*Classification of Liabilities as Current or Non-current*	1-Jan-23[1]	2020
SFRS(I) 1-1 (Amended)	*Classification of Liabilities as Current or Non-current—Deferral of Effective Date*	-	2020
SFRS(I) 17	*Insurance Contracts*	1-Jan-23[2]	2018
SFRS(I) 17 (Amended)	*Amendments to SFRS(I) 17*	1-Jan-23	2020
SFRS(I) 4 (Amended)	*Extension of the Temporary Exemption from applying SFRS(I) 9*	-	2020

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

1 Revised from 1 Jan 2022 to 1 Jan 2023 by Amendment to SFRS(I) 1-1 *Classification of Liabilities as Current or Non-current—Deferral of Effective Date* issued in 2020.

2 Revised from 1 Jan 2021 to 1 Jan 2023 by *Amendments to SFRS(I) 17* issued in 2020.

Amendments to SFRS(I) 16 Covid-19-Related Rent Concessions

Overview

The amendments provide practical relief to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by introducing a practical expedient to SFRS(I) 16. The practical expedient permits a lessee to elect not to assess whether a COVID-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession the same way it would account for the change applying SFRS(I) 16 if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 and only if all of the following conditions are met:

a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

b) Any reduction in lease payments affects only payments originally due in on or before 30 June 2021 (a rent concession meets this condition if it results in reduced lease payments on or before June 30, 2021 and increased lease payments that extend beyond 30 June 2021); and

c) There is no substantive change to other terms and conditions of the lease.

Effective Date

The amendment is effective for annual reporting periods beginning on or after 1 June 2020, with early application permitted.

Amendments to SFRS(I) 9, SFRS(I) 1-39, SFRS(I) 7, SFRS(I) 4 and SFRS(I) 16 *Interest Rate Benchmark Reform – Phase 2*

Overview

The amendments to SFRS(I) 9, SFRS(I) 1-39, SFRS(I) 7, SFRS(I) 4 and SFRS(I) 16 address issues that might affect financial reporting after the reform of an interest rate benchmark, including changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate (replacement issues).

The changes in *Interest Rate Benchmark Reform — Phase 2* (Amendments to SFRS(I) 9, SFRS(I) 1-39, SFRS(I) 7, SFRS(I) 4 and SFRS(I) 16) relate to the modification of financial assets, financial liabilities and lease liabilities, specific hedge accounting requirements, and disclosure requirements applying SFRS(I) 7 to accompany the amendments regarding modifications and hedge accounting.

On modification of financial assets, financial liabilities and lease liabilities, practical expedient allows for modifications required by the reform as a direct consequence and made on an economically equivalent basis to be accounted for by updating the effective interest rate. All other modifications are accounted for using current SFRS requirements. A similar practical expedient is provided for lessee accounting applying SFRS(I) 16.

SFRS(I) 4 was also amended to require insurers that apply the temporary exemption from SFRS(I) 9 to apply the amendments in accounting for modifications directly required by the reform.

On hedge accounting requirements, practical expedient allows for amendments made to hedge accounting solely because of the IBOR reform to not be discontinued provided that the amended hedging relationships meet all the qualifying criteria to apply hedge accounting including effectiveness requirements. The amendments enable entities to amend the formal designation and document of a hedging relationship to reflect changes required by the reform without discontinuing the hedging relationship or designating a new hedging relationship. Permitted changes include designating an alternative benchmark rate (contractually or non-contractually specified) as a hedged risk, amending the description of the hedged item, including the description of the designated portion of the cash flows or fair value being hedged, or amending the description of the hedge instrument to refer to an alternative benchmark rate, and for those applying SFRS(I) 1-39, amending the description of how the entity will assess hedge effectiveness.

Amendments to SFRS(I) 7 outline disclosure requirements to allow users to understand the nature and extent of risks arising from the IBOR reform to which the entity is exposed to and how the entity manages those risks as well as the entity's progress in transitioning from IBORs to alternative benchmark rates, and how the entity is managing this transition. New disclosure requirements arising from the amendments include:

a) how the entity is managing the transition to alternative benchmark rates, its progress at the reporting date and the risks to which it is exposed arising from financial instruments because of the transition;

b) disaggregated by significant interest rate benchmark subject to interest rate benchmark reform, quantitative information about financial instruments that have yet to transition to an alternative benchmark rate as at the end of the reporting period, showing separately:
   (i) non-derivative financial assets;
   (ii) non-derivative financial liabilities; and
   (iii) derivatives; and

c) if the risks identified in above have resulted in changes to an entity's risk management strategy, a description of these changes.

Effective Date

The amendments apply to all entities and are not optional and are effective for annual periods beginning on or after 1 January 2021, with earlier application permitted. The amendments must be applied retrospectively, however, the amendments provide relief from restating comparative information. An entity may restate prior periods if, and only if, it is possible to do so without the use of hindsight.

Amendments to SFRS(I) 3 *Reference to the Conceptual Framework*

Overview

The amendments update a reference in SFRS(I) 3 to *The Conceptual Framework for Financial Reporting*. They also add to SFRS(I) 3 a requirement that, for obligations within the scope of SFRS(I) 1-37, an acquirer applies SFRS(I) 1-37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of SFRS(I) INT 21 Levies, the acquirer applies SFRS(I) INT 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.

Finally, the amendments add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

Effective Date

The amendments are effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier.

Amendments to SFRS(I) 1-16 *Property, Plant and Equipment – Proceeds before Intended Use*

Overview

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognises such sales proceeds and related costs in profit or loss. The entity measures the cost of those items in accordance with SFRS(I) 1-2 *Inventories*.

The amendments also clarify the meaning of 'testing whether an asset is functioning properly'. SFRS(I) 1-16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes.

If not presented separately in the statement of comprehensive income, the financial statements shall disclose the amounts of proceeds and cost included in profit or loss that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statement of comprehensive income include(s) such proceeds and cost.

The amendments are applied retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments.

The entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented.

Effective Date

The amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted.

Amendments to SFRS(I) 1-37 *Onerous Contracts – Cost of Fulfilling a Contract*

Overview

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparatives are not restated. Instead, the entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

Effective Date

The amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted.

Annual Improvements to SFRS(I)s 2018-2020

The Annual Improvements process provides a mechanism for dealing efficiently with a collection of minor amendments to SFRS(I)s. The Annual Improvements include amendments to four Standards as set out below:

Standard	Topic	Key amendments
SFRS(I) 1 *First-time Adoption of International Financial Reporting Standards*	Subsidiary as a First-time Adopter	The amendment provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation differences. As a result of the amendment, a subsidiary that uses the exemption in SFRS(I) 1:D16(a) can now also elect to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to SFRS(I) Standards, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. A similar election is available to an associate or joint venture that uses the exemption in SFRS(I) 1:D16(a).
SFRS(I) 9 *Financial Instruments*	Fees in the '10 per cent' Test for Derecognition of Financial Liabilities	The amendment clarifies that in applying the '10 per cent' test to assess whether to derecognise a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf. The amendment is applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment.
SFRS(I) 16 *Leases*	Lease Incentives	The amendment removes the illustration of the reimbursement of leasehold improvements. As the amendment to SFRS(I) 16 only regards an illustrative example, no effective date is stated.
SFRS(I) 1-41 *Agriculture*	Taxation in Fair Value Measurements	The amendment removes the requirement for entities to exclude cash flows for taxation when measuring fair value. This aligns the fair value measurement in SFRS(I) 1-41 with the requirements of SFRS(I) 13 Fair Value Measurement to use internally consistent cash flows and discount rates and enables preparers to determine whether to use pre-tax or post-tax cash flows and discount rates for the most appropriate fair value measurement. The amendment is applied prospectively, i.e. for fair value measurements on or after the date an entity initially applies the amendment.

Effective Date

These amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted.

Amendments to SFRS(I) 1-1 *Classification of Liabilities as Current or Non-current*

Overview

The amendments affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

Effective Date

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted.

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.
- nvestment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts.

Main features

SFRS(I) 17 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.

Separating components from an insurance contract

An insurance contract may contain one or more distinct components that would be within the scope of another standard if they are separate contracts. Many insurance contracts may contain an investment component or a obligation to sell non-insurance goods and/or services ("service component"). SFRS(I) 17 includes criteria to determine when a non-insurance component is distinct from the host insurance contract. A distinct investment component or distinct service component should be separated from a host insurance contract and the separated element should be accounted under SFRS(I) 9 Financial Instruments and SFRS(I) 15 *Revenue from Contracts with Customers*, respectively.

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:
(a) the beginning of the coverage period of the group of contracts;
(b) the date when the first payment from a policyholder in the group becomes due; and
(c) 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 the amount of fulfilment cash flows ("FCF") and the contractual service margin ("CSM").

FCF comprises:
(a) the estimates of future cash flows;
(b) an adjustment to reflect the time value of money ("TVM") and the financial risks associated with the future cash flows; and
(c) a risk adjustment for non-financial risk ("RA").

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 at an amount that, unless the group of contracts is onerous, results in no income or expenses arising from:
(a) the initial recognition of the FCF;
(b) the derecognition at that date of initial recognition of any asset or liability recognised for insurance acquisition cash flows; and
(c) any cash flows arising from the contracts in the group at that date.

The CSM cannot be negative, as this would indicate the contract is onerous.

Subsequent measurement

The carrying amount of a group of insurance contracts at the end of each reporting period is the sum of:
(a) the liability for remaining coverage (comprising the FCF related to future services plus a measure of the CSM yet to be earned); and
(b) the liability for incurred claims (comprising the FCF related to past service allocated to the group),
both determined as at that date.

The CSM of a group of contracts is adjusted at the end of each reporting period to reflect the following:
(a) addition of new contracts to the group;
(b) accretion of interest at the locked-in rate;
(c) changes in FCF relating to future coverage or other services;
(d) foreign currency exchange differences; and
(e) amount recognised in profit or loss relating to the transfer of services in the period.

An entity shall recognise income and expenses for changes in the carrying amount of liability for remaining coverage ("LRC") and that for incurred claims ("LIC") separately, as set out in the table below:

	Changes in the carrying amount of LRC	Changes in the carrying amount of LIC
Insurance revenue	• Reduction in the LRC because of service provided in the period	• Not applicable
Insurance service expense	• Losses on groups of onerous contracts and reversal of such losses	• Increases in the LIC because of claims and expenses incurred in the period • Subsequent changes in FCF relating to incurred claims and incurred expenses
Insurance finance income or expense	• Effect of the TVM caused by the passage of time; and • Effect of changes in assumptions that relates to financial risk	• Effect of changes in assumptions that relates to financial risk

An insurance contract is treated as a monetary item under SFRS(I) 1-21 *The effect of Changes in Foreign Exchange Rates*, with exchange differences on changes in the carrying amounts of groups of insurance contracts included in profit or loss, unless they relate to changes included in OCI.

Onerous contracts

An insurance contact is onerous at the date of initial recognition if the FCF allocated to the contract, any previously recognised acquisition cash flows and any cash flows arising from the contract at that date of initial recognition in total 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 a service expense.

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 contacts 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 in SFRS(I) 17 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.

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 a 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.

Reinsurance contracts held

The requirements in SFRS(I) 17 are modified for reinsurance contracts held.

An entity shall recognise a group of reinsurance contracts held:

- if the reinsurance contracts held provide proportionate coverage – at the beginning of the coverage period of the group of reinsurance contracts or initial recognition of any underlying contract, whichever is the later; and
- in all other cases – from the beginning of the coverage period of the group of reinsurance contracts held.

In estimating the present value of future expected cash flows for reinsurance contracts, entities use assumptions consistent with those used for related direct insurance contracts. Additionally, the estimates shall include the risk of 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 loss on purchasing reinsurance. On initial recognition, this net gain or loss is deferred, unless the net loss 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.

Presentation in the statement of financial position

Separate presentation is required for:

- 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 profit or loss are disaggregated into:

a) An insurance service result comprising insurance revenue (from the provision of coverage and other services) and insurance service expenses (incurred claims and other incurred expenses) and income or expenses from reinsurance contracts. Revenue and insurance service expenses shall exclude any investment components.

b) Insurance finance income or expenses (reflecting the change in the carrying amount of the group of insurance contracts arising from the effect of the TVM and the effects of changes in assumptions that relate to financial risk, but generally excludes any such changes for groups of insurance contracts with DPF 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.

For insurance contracts with direct participation features, for which the entity holds the underlying items, an entity shall make an accounting policy choice between

(a) including insurance finance income or expenses for the period in profit or loss; or

(b) disaggregating insurance finance income or expenses for the period to include in profit or loss an amount that eliminates accounting mismatches with income or expenses included in profit or loss on the underlying items held.

Effective date

SFRS(I) 17 is applicable for annual reporting periods beginning on or after 1 January 2023 (amended from the original effective date of 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 SFRS(I) 17, and the transition date is the beginning of the period immediately preceding the date of initial application.

Transition

An entity shall apply SFRS(I) 17 retrospectively unless impracticable, in which case entities have the option of using either the modified retrospective approach or the fair value approach.

Under the modified retrospective approach, an entity shall utilise reasonable and supportable information and maximise the use of information that would have been used to apply a full retrospective approach, but need only use information available without undue cost or effort. Under this approach the use of hindsight is permitted, if that is the only practical source of information for the reinstatement of prior periods.

Under the fair value approach, an entity determines the CSM at the transition date as the difference between the fair value of the group of insurance contracts at that date and the FCF measured at that date. Using this approach, on transition there is no need for insurance contracts to be aggregated into annual groups.

At the date of initial application of SFRS(I) 17, those entities already applying SFRS(I) 9 may retrospectively re-designate and reclassify financial assets held in respect of activities connected with contracts within the scope of SFRS(I) 17. Entities can choose not to restate SFRS(I) 9 comparatives with any difference between the previous carrying amount of those financial assets and the carrying amount at the date of initial application recognised in the opening equity at the date of initial application. Any restatements of prior periods must reflect all the requirements of SFRS(I) 9.

Amendments to SFRS(I) 17 Insurance Contracts

The amendments to SFRS(I) 17 was issued to address concerns and implementation challenges that were identified after SFRS(I) 17 was published. The amendments defer the date of initial application of SFRS(I) 17 (incorporating the amendments) to annual reporting periods beginning on or after 1 January 2023.

The main changes are:

- Additional scope exclusion for credit card contracts and similar contracts that provide insurance coverage as well as optional scope exclusion for loan contracts that transfer significant insurance risk.
- Recognition of insurance acquisition cash flows relating to expected contract renewals, including transition provisions and guidance for insurance acquisition cash flows recognised in a business acquired in a business combination.
- Clarification of the application of SFRS(I) 17 in interim financial statements allowing an accounting policy choice at a reporting entity level.
- Clarification of the application of contractual service margin (CSM) attributable to investment-return service and investment-related service and changes to the corresponding disclosure requirements.
- Extension of the risk mitigation option to include reinsurance contracts held and non-financial derivatives.
- Amendments to require an entity that at initial recognition recognises losses on onerous insurance contracts issued to also recognise a gain on reinsurance contracts held.
- Simplified presentation of insurance contracts in the statement of financial position so that entities would present insurance contract assets and liabilities in the statement of financial position determined using portfolios of insurance contracts rather than groups of insurance contracts.
- Additional transition relief for business combinations and additional transition relief for the date of application of the risk mitigation option and the use of the fair value transition approach.
- Several small amendments regarding minor application issues.

Effective Date

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted.

Amendments to SFRS(I) 4 *Extension of the Temporary Exemption from Applying SFRS(I) 9*

As a result of the amendments made to SFRS(I) 17 to defer the date of initial adoption of SFRS(I) 17, the amendments to SFRS(I) 4 extend the fixed expiry date of the temporary exemption from applying SFRS(I) 9 in SFRS(I) 4 to annual reporting periods beginning on or after 1 January 2023.

Deferred indefinitely, effective date to be determined by the ASC

	Title	Effective Date	Year Issued
SFRS(I) 10, SFRS(I) 1-28 (Amended)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	To be determined	2017

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.

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 December 2019 of which the ASC has similarly sought comments through the public consultation process.

Exposure drafts	Main proposals
ED Lease Liability in a Sale and Leaseback (Proposed amendment to IFRS 16)	The proposed amendments, if finalised, will: • specify the method a seller-lessee uses to measure initially the right-of-use asset and the liability arising in sale and leaseback transactions in which the transfer of the asset satisfies the requirements to be accounted for as a sale of the asset; • specify that the lease liability recognised for the leaseback reflects the expected lease payments and includes variable lease payments, including those that do not depend on an index or rate; • add subsequent measurement requirements for the lease liability arising in these sale and leaseback transactions; and • require a seller-lessee to apply the amendment retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16. The effective date for the proposed amendment will be decided after exposure. Earlier application is proposed to be permitted.

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) Standards, 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 (for effective dates from 2020)

			Issue dates	
	Pronouncements	**Effective**	**IFRS**	**SFRS(I)/SFRS**
IFRS 17	*Insurance Contracts*	2023	18 May 17	29 Mar 18
Framework	*Conceptual Framework for Financial Reporting*	2020	29 Mar 18	14 Jan 19
IFRS 3	*Definition of a Business*	2020	22 Oct 18	11 Mar 19
IAS 1, IAS 8	*Definition of Material*	2020	31 Oct 18	11 Mar 19
IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform – Phase 1*	2020	26 Sep 19	4 Dec 19
IAS 1	*Classification of Liabilities as Current or Non-current*	2023	23 Jan 20	29 May 20
IFRS 3	*Reference to the Conceptual Framework*	2022	14 May 20	30 Jul 20
IAS 37	*Onerous Contracts—Cost of Fulfilling a Contract*	2022	14 May 20	30 Jul 20
IAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*	2022	14 May 20	30 Jul 20
Annual Improvements	*Annual Improvements to IFRS® Standards 2018–2020*	2022	14 May 20	30 Jul 20
IFRS 4	*Extension of the Temporary Exemption from Applying IFRS 9*	-	25 Jun 20	27 Nov 20
IFRS 17	*Amendments to IFRS 17*	2023	25 Jun 20	27 Nov 20
IAS 1	*Classification of Liabilities as Current or Non-current—Deferral of Effective Date*	-	15 Jul 20	23 Jul 20
IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	*Interest Rate Benchmark Reform—Phase 2*	2021	27 Aug 20	27 Nov 20

Summary of key 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 relating to periods before 2018 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
FRS 16	Property, Plant and Equipment	IAS 16	FRS 16 exempts regular revaluation of assets for which any one-off revaluation was performed between 1 January 1984 and 31 December 1996 (both dates inclusive) or for assets that were revalued prior to 1 January 1984. IAS 16 does not give such an exemption.
FRS 27, FRS 28 and FRS 110	Consolidated Financial Statements and Accounting for Investments in Subsidiaries, Associates and Joint Ventures	IAS 27, IAS 28 and IFRS 10	FRS 27 and FRS 110 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 and IFRS 10, such an exemption applies only if the holding company produces consolidated financial statements available for public use that comply with IFRS. Similar differences apply to the exemption from equity accounting for associates and joint ventures in FRS 28, compared to IAS 28.
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.
-	Members'Shares in Co-operative Entities and Similar Instruments	IFRIC 2	IFRIC 2 is effective for annual periods beginning on or after 1 January 2005. This Interpretation has not been adopted in Singapore.

Section 2: Other financial reporting matters

Financial Reporting Practice Guidance No. 1 of 2020 *Proposed Areas of Review Focus by Directors on the Financial Statements Affected by the COVID-19 Pandemic*

In May 2020, the Accounting and Corporate Regulatory Authority (ACRA) issued Financial Reporting Practice Guidance No. 1 of 2020 to guide directors in their reviews of the upcoming financial statements. It highlights warning signs of some possible non-compliance(s) with accounting standards, and provides directors with questions to ask management and statutory auditors when assessing the impact from COVID-19 pandemic on the financial statements.

Areas of focus	Considerations
In respect of carrying amounts of assets	Property, plant and equipment, goodwill and other intangible assets • Reasonableness of assumptions used in impairment tests Investment properties and other non-current assets held at fair value • Whether accurate information has been provided to valuers • Implications of caveats in valuation report Inventories • Measurement of inventories at lower of cost and net realisable value • Depreciation of idle fixed assets • Considering impact of decline in demand Trade, other receivables and contract assets • Reasonableness of assumptions used in estimating expected credit loss allowance
In respect of carrying amounts of liabilities	Provisions • Identifying onerous or potentially onerous contracts • Appropriateness of recognising provisions relating to restructuring Borrowings • Using forecasts to assess compliance with loan covenants so as to engage with lenders early for waivers and/or to negotiate for re-financing arrangements
Going Concern, Disclosures and Others	Going concern • Evaluating impact on projected working capital and company's ability to service its debt obligations when they fall due • Assessing up to date cash flow projections that are of sufficient granularity Financial instruments • Re-looking at economic viability of long term commodity contracts • Re-assessing whether hedge is still effective • Disclosing financial risk management that are tailored to company's actual circumstances Subsequent events • Disclosing material subsequent events Government relief measures • Determining appropriate accounting treatment for applicable government reliefs
Internal control and audit considerations	• Putting measures in place to mitigate risks • Ensuring adequate segregation of duties for key processes • Where issuance of modified audit report cannot be avoided, implement a plan to address the qualifications next year • Engaging statutory auditors early • Engaging the help of specialists

The Practice Guidance is available for download at the ACRA website.

Financial Reporting Practice Guidance No. 2 of 2020 *Areas of Review Focus for FY2020 Financial Statements under ACRA's Financial Reporting Surveillance Programme*

In December 2020, the ACRA issued Financial Reporting Practice Guidance No. 2 of 2020 to guide directors in reviewing and approving the upcoming financial statements.

FRSP's areas of review focus are:

- Judgements or estimates made in the areas impacted by COVID-19 pandemic;
- Assessment of the going concern assumption;
- Adequacy of impairment charge and assumptions made in the assessment; and
- Valuation of investment properties and financial instruments.

In the current climate, directors are expected to deal with more uncertainties, particularly when making estimates or assessing cash flows/financial position. Directors are also encouraged to disclose beyond the requirements in the accounting standards, to inform the users of financial statements of the areas significantly impacted by COVID-19 pandemic.

Other areas of focus

Directors are reminded to (i) assess for appropriate basis when de-consolidating a subsidiary despite no change in the proportion of shares held; and (ii) consider the potential accounting implications from interest rate benchmark reform on loans and financial instruments.

The Practice Guidance is available for download at the ACRA website.

Financial Reporting Surveillance Programme (FRSP) Third Report 2020

ACRA reviews the financial statements of Singapore-incorporated companies for compliance with the accounting standards in Singapore under the FRSP.

In July 2020, the ACRA issued its latest report on key findings from the third review cycle of the FRSP. It was observed that a lack of deep knowledge and due care by preparers and directors were the root causes contributing to material non-compliances with accounting standards found under the FRSP.

Some areas of enquiries and material non-compliances with accounting standards include accounting for major complex transactions, business valuations or impairment assessments, presentation in the statements of cash flows, consolidation or equity accounting, significant judgements and critical estimates.

The report also includes a study on financial statements with modified audit report, case studies (indicating a lack of deep knowledge and lack of due care) and financial reporting resources for Directors.

The report is available for download at the ACRA website.

Recommended Accounting Practice (RAP) 7 *Reporting Framework for Investment Funds*

In July 2020, the revised RAP 7 was issued by the ISCA to include two illustrative auditor's reports for unit trusts and variable capital companies and amendments of terms and assumptions used in the illustrative auditor's reports in Appendix 1 to align with the Singapore Standards on Auditing and Variable Capital Companies Act 2018. The RAP is applicable to investment funds with annual periods beginning on or after 1 July 2020.

The revised RAP 7 is available at the ISCA's website.

Financial Reporting Guidance (FRG) 2 *Accounting for Cryptoassets: From a Holder's Perspective*

In March 2020, ISCA, through its FRC and FRC Core Sub-Committee, has issued FRG 2 to guide preparers, who report under Singapore Financial Reporting Standards (International) (SFRS(I)s), International Financial Reporting Standards (IFRSs) or Financial Reporting Standards issued by the Accounting Standards Council (FRSs), on the accounting for holdings of cryptoassets.

Guidance on accounting for cryptoassets from the issuer's perspective will be the subject of a separate FRG expected to be issued at a later date.

The FRG 2 is available at the ISCA website.

Financial Reporting Bulletins (FRBs)

FRBs issued by ISCA are informative/educational publications issued to highlight emerging topical issues for consideration by the accountancy profession in Singapore. The following FRBs have been approved for issue by the ISCA Financial Reporting Committee in 2020.

FRB	Description	Issued on
1	Frequently Asked Questions on application of Financial Reporting Guidance 1 ("FRG 1")	9 Mar 2020
2[1]	Accounting implications arising from COVID-19 for entities with 31 December 2019 financial reporting date	27 Mar 20
3[2]	Classification of liabilities as Current or Non-current (Amendments to IAS 1)	15 Apr 20
3[2] **(Revised)**	Classification of liabilities as Current or Non-current (Amendments to SFRS(I) 1-1)	30 Oct 20
4	Frequently Asked Questions on application of ISCA Financial Reporting Codification Framework	15 Apr 20
5[3]	COVID-19 Government Relief Measures: Accounting for Singapore property tax rebate from the perspective of the landlord and the tenant	19 Apr 20
6[4]	COVID-19 Government Relief Measures: Accounting for the grant provided by the Singapore Government for wages paid to local employees under the Jobs Support Scheme (JSS)	7 May 20
6[4] **(Revised)**	COVID-19 Government Relief Measures: Accounting for the grant provided by the Singapore Government for wages paid to local employees under the JSS [Revised to incorporate enhancements made to the JSS as announced in the Fortitude Budget on 26 May 20]	15 Jul 20
6[4] **(Revised Sep 20)**	COVID-19 Government Relief Measures: Accounting for the grant provided by the Singapore Government for wages paid to local employees under the JSS [Revised to incorporate enhancements made to the JSS as announced in the Ministerial Statement on Continued Support for Workers and Jobs on 17 Aug 20]	25 Sep 20
7[3]	COVID-19 Government Relief Measures: Accounting for Rental Relief Framework for Small and Medium Enterprises (SMEs) and Non-Profit organisations (NPOs) from the perspective of the landlord and the tenant	5 Nov 20
8	COVID-19 Government Relief Measures: Accounting for Foreign Worker Levy Waiver & Rebate	24 Dec 2020

1 FRB 2 addresses whether the COVID-19 outbreak is an adjusting or non-adjusting event for entities with a 31 December 2019 financial reporting date and other associated accounting implications such as the required disclosures in the financial statements and the going concern assessment.

2 FRB 3 provides accounting guidance in understanding and applying the amendments to IAS 1 to certain commonly encountered scenarios in Singapore. The revised FRB 3 incorporates the clarifications from the amendments to SFRS(I) 1-1.

3 Guidance does not apply to landlords which are Singapore Government-related agencies.

4 FRB 6 provides accounting guidance and key considerations on the accounting for the Jobs Support Scheme (JSS) payouts receivable by employers under the Singapore Government JSS announced under the Unity Budget, the Resilience Budget, the Solidarity Budget and the April 2020 Multi-Ministry Taskforce on COVID-19 announcements. The revised FRB 6 incorporates enhancements from the Fortitude Budget and the August 2020 Ministerial Statement.

The FRBs are available at the ISCA website.

ISCA COVID-19 Technical FAQs

In view of the far-reaching accounting and auditing implications of COVID-19, the ISCA Auditing and Assurance Standards Committee (AASC) and Financial Reporting Committee (FRC), in collaboration with ACRA, have formed a joint COVID-19 working group to address the challenges faced by the accountancy profession.

As at 30 November 2020, 29 accounting and auditing FAQs and 4 FAQs for Professional Accountants in Business (PAIBs) have been published.

The COVID-19 Technical FAQs are available at the ISCA website.

What SGX RegCo expects of issuers' disclosures during COVID-19

In April 2020, the Singapore Exchange Regulation (SGX RegCo) issued a Regulator's Column on its expectations of the disclosures issuers should provide during COVID-19. In this period of uncertainty, issuers should provide timely and accurate updates to shareholders. To enable investors to independently assess the financial impact, detailed explanations of non-disclosures (when information is insufficient to disclose information with certainty) and sufficient information should be provided.

Issuers should make disclosures which would reflect its current state of affairs and outlook, including how it is managing, what steps are taken to address the effects of COVID-19 and how its operating and financial conditions may be impacted. Disclosures should not be generic statements on the current economic environment without providing any clarity of the specific areas of impact on their operations and financial situation.

Some areas issuers should consider in determining if disclosure is required include:

- Impact of COVID-19 on the issuers' operations, earning prospects, liquidity, balance sheet and contractual obligations
- Compliance with COVID-19 restrictions
- Threats to viability
- Impact of governmental measures

Updates should be provided regularly, and timely disclosures should be provided when there are subsequent material developments.

The Regulator's Column is available at the SGX website.

What SGX RegCo expects of financial reports amid COVID-19

In July 2020, the SGX RegCo issued a Regulator's Column on its expectations of the financial reports during COVID-19. SGX RegCo expects financial statements to provide comparable and relevant information that adequately reflects the impact of COVID-19.

In providing the negative assurance confirmation under Listing Rule 705(5), boards should consider whether the interim financial statements provide a balanced and fair view of any material factors that have affected the issuer's business conditions and financial position, including the impact of COVID-19.

Asset values should be carefully assessed to determine if the reported values are reasonable and whether there are any indications that the values have changed significantly due to the effects of COVID-19. In performing the assessment, issuers should consider whether the assistance from external valuers is required. The assessment of the impact and its associated uncertainties should be clearly explained so that investors can better appreciate the significance of the numbers. Where adjustments to the inputs of the valuation models are made to reflect material changes in business conditions, issuers should disclose the key assumptions used, such as forward-looking information on earnings growth rates, as well as management's basis for selecting those assumptions. Material uncertainties on the asset valuations should also be disclosed. In the rare circumstances that the impact to asset valuation is not able to be quantified, it should clearly explain why.

Where there is a deterioration in business conditions, issuers should undertake an assessment of the ability to operate as a going concern and disclose these uncertainties and their plans to address such uncertainties.

Disclosures are expected to be entity-specific, relevant and useful to investors and not be boilerplate disclosures without elaboration of the effects on each business segment. Disclosures must also be balanced and fair and avoid omission of important unfavourable facts. Deterioration of financial performance that existed prior to the pandemic should clearly be disclosed as such and not characterised as COVID-19 related if this is untrue.

Alternative performance measures (APMs) such as EBIT, EBITDA and free cash flows, can provide investors with insight into the financial performance and the condition of the issuers. APMs if used, should be presented consistently between periods with clear explanations on how they are calculated. The APMs should not be used to mislead investors, to present a more favourable view or to avoid presenting a less favourable view of the issuer's performance. Issuers are also cautioned against presenting hypothetical APMs that attempts to recast earnings as if the effects of the pandemic had not occurred. Such hypothetical APMs are unreliable and present a misleading picture of financial performance to investors.

Timely disclosures should be provided of any changed circumstances to enable investors to make an informed investment decision.

The Regulator's Column is available at the SGX website.

SGX RegCo adopts risk-based approach to quarterly reporting (QR), mandates more robust disclosures on matters of high impact

Quarterly reporting

SGX RegCo has adopted a risk-based approach for quarterly reporting (QR) effective 7 February 2020. The risk-based approach to QR replaces the current reporting requirement based on companies meeting a certain minimum market capitalization.

Under the risk-based approach, issuers must perform QR if:
(i) they have a disclaimer, adverse or qualified opinion on their latest financial statements;
(ii) their auditors have expressed a material uncertainty relating to going concern on their latest financial statements; or
(iii) SGX has regulatory concerns about them.

Issuers have a 1-year grace period to commence QR, unless otherwise determined by the SGX RegCo. Issuers that are subject to QR under the previous regime prior to 7 February 2020 and who are required to continue to do QR under the new regime will not have any grace period to commence QR.

Issuers that are required to do QR due solely to the reasons (i) or (ii) above are required to do QR until such time their auditors issue a clean opinion on their financial statements and have not highlighted any material uncertainty on going concern.

Issuers which are required to do QR due to reason (iii) must perform QR until their regulatory issues are resolved. SGX will advise such issuers when they can stop performing QR.

Continuous disclosures

In addition, SGX RegCo is strengthening continuous disclosures requirements in areas that are of high investor interest such as interested person transactions (IPTs), significant financial assistance, significant transactions and secondary fund-raising.

Among others, the following will be implemented:

- SGX RegCo will have powers with respect to IPTs to deem a person or entity an "interested person", and aggregate separate IPTs entered into during the same financial year and treat them as if they were one transaction, in appropriate circumstances;
- Requiring a competent and independent valuer to be appointed for significant asset disposals;
- Requiring additional disclosure for rights issues, including a Board statement on why the rights issue is in the company's interest, particularly if the company conducts a rights issue within one year from its previous equity fund-raising; and
- Extending the need for disclosure and shareholders' approval for the provision to third parties of significant financial assistance which is not part of the company's ordinary course of business.

These amendments will safeguard investors' interests in matters where they have indicated the greatest concern.

Disclosure obligations will apply not just to materially price-sensitive information but also trade-sensitive information and new guidance have been issued to issuers on situations requiring timely disclosure of material information. SGX RegCo has also set out its expectations on companies' handling of material information, including making immediate announcements where there is a change in the issuer's near-term earnings prospects or where there are ongoing developments.

SGX RegCo has also established a whistleblowing office to more effectively address any tipoffs, feedback, complaints and short-seller reports on companies.

The amendments are available at the SGX website.

Public consultation on proposed amendments to the Companies Act

In July 2020, ACRA invited the public to provide feedback on the proposed amendments to the Companies Act (CA). ACRA had set up a Companies Act Working Group (CAWG) in January 2018 to review several areas of the CA. The review was part of ACRA's efforts to ensure Singapore's corporate laws and regulatory framework stay competitive. ACRA also reviewed other requirements in the CA, with a view to streamlining filing process and updating regulatory requirements.

The CAWG reviewed 56 issues and recommended 36 legislative reforms, covering the following areas:
a) Facilitating digitalisation
b) Types of companies and financial reporting
c) Matters relating to directors and company secretaries
d) Safeguarding shareholders' interests
e) Share capital and financial assistance
f) Updating outdated provisions

One of the key recommendations include the introduction of the concepts of publicly accountable company and non-publicly accountable company which will replace the current concepts of public company and private company for the purposes of the financial reporting requirements in the CA. A concept of a micro non-publicly accountable company has also been introduced to allow a company which meets the specified requirements to prepare reduced/simplified financial statements.

The consultation documents are available at the ACRA website.

Section 3: Deloitte resources

Deloitte 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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