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# Changes to the financial reporting framework in Singapore

November 2016

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**Acronyms**

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

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# Introduction

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

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

We have retained the relevant summaries of new/revised FRSs included in the 2015 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 FRSs might have in the period of initial application.

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

# Section 1:

# Financial Reporting Standards

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

| | Title | Effective date* | Year issued |
|---|---|---|---|
| FRS 114 | *Regulatory Deferral Accounts* | 1-Jan-16 | 2014 |
| FRS 27 (Amended) | *Separate Financial Statements*<br>- Equity Method in Separate Financial Statements | 1-Jan-16 | 2014 |
| FRS 16, FRS 38 (Amended) | *Property, Plant and Equipment, Intangible Assets*<br>- Clarification of Acceptable Methods of Depreciation and Amortisation | 1-Jan-16 | 2014 |
| FRS 16, FRS 41 (Amended) | *Property, Plant and Equipment, Agriculture*<br>- Bearer Plants | 1-Jan-16 | 2014 |
| FRS 111 (Amended) | *Joint Arrangements*<br>- Accounting for Acquisitions of Interests in Joint Operations | 1-Jan-16 | 2014 |
| Various | *Improvements to FRSs (November 2014)* | Various | 2014 |
| FRS 1 (Amended) | *Presentation of Financial Statements*<br>- Disclosure Initiative | 1-Jan-16 | 2015 |
| FRS 110, FRS 112, FRS 28 (Amended) | *Consolidated Financial Statements, Disclosure of Interests in Other Entities, Investments in Associates and Joint Ventures*<br>- Investment Entities: Applying the Consolidation Exception | 1-Jan-16 | 2015 |

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

## FRS 114 *Regulatory Deferral Accounts*

### Background

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

### Which entities are eligible to apply the new Standard?

An entity is permitted (but not required) to apply FRS 114 if it:

- adopts FRS for the first time;
- is involved in rate-regulated activities; and
- had recognised amounts for regulatory deferral account balances under its previous GAAP.

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

**What are the accounting implications/presentation/disclosure requirements of applying FRS 114?**
Under the Standard, eligible first-time adopters are permitted to continue their previous GAAP rate-regulated accounting policies, with limited changes. The Standard also requires separate presentation of regulatory deferral account balances in the statement of financial position and of movements in those balances in the statement of profit or loss and other comprehensive income. Disclosures are required to identify the nature or, and risk associated with, the form of rate regulation that has given rise to the recognition of regulatory deferral account balances.

## FRS 27 *Separate Financial Statements* – Equity Method in Separate Financial Statements

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

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

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

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

The accounting option must be applied by category of investments.

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

### Background and amendment
Guidance is introduced into both standards to explain that depreciation methods based on revenue are not appropriate to property, plant and equipment, and intangible assets except in certain limited circumstances for intangible assets.

#### Amendments to FRS 16 *Property, Plant and Equipment*
The amendments clarify that a depreciation method that is based on revenue is not appropriate as such method reflects a pattern of generation of economic benefits that arise from the operation of the business of which an asset is part of, rather than the pattern of consumption of an asset's expected future economic benefits. The amendments clarify that there are multiple factors that influence revenue and that not all of these factors are related to the way the asset is used or consumed.

#### Amendments to FRS 38 *Intangible Assets*
The amendments introduce a rebuttable presumption that a revenue-based amortisation method for intangible assets is inappropriate for the same reasons as in FRS 16.

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

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

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

### Background and amendment

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

A bearer plant is a living plant that:

a) used in the production or supply of agricultural produce;
b) is expected to bear produce for more than one period; and
c) has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.

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

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

### Background and amendment

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

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

Accordingly, a joint operator that is an acquirer of such an interest has to:

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

The amendments apply to the acquisition of additional interests in an existing joint operation and also to the acquisition of an interest in a joint operation on its formation, unless the formation of the joint operation coincides with the formation of the business where parties to the joint operation only contribute assets or group of assets that do not constitute businesses.

### ***Improvements to Financial Reporting Standards (November 2014)***

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

**Details of amendments**

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

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

## FRS 1 *Presentation of Financial Statements*
## - Disclosure Initiative

### Background and amendment

Disclosure Initiative comprises several smaller projects to improve presentation and disclosure requirements in existing Standards. The amendments clarify the existing requirements to FRS 1.

### Materiality and aggregation

The amendment clarifies that an entity should not obscure useful information by aggregating information; and that materiality considerations apply to the primary statements, notes and any specific disclosure requirements in FRSs, i.e., disclosures specifically required by FRSs need to be provided only if the information is material.

Additional disclosures may be necessary if the information specifically required by FRSs is not sufficient for an understanding of the impact of particular transactions, events or conditions on the entity's financial position and performance.

### Statement of financial position and statement of profit or loss and other comprehensive income

The list of line items specified by FRS 1 for these statements can be disaggregated and aggregated as relevant. In addition, additional guidance has been added on the presentation of subtotals in these statements.

### Presentation of items of other comprehensive income ("OCI")

Entities should present their share of items of OCI arising from associates and joint ventures accounted for by using the equity method separately from the rest of OCI. This results in the following categories presented in the comprehensive income:

- Items of OCI (excluding from associates or joint ventures accounted for using the equity method, classified by nature, grouped into those items that:
  - will not be reclassified subsequently to profit or loss; and
  - will be reclassified subsequently to profit or loss when specific conditions are met.
- Share of OCI from associates or joint ventures accounted for using the equity method), in aggregate, separated into the share that:
  - will not be reclassified subsequently to profit or loss; and
  - will be reclassified subsequently to profit or loss when specific conditions are met.

### Notes

When designing the structure of the notes, entities have the flexibility with respect to the presentation of the notes. The amendment includes guidance of how to determine a systematic order of the notes.

## **FRS 110** ***Consolidated Financial Statements*****, FRS 112** ***Disclosure of Interests in Other Entities*****, FRS 28** ***Investments in Associates and Joint Ventures*** **- Investment Entities: Applying the Consolidation Exception**

### Background and amendments

The narrow-scope amendments to FRS 110, FRS 112 and FRS 28 clarify the application of the investment entities exception.

**Amendments to FRS 110 *Consolidated Financial Statements***

The exemption from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity, even though the investment entity parent measures all its subsidiaries at fair value in accordance with FRS 110.

The requirement for an investment entity to consolidate a subsidiary providing services related to its investment activities applies only to subsidiaries that are not themselves investment entities and whose main purpose and activities are to provide services that relate to the parent's investment activities.

**Amendments to FRS 28 *Investments in Associates and Joint Ventures***

Exemption from applying the equity method is also applicable to an investor in an associate or joint venture if that investor is a subsidiary of an investment entity, even though the investment entity parent measures all its subsidiaries at fair value in accordance with FRS 110.

FRS 28 has been amended to permit a non-investment entity investor, when applying the equity method to its investment entity associate or joint venture, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

**Amendments to FRS 112 *Disclosure of Interests in Other Entities***

An investment entity that measures all its subsidiaries at fair value should provide the FRS 112 disclosures related to investment entities.

### Application

The amendments apply retrospectively. 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.

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

| | Title | Effective date* | Year issued |
|---|---|---|---|
| FRS 7 (Amended) | *Statement of Cash Flows* - Disclosure Initiative | 1-Jan-17 | 2016 |
| FRS 12 (Amended) | *Income Taxes* - Recognition of Deferred Tax Assets for Unrealised Losses | 1-Jan-17 | 2016 |

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

## FRS 7 *Statement of Cash Flows* - Disclosure Initiative

### Background and amendments

Disclosure Initiative comprises several smaller projects to improve presentation and disclosure requirements in existing Standards. The amendments clarify the existing requirements to FRS 7.

The amendments require the disclosure of information that enables users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

To the extent necessary to satisfy that requirement, the entity shall disclose

- changes from financing cash flows;
- changes arising from obtaining or losing control of subsidiaries or other businesses;
- the effect of changes in foreign exchange rates;
- changes in fair values; and
- other changes

The amendments do not prescribe a specific format to disclose financial activities, however, illustrative examples have been included to illustrate how an entity may be able meet the requirements.

### Transition

An entity is not required to present comparative information for earlier periods.

## FRS 12 *Income Taxes*
## - Recognition of Deferred Tax Assets for Unrealised Losses

### Background and amendments

As there were diversity in practice around the recognition of a deferred tax asset that is related to a debt instrument measured at fair value, FRS 12 was amended to clarify to following:

- unrealised losses on debt instruments measured at fair value in the financial statements but at cost for tax purposes can give rise to deductible temporary differences;
- the carrying amount of an asset does not limit the estimation of probable future taxable profits; and that
- when comparing deductible temporary differences with future taxable profits, the future taxable profits excludes tax deductions resulting from the reversal of those deductible temporary differences.

### Transition

An entity is required to apply the amendments retrospectively in accordance with FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. However, in applying the amendments in the first opening statement of financial position, an entity is not required to make transfers between retained earnings and other components of equity to restate cumulative amounts previously recognised in profit or loss, other comprehensive income or directly in equity. If an entity does not make such transfers, it should disclose that fact.

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

| | Title | Effective date* | Year issued |
|---|---|---|---|
| FRS 115 | *Revenue from Contracts with Customers* | 1-Jan-18# | 2014 |
| FRS 115 (Amended) | *Revenue from Contracts with Customers*<br>- Effective Date of FRS 115 | 1-Jan-18 | 2015 |
| FRS 115 (Amended) | *Revenue from Contracts with Customers*<br>- Clarifications to FRS 115 *Revenue from Contracts with Customers* | 1-Jan-18 | 2016 |
| FRS 109 | *Financial Instruments* | 1-Jan-18 | 2014 |
| FRS 102 (Amended) | *Share-based Payment*<br>- Classification and Measurement of Share-based Payment Transactions | 1-Jan-18 | 2016 |

*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.

#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 modification, which may impact the amount and/or timing of revenue recognition.

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

### Overview of the new revenue model

Step 1 – Identify the contract with a customer

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

*Criteria*

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

A group of contracts entered into at or near the same time with the same customers (or parties related to the customer) may 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.

### 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 re-estimation. A significant revenue reversal occurs when a subsequent change in the estimate of variable consideration results in significant reduction to the cumulative amount of revenue recognised from the customer. This constraint should be applied considering factors such as:

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

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

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

When a 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 contract for those contract. 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.

### 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.

## 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 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 their entirety (see above) and the hybrid financial asset as a whole is required to be classified as FVTPL if any of its cash flows do not represent payments of principal and interest. The embedded derivatives concept is retained for all hybrid financial liabilities and 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.

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.

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

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

### Impairment: expected credit losses

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

#### General approach

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

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

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

#### Significant increase in credit risk

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

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

**Purchased or originated credit-impaired financial assets**
An entity would recognise at the end of the reporting period, 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.

## 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 following 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 payment 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.

New standard effective for annual periods beginning on or after 1 January 2019

| | Title | Effective date* | Year issued |
|---|---|---|---|
| FRS 116 | *Leases* | 1-Jan-19 | 2016 |

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

## FRS 116 *Leases*

### Background

FRS 116 replaces FRS 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 FRS 116 is substantially unchanged from its predecessor, FRS 17. The Standard also provides guidance on sale and leaseback transactions applicable to both the seller-lessee and buyer-lessor.

FRS 116 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 FRS 16 *Property, Plant and Equipment.* However, FRS 116 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 FRS 40 *Investment Property* to its other investment properties.

### Lessee 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.

### 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.

## Leesor accounting

FRS 116 maintains substantially the lessor accounting requirements in FRS 17. Lessors will continue to classify leases as operating leases or finance leases.

### 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 FRS 115 *Revenue from Contract with Customers* for recognition as a sale.

If these 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 buy-lessor accounts for the purchase of the underlying asset under the applicable Standards (for example, FRS 16 for a purchase of property, plant and equipment) and the lease under FRS 116'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 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.

Both parties then account for the financial instrument in accordance with FRS 109 *Financial Instruments* (or, if that standard has not yet been applied FRS 39 *Financial Instruments: Recognition and Measurement*).

### 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 |
|---|---|---|
| • Right-of-use assets<br>• Lease liabilities<br><br>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. | • Interest expense on the lease liability (a component of finance costs)<br>• Depreciation charge from the right-of-use asset | • Cash payments for the principal portion of the lease liability, presented within financing activities.<br>• Cash payments for the interest portion of the lease liability, presented consistently with other interest payments.<br>• 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. |

FRS 116 maintains substantially the lessor presentation requirements in FRS 17.

**Disclosure**

The disclosure objective of FRS 116 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, FRS 116 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 FRS 107 *Financial Instruments: Disclosures*.

For a lessor, FRS 116 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**

FRS 116 applies to annual reporting periods beginning on or after January 1, 2019, with early application permitted if FRS 115 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 FRS 17 and INT FRS 104 *Determining whether an Arrangement contains a Lease* in respect of contracts entered into prior to the date of initial application of FRS 116.

A lessee shall either apply FRS 116 with full retrospective effect or alternatively not restate comparative information but recognise the cumulative effect of initially applying FRS 116 as an adjustment to opening equity at the date of initial application.

**Deferred indefinitely, effective date to be determined by the ASC**

| | Title | Effective date | Year issued |
|---|---|---|---|
| FRS 110 and FRS 28 (Amended) | *Consolidated Financial Statements, Investments in Associates and Joint Ventures*<br>- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | - | 2014 |
| FRS 110 and FRS 28 (Amended) | *Consolidated Financial Statements, Investments in Associates and Joint Ventures*<br>- Effective Date of Amendments to FRS 110 and FRS 28 | - | 2015 |

## FRS 110 *Consolidated Financial Statements,* FRS 28 *Investments in Associates and Joint Ventures* - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

### Background and amendment

The amendments address an acknowledged inconsistency between the requirements in FRS 110 and those in FRS 28, 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 FRS 110 and FRS 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**

Below are highlights of the proposed changes in recent exposure drafts (ED) issued by the IASB since 16 November 2015 of which the ASC has similarly sought comments through the public consultation process.

| Exposure drafts | Main proposals |
|---|---|
| *Annual Improvements to IFRSs (2014 - 2016 Cycle)* | **IFRS 1 *First-time Adoption of International Financial Reporting Standards***<br>Deletion of short-term exemptions for first-time adopters<br><br>The proposed amendments remove short-term exemptions relevant to reporting periods that have passed and, as such, has served its intended purpose.<br><br>The exemptions allowed first-time adopters the same transition relief as existing IFRS preparers with respect to:<br>• providing certain comparative disclosures about financial instruments, which were required as a result of several amendments to IFRS 7;<br>• providing comparative information about disclosures required by IAS 19 about the sensitivity of the defined benefit obligation to actuarial assumptions; and<br>• retrospective application of the investment entities requirements of IFRS 10, IFRS 12 and IAS 27.<br><br>The proposed amendments also remove the requirement in IFRS 1 on assessing whether an entity is an investment entity based on facts and circumstances at the date of transition to IFRSs on the basis that this has the same outcome as requiring the assessment to be made retrospectively.<br><br>**IFRS 12 *Disclosure of Interests in Other Entities***<br>Clarification of the scope of the disclosure requirements<br>• the proposed amendments clarify the scope of IFRS 12 by specifying that disclosure requirements in the Standard, except for those in paragraphs B10-B16 (on summarised financial information), apply to any interests that are classified as held for sale, held for distribution to owners or discontinued operations in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. |

| Exposure drafts | Main proposals |
|---|---|
| *Annual Improvements to IFRSs (2014 - 2016 Cycle)* | IAS 28 ***Investments in Associates and Joint Ventures***<br>Measuring investees at fair value through profit or loss on an investment-by-investment basis<br><br>The proposed amendments clarify<br>• 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.<br>• for an entity that is not an investment entity (IE) and that has an associate or joint venture that is an IE,<br>– 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.<br>– 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:<br>(i) initial recognition of the IE associate or joint venture;<br>(ii) when an associate or joint venture becomes an IE; and<br>(iii) when an IE associate or joint venture first becomes a parent. |
| *Transfers of Investment Property (Proposed amendment to IAS 40)* | The proposed amendments<br>• retain the requirement that a transfer into, or out of, investment property can be made when, and only when, evidence of a change of use of the property exists.<br>• clarify that the current list of events in the Standard constituting evidence of a change of use has occurred are only examples. |
| *Definition of a Business and Accounting for Previously Held Interests Proposed amendments to IFRS 3 and IFRS 11* | The proposed amendments<br>• clarify that to be considered a business, an acquired set of activities and assets must:<br>– not have a fair value of gross assets acquired concentrated in a single identifiable asset (or group of similar identifiable assets).<br>– include an input and a substantive process that together contribute to the ability to create outputs.<br><br>The proposed amendments also clarify that upon obtaining control of a business that was a joint operation, an entity should remeasure any previously held interest in the joint operation. However, an entity should not remeasure any previously held interest in a joint operation when it acquires an additional share of the joint operation and either retains or gains joint control. |

| Exposure drafts | Main proposals |
|---|---|
| *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contract (Proposed amendments to IFRS 4)* | The amendments introduce two approaches: an overlay approach and a deferral approach. The amended Standard will:<br>• give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts Standard is issued; and<br>• give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments Standard—IAS 39.<br><br>The amendments to IFRS 4 supplement existing options in the Standard that can already be used to address the temporary volatility.<br><br>In September 2016, the IASB has issued this amendments to IFRS 4. As at November 2016, the equivalent amendments to FRS 104 has not been issued by the ASC. |

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

# Summary of differences between FRS and IAS/ IFRS

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

| FRS | Content | IAS/IFRS | Comments |
|---|---|---|---|
| SFRS for Small Entities | Accounting Framework for Small Entities | IFRS for SMEs | The IFRS for SMEs provides an alternative framework that can be applied by eligible entities in place of the full set of IFRSs in issue. It is effective immediately on issue.<br><br>SFRS for Small Entities is based on the IFRS for SMEs and includes additional eligibility criteria specific to local context. This Standard is available for eligible entities to apply for financial periods beginning on or after 1 January 2011. |
| FRS 16 | Property, Plant and Equipment | IAS 16 | FRS 16 exempts regular revaluation of assets for which any one-off revaluation was performed between 1 January 1984 and 31 December 1996 (both dates inclusive) or for assets that were revalued prior to 1 January 1984. IAS 16 does not give such an exemption. |
| FRS 27(2012), FRS 28(2012) and FRS 110(2012) | Consolidated Financial Statements and Accounting for Investments in Subsidiaries, Associates and Joint Ventures | IAS 27(2011), IAS 28(2011) and IFRS 10(2012) | FRS 27(2012) and FRS 110(2012) exempt a parent from presenting consolidated financial statements if its holding company (immediate or ultimate) produces consolidated financial statements available for public use. Under IAS 27(2011) and IFRS 10(2012), such an exemption applies only if the holding company produces consolidated financial statements available for public use that comply with IFRS.<br><br>Similar differences apply to the exemption from equity accounting for associates and joint ventures in FRS 28(2012), compared to IAS 28(2011). |
| FRS 102 | Share-based Payment | IFRS 2 | The cut-off grant date for retrospective treatment of equity-settled share-based payment is 7 November 2002 under IFRS 2 and 22 November 2002 under FRS 102. |
| ED FRS | Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts | IFRS 4 | Depending on the chosen approach, amendments to IFRS 4 is effective either:<br>• For annual periods beginning on or after 1 January 2018 (deferral approach); or<br>• When an entity first applies IFRS 9 (overlay approach).<br><br>This amendment has not been adopted in Singapore yet. |

| FRS | Content | IAS/IFRS | Comments |
|---|---|---|---|
| FRS 109 | Financial Instruments | IFRS 9 | 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 *Financial Instruments: Recognition and Measurement*.<br><br>The final version of IFRS 9 and FRS 109 are both effective for annual periods beginning on or after 2018.<br><br>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.<br><br>However, FRS 109 does not have earlier versions as it was issued in a single version, equivalent to the final version of IFRS 9. |
| ED INT FRS | Members' Shares in Co-operative Entities and Similar Instruments | IFRIC 2 | IFRIC 2 is effective for annual periods beginning on or after 1 January 2005.<br><br>This Interpretation has not been adopted in Singapore. |
| INT FRS 115 | Agreements for the Construction of Real Estate | IFRIC 15 | IFRIC 15 is effective for annual periods beginning on or after 1 January 2009 whereas INT FRS 115 is effective from 1 January 2011.<br><br>In addition, INT FRS 115 contains an Accompanying Note that takes into account the legal framework in Singapore that is directly relevant to the application of INT FRS 115 in Singapore and summarises the ASC's considerations in reaching its consensus on the accounting treatment for a specific type of sale of uncompleted residential properties. |
| RAP 8 | Foreign Income Not Remitted to Singapore | IAS 12 | IAS 12.39 provides an exception to the recognition of deferred tax liability in the case of profits that are retained in subsidiaries, branches, associates and joint ventures that would be taxable if these were to be distributed to the investor. The exception applies provided the parent, investor or venturer is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. IAS 12 does not extend this exception to other types of temporary differences e.g. foreign-sourced income not remitted to Singapore that would be taxable if remitted.<br><br>RAP 8 recommends that a deferred tax liability in respect of foreign-sourced income not remitted to Singapore (e.g. interest income earned from deposits placed outside of Singapore) should be recognised and accounted for in the same way as temporary differences associated with the unremitted profits from subsidiaries etc. |

# Section 2:

# Other financial reporting matters

### The Companies (Amendment) Act 2014

In April 2015, ACRA announced that the legislative changes to the Companies Act will be effected in two phases. The first phase was implemented on 1 July 2015. The second phase was implemented on 3 January 2016.

**Phase 2**
A summary of some key changes affecting financial reporting and auditing matters implemented in January 2016 is set out below:

| | |
|---|---|
| **Accounts and audit** | |
| Exemption of non-listed dormant companies from preparation of accounts | A dormant company may be exempted from preparation of financial statements for a financial year if:<br>• it is not a listed company or a subsidiary company of a listed company;<br>• its total assets at any time during the financial year does not exceed S$500,000;<br>• it has been dormant since its time of formation or since the end of previous financial year; and<br>• the directors have lodged a statement by the directors with ACRA that<br>– the company has been dormant for the period;<br>– no notice has been received requiring the directors to comply with the requirements relating to section 201 on financial statements; and<br>– the accounting and other records required by the Act has been kept in accordance with section 199 on accounting records and systems of control. |
| **Duties and obligations of directors and Chief Executive Officers (CEOs)** | |
| No maximum age limit for directors | Shareholders' approval for the appointment of a person who is above 70 years old and above as a director of a public company or a subsidiary of a public company is no longer required. |
| CEOs required to disclose conflict of interests in transactions or property/ other office held by them | CEO of the company (not also a director) is required to disclose conflict of interest in transactions/proposed transactions with the company or arising from any offices held or properties possessed by him. An interest of the CEO includes an interest of his family members.<br><br>To provide flexibility on the manner of disclosures, a director or CEO will be allowed to disclose his interests:<br>• at a directors' meeting; or<br>• by sending a written notice to the company (new alternative for disclosure). |

| Duties and obligations of directors and Chief Executive Officers (CEOs) | |
|---|---|
| CEOs required to disclose interests in securities of company | CEO of a non-listed company (not also a director) is required to disclose his or his family members' interest in securities of the company or its related corporations, and changes in such interests, with the following exemptions:<br>• disclosure of interests in participatory interests made available by the company; and<br>• disclosure of his or his family members' interests in securities of the company's related corporations. |
| New debarment regime for director or company secretary | Any director or company secretary of a company who fails to lodge relevant documents required by the Act for a continuous period of at least three months after the deadline may be debarred.<br>A debarred person will not be permitted to assume a new appointment as director/company secretary. However, he will be allowed to continue with existing appointments. The debarment may be lifted when the default has been rectified. |
| **Company administration** | |
| Private companies no longer required to keep register of members | Private companies will not be required to keep the register. Public companies are required to continue to keep their register of members at their registered office. |
| Companies no longer required to keep register of directors/ managers/ secretaries/ auditors | All companies will not be required to keep the register, which will be maintained electronically through ACRA. |
| New requirement to retain financial statements or documents laid at Annual General Meetings for five years | A company will be required to keep a copy of each document that was laid before the company at its Annual General Meetings for a period of not less than five years after the date of the meeting. |

| Foreign companies | |
|---|---|
| Increased disclosure of financial information of foreign companies with a Singapore Branch | Foreign company that is required to file its financial statements in its place of incorporation is now required to file its financial statements* (currently balance sheet only) prepared in accordance with the requirements of the place of its incorporation.<br><br>Foreign company that is <u>not</u> required to file its financial statements in its place of incorporation is now required to file its financial statements* (currently balance sheet only) as if it is a Singapore public company.<br><br>*Financial statements will include similar components as those expected of a Singapore-incorporated company, such as income statement, statement of changes in equity and notes to accounts. |
| Disclosing name of auditors | A foreign company will be required to lodge with ACRA a statement with the name of the auditor who audited its Singapore branch accounts and its financial statements. |

The above is not a comprehensive list of all the amendments. The Companies (Amendment) Act 2014 includes various other amendments in areas such as accounts and audit, duties and obligations of directors and CEOs, company administration, foreign companies, shareholders' rights and meetings, share capital and capital maintenance regime and scheme of arrangement and amalgamations. A summary of key changes of Phase 1 affecting financial reporting and auditing matters was presented in the previous edition (November 2015) of this publication. Companies should consult with their legal advisers if they have queries on the legislative changes.

## New and Revised Auditor Reporting Standards

The new and revised auditor reporting standards were issued in July 2015 by the Institute of Singapore Chartered Accountants (ISCA).

The most significant change is the manner in which auditors communicate their work in the auditor's report. In the enhanced auditor's report of listed entities, the auditor has to communicate "Key Audit Matters (KAM)" which refer to those matters that the auditors judge to be of most significance in the current period audit. There is also additional requirement that require the auditor to communicate matters related to going concern.

The new and revised auditor reporting standards are effective for audits of financial statements for periods ending on or after 15 December 2016. Early adoption is allowed.

| Key enhancements to auditor's report | Details of key enhancements |
|---|---|
| **For audits of financial statements of listed entities** | |
| Key Audit Matters (KAM) | Singapore Standard on Auditing (SSA) 701 sets out a decision framework for auditors in determining KAM, using the communications with those charged with governance as a starting point.<br><br>From the matters communicated with those charged with governance, the auditor determines those matters that required significant auditor attention, by considering:<br>• areas of higher assessed risk of material misstatement, or significant risk.<br>• significant auditor judgements relating to areas in the financial statements that involved significant management judgement, including accounting estimates that have been identified as having high estimation uncertainty.<br>• the effect on the audit of significant events or transactions that occurred during the period.<br><br>The description of a KAM will include the following:<br>• why the matter was considered to be one of most significance in the audit and therefore determined to be a KAM;<br>• how the matter was addressed in the audit; and<br>• reference to the related disclosures in the financial statements. |
| Disclosure of the name of the engagement partner | Disclosure is necessary unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat. |

| For all audits | |
|---|---|
| Opinion section | "Opinion" section required to be presented first, followed by the "Basis for Opinion" section, unless law or regulation prescribe otherwise. |
| Going Concern ("GC") | The changes are:<br>• descriptions of the respective responsibilities of management and the auditor for GC are included in the auditor's report;<br>• a separate section under the heading "Material Uncertainty Related to Going Concern" when a material uncertainty exists and is adequately disclosed; and<br>• new requirement for the auditor to evaluate the adequacy of disclosures in "close call" situations, when events or conditions are identified that may cast significant doubt on an entity's ability to continue as a GC but no material uncertainty concluded.<br><br>The auditor's report is required to highlight the existence of any materiality uncertainties and will either include:<br>• if the disclosures are adequate, a separate section under the heading "Material Uncertainty Related to Going Concern" drawing attention to those disclosures; or<br>• if the disclosures are inadequate, express a qualified opinion or adverse opinion, as appropriate, in accordance with SSA 705. |
| Auditor's independence and fulfilment of relevant ethical responsibilities | The revised standards require an affirmative statement about the auditor's independence and fulfilment of relevant ethical responsibilities. |
| Enhanced description of the responsibilities of management and the auditor | The revised standards also require the "Responsibilities of Management for the Financial Statements" section to identify those responsible for the oversight of the financial reporting process, when those responsible for such oversight are different from those responsible for the preparation of the financial statements. In this case, the header of this section shall also refer to "Those Charged with Governance". |

### **SSA 720** ***The Auditor's Responsibilities Relating to Other Information***

SSA 720 was revised in November 2015 by the ISCA. It deals with the auditor's responsibilities relating to other information included in an entity's annual report. Other information is financial or non-financial information (other than financial statements and the auditor's report thereon) included in an entity's annual report.

Key changes of the revised SSA 720 relate to:

- enhancing the auditor's responsibilities with respect to the other information
- requiring auditors to communicate their responsibilities and the outcome of their work relating to other information in their audit reports
- bringing greater consistency regarding auditor's consideration of a diverse range of other information.

The auditor's report is also required to include a separate section on "Other Information" including:

- a statement that management is responsible for other information
- identification of other information obtained prior to the date of the auditor's report
  - in addition, for listed entities, identification of any other information expected to be obtained after the date of the auditor's report
- a statement that the auditor's opinion does not cover other information and, accordingly, does not express (or will not express) an audit opinion or any form of assurance conclusion thereon
- a description of the auditor's responsibilities relating to reading, considering and reporting on other information required by the revised SSA 720
- when other information has been obtained prior to the date of the auditor's report, either:
  - a statement that the auditor has nothing to report; or
  - if the auditor has concluded that there is an uncorrected material misstatement of the other information, a statement that describes the uncorrected material misstatement of the other information

The SSA is effective for audits of financial statements for periods ending on or after 15 December 2016.

### Sustainability Reporting for Listed Issuers

SGX has introduced an annual sustainability reporting requirement for every listed issuer on a 'comply or explain' basis. It takes effect for financial years ending on or after 31 December 2017. Sustainability reporting supplements financial reporting by providing investors with a comprehensive understanding in various areas of the issuer.

A summary of some key features of the sustainability reporting requirements below.

| Description | Details |
|---|---|
| Sustainability report to be prepared annually | No later than<br>• 12 months after the end of the reporting period for the first report<br>• 5 months after the end of the reporting period for subsequent reports |
| 5 primary components to be included in the report | • material environmental, social and governance (ESG) factors<br>• policies, practices and performance<br>• targets<br>• sustainability reporting framework<br>• the Board statement |
| If a primary component is excluded from the report | • issuers to state so, explain why and what has been done instead |
| Sustainability reporting framework | • issuers to select a framework appropriate for their business model and industry<br>• independent assurance adds credibility but is not mandatory |

## New Financial Reporting Framework for Listed Companies

### 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 International Financial Reporting Standards or IFRS (herein denoted as SG-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.

Applicability of the new framework for other entities listed on SGX such as real estate investment trusts and business trusts, and the transition arrangements for entities seeking to list on the SGX are currently under deliberation.

### What does this mean for companies?

Singapore incorporated SGX listed companies will have to apply the requirements of IFRS 1 *First Time Adoption of IFRS* when preparing their first set of SG-IFRS compliant financial statements. Notwithstanding that the Financial Reporting Standards in Singapore (SFRS) are closely aligned to IFRS word-for-word, there are some differences relating to effective dates and specific areas of recognition.

In addition, IFRS 1 generally disregards the transition provisions in each IFRS, and requires retrospective application of the IFRS currently effective. This means that certain past transactions may have to be restated using the currently effective IFRS, and certain transition reliefs for new standards effective at the same time, for example, IFRS 15 *Revenue from Contracts with Customers*, will not be available.

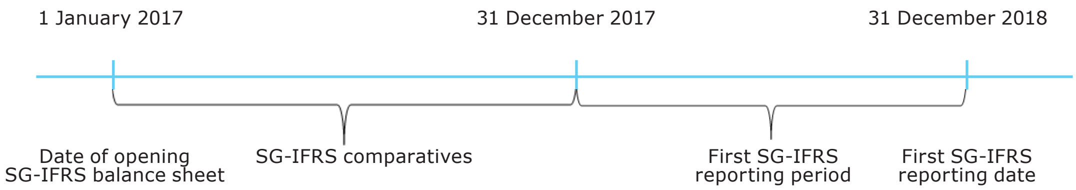
However, IFRS 1 also sets out exceptions and exemptions for areas where retrospective application may not be appropriate or practicable. Companies are required to perform a holistic review of their transition approach to the SG-IFRS framework, understand how the exceptions and exemptions in IFRS 1 should be applied, and quantify the transition adjustments if any.

To be ready for the first IFRS reporting period (including interim financial reporting), companies should start their assessment now, to allow sufficient time to deliberate the implications and implement any changes required, before the start of their first IFRS reporting periods.

**Overview of IFRS 1**

IFRS 1 provides guidance on first-time application of IFRS.

- It generally requires retrospective application for all IFRS policies effective at end of the first IFRS reporting date. However, there are areas with mandatory exceptions and optional exemptions to retrospective application.
- It requires at least one year of comparative financial information and an opening balance sheet on the date of transition, both prepared in accordance with SG-IFRS. For example, for December year-end listed companies, the first IFRS annual reporting period will be the year ending 31 December 2018, with comparative information for the financial year 2017 and an opening balance sheet as at 1 January 2017.




- Transition adjustments are to be recognised in retained earnings at date of transition (opening SG-IFRS balance sheet date).
- Explanatory disclosures and reconciliations to FRS to explain effect of transition to SG-IFRS are required.

**Next Steps**

A typical transition process will involve determining objectives and development of a project plan. A detailed assessment of the areas of differences will be critical and should be done as soon as possible. Companies should have a good understanding of the IFRS 1 requirements, analyse all the options, reliefs and exemptions before deciding on the most optimal route for transition.

Besides enabling timely collection of information necessary for the transition, early preparation would enable companies to identify unforeseen costly implementation challenges and facilitates timely communication with all stakeholders about the expected impact of the transition on earnings and equity.

# 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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