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Changes to the financial reporting framework in Singapore

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Acronyms

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

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Introduction

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

The outbreak of Coronavirus disease 2019 (COVID-19) had a widespread impact on the global economy in 2020 and many entities continue to face challenges in 2021. Entities should monitor their unique circumstances and risk exposures and consider the impact the outbreak may have on their financial reporting.

Sustainability reporting is an upcoming area of interest by investors and stakeholders. With the formation of a new International Sustainability Standards Board (ISSB) by the IFRS Foundation, a set of high-quality sustainability disclosure standards is expected to be available in the near future. As climate change is a priority area of focus, a discussion of the possible financial reporting impact of climate change under relevant SFRS(I) Standards has been included for consideration.

In this edition, we provide a summary of the new/revised SFRS(I) organised based on their effective dates and an outline of recent key exposure drafts. A comparison of the SFRS(I) against IFRS and FRS against IFRS has been included, as well as summaries of other financial reporting matters arising from regulatory updates by SGX and guidance issued by ACRA and ISCA.

We have retained the relevant summaries of new/revised SFRS(I)s included in the 2020 edition. For Standards that are not effective yet, entities will need to consider and disclose in their current financial statements, the possible effects that these new/revised SFRS(I)s might have in the period of initial application.

Section 1: Financial reporting standards

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

	Title	Effective Date	Year Issued
SFRS(I) 16	*Covid-19-Related Rent Concessions*	1-Jun-20	2020

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

Overview

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

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

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- Any reduction in lease payments affects only payments originally due in on or before 30 June 2021 (a rent concession meets this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and
- There is no substantive change to other terms and conditions of the lease.

Effective Date

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

New/amended standards/interpretation effective for annual periods beginning on 1 January 2021

	Title	Effective Date	Year Issued
SFRS(I) 9, SFRS(I) 1- 39, SFRS(I) 7, SFRS(I) 4, SFRS(I) 16	*Interest Rate Benchmark Reform – Phase 2*	1-Jan-21	2020

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

Overview

The amendments address issues that might affect financial reporting after the reform of an interest rate benchmark, including changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate (replacement issues).

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

On modification of financial assets, financial liabilities and lease liabilities, practical expedient allows for modifications required by the reform as a direct consequence and made on an economically equivalent basis to be accounted for by updating the effective interest rate. All other modifications are accounted for using current SFRS requirements. A similar practical expedient is provided for lessee accounting applying SFRS(I) 16. SFRS(I) 4 was also amended to require insurers that apply the temporary exemption from SFRS(I) 9 to apply the amendments in accounting for modifications directly required by the reform.

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

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

New disclosure requirements arising from the amendments include:

a) how the entity is managing the transition to alternative benchmark rates, its progress at the reporting date and the risks to which it is exposed arising from financial instruments because of the transition;
b) disaggregated by significant interest rate benchmark subject to interest rate benchmark reform, quantitative information about financial instruments that have yet to transition to an alternative benchmark rate as at the end of the reporting period, showing separately:
   (i) non-derivative financial assets;
   (ii) non-derivative financial liabilities; and
   (iii) derivatives; and
c) if the risks identified in above have resulted in changes to an entity's risk management strategy, a description of these changes.

Effective Date

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

New/amended standards/interpretation effective for annual periods beginning after 1 January 2021

	Title	Effective Date*	Year Issued
SFRS(I) 16	*Covid-19-Related Rent Concessions beyond 30 June 2021*	1-Apr-21	2021
SFRS(I) 3	*References to the Conceptual Framework*	1-Jan-22	2020
SFRS(I) 1-16	*Property, Plant and Equipment—Proceeds before Intended Use*	1-Jan-22	2020
SFRS(I) 1-37	*Onerous Contracts—Cost of Fulfilling a Contract*	1-Jan-22	2020
Various	*Annual Improvements to SFRS(I)s 2018-2020*	1-Jan-22	2020
SFRS(I) 1-1	*Classification of Liabilities as Current or Non-current*	1-Jan-23[1]	2020
SFRS(I) 1-1	*Classification of Liabilities as Current or Non-current—Deferral of Effective Date*	-	2020
SFRS(I) 17	*Insurance Contracts*	1-Jan-23[2]	2018
SFRS(I) 17	*Amendments to SFRS(I) 17*	1-Jan-23	2020
SFRS(I) 4	*Extension of the Temporary Exemption from applying SFRS(I) 9*	-	2020
Various	*Disclosure of Accounting Policies*	1-Jan-23	2021
SFRS(I) 1-8	*Definition of Accounting Estimates*	1-Jan-23	2021
SFRS(I) 1-12, SFRS(I) 1	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*	1-Jan-23	2021
SFRS(I) 17, SFRS(I) 9	*Initial Application of SFRS(I) 17 and SFRS(I) 9—Comparative Information*	1-Jan-23	2021

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

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

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

Amendment to SFRS(I) 16 *Covid-19-Related Rent Concessions beyond 30 June 2021*

Overview

In 2020, SFRS(I) 16 was amended to provide lessees with a practical expedient that relieves a lessee from assessing whether a COVID-19-related rent concession is a lease modification. Among other conditions, the amendment in 2020 permits a lessee to apply the practical expedient to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2021.

Due to the ongoing nature of the pandemic, the date was extended to permit a lessee to apply the practical expedient to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, in a 2021 amendment.

Effective Date

The 2021 amendment is effective for annual reporting periods beginning on or after 1 April 2021. A lessee is permitted to apply the amendment early, including in financial statements not authorised for issue at 31 March 2021, the date the final amendment was issued.

A lessee applies the amendment retrospectively. As such, it would recognise the cumulative effect of initially applying the amendment as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the annual reporting period in which the amendment is first applied.

A lessee must apply the practical expedient consistently to eligible contracts with similar characteristics and in similar circumstances, irrespective of whether the contract became eligible for the practical expedient as a result of the 2020 amendment or the 2021 amendment.

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

Overview

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

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

Effective Date

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

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

Overview

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

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

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

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

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

Effective Date

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

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

Overview

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

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

Effective Date

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

Annual Improvements to SFRS(I)s 2018-2020

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

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

Effective Date

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

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

Overview

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

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

Effective Date

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

SFRS(I) 17 *Insurance Contracts*

Introduction

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

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

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

Main features

SFRS(I) 17 measures insurance contract either under the General Model or a simplified version of this, called the Premium Allocation Approach (PAA).

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

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

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

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

(a) the beginning of the coverage period of the group of contracts;
(b) the date when the first payment from a policyholder in the group becomes due; and
(c) for a group of onerous contracts when the group becomes onerous.

Initial measurement
On initial recognition, an entity measures a group of insurance contracts at the total of the amount of fulfilment cash flows ("FCF") and the contractual service margin ("CSM").

FCF comprises:

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

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

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

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

Subsequent measurement

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

(a) the liability for remaining coverage (comprising the FCF related to future services plus a measure of the CSM yet to be earned); and
(b) the liability for incurred claims (comprising the FCF related to past service allocated to the group),
(c) both determined as at that date.

The CSM of a group of contracts is adjusted at the end of each reporting period to reflect the following:

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

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

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

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

Onerous contracts

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

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

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

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

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

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

Investment contracts with discretionary participation features
An investment contract with discretionary participation features does not include a transfer of significant insurance risk. Consequently, the requirements in SFRS(I) 17 are modified as follows:

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

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

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

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

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

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

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

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

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

An entity shall recognise a group of reinsurance contracts held:

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

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

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

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

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

Presentation in the statement of financial position

Separate presentation is required for:

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

Presentation in the statements of financial performance

Amounts recognised in profit or loss are disaggregated into:

(a) An insurance service result comprising insurance revenue (from the provision of coverage and other services) and insurance service expenses (incurred claims and other incurred expenses) and income or expenses from reinsurance contracts. Revenue and insurance service expenses shall exclude any investment components.
(b) Insurance finance income or expenses (reflecting the change in the carrying amount of the group of insurance contracts arising from the effect of the TVM and the effects of changes in assumptions that relate to financial risk, but generally excludes any such changes for groups of insurance contracts with DPF that would instead adjust the CSM).

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

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

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

Effective date

SFRS(I) 17 is applicable for annual reporting periods beginning on or after 1 January 2023 (amended from the original effective date of 1 January 2021). Early application is permitted for entities that apply SFRS(I) 9 and SFRS(I) 15 at or before the date of initial application of the standard. For the purpose of the transition requirements, the date of initial application is the start of the annual reporting period in which an entity first applies SFRS(I) 17, and the transition date is the beginning of the period immediately preceding the date of initial application.

Transition

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

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

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

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

Amendments to SFRS(I) 17 *Insurance Contracts*

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

The main changes are:

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

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

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

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

Amendments to SFRS(I) 1-1 and SFRS(I) Practice Statement 2 *Disclosure of Accounting Policies*

Overview
Under the existing SFRS(I) 1-1 *Presentation of Financial Statements*, an entity is required to disclose its "significant" discounting policies. The amendments now require disclosure of any entity's "material" accounting policies instead. The amendments also explain how an entity can identify a material accounting policy and examples were added to provide guidance on when an accounting policy is likely to be material.

The SFRS(I) Practice Statement 2 was amended to provide guidance and examples to explain and demonstrate the application of the 'four-step materiality process'.

Effective Date
The amendments are effective for annual periods beginning on or after 1 January 2023 and are applied prospectively. Earlier application is permitted. As the amendments to SFRS(I) Practice Statement 2 provide non-mandatory guidance on the application of the definition of material accounting policy information, it does not include an effective date or transition requirements.

Amendments to SFRS(I) 1-8 Definition of Accounting Estimates

Overview
As entities faced challenges in distinguishing accounting policies and accounting estimates, SFRS(I) 1-8 *Accounting Policies, Changes in Accounting Estimates and Errors* was amended to replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".

The amendments also clarify that a change in accounting estimates that result from new information or new developments is not the correction of an error. In addition, the effects of a change in input or a measurement technique used to develop accounting estimates are changes in accounting estimates if they do not result from the correction of prior period errors.

Effective Date
The amendments are effective for annual periods beginning on or after 1 January 2023, and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted.

Amendments to SFRS(I) 1 and SFRS(I) 1-12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

Overview

Before this amendment, it was not clear whether SFRS(I) 1-12 *Income Taxes* required recognition of deferred taxes for the offsetting temporary differences arising from simultaneous recognition of asset and liability or whether the initial recognition exemption can be applied. That exemption prohibits an entity from recognising deferred tax assets and liabilities on initial recognition of an asset or liability in a transaction which is not a business combination and affects neither accounting nor taxable profit.

SFRS(I) 1-12 was amended to introduce an exception to the initial recognition exemption where an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences. This is applicable to taxable and deductible temporary differences associated with right-of-use assets and lease liabilities, and decommissioning obligations and corresponding amounts recognised as assets at the beginning of the earliest comparative period presented.

Effective Date

The amendments apply to transactions that occur on or after the beginning of the earliest comparative period presented.

In addition, at the beginning of the earliest comparative period an entity recognises:

- A deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary differences associated with:
  - Right-of-use assets and lease liabilities
  - Decommissioning, restoration and similar liabilities and the corresponding amounts recognised as part of the cost of the related asset

- The cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date

First-time adopters apply these provisions at the date of transition to SFRS(I) Standards.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023. Early application of the amendments is permitted.

Amendments to SFRS(I) 17 *Initial Application of SFRS(I) 17 and SFRS(I) 9—Comparative Information*

Overview
Insurance entities may have elected to apply the temporary exemption that allows them to defer the adoption of SFRS(I) 9 until they apply SFRS(I) 17. However, the two standards have different requirements with respect of the comparative information presented on initial application. SFRS(I) 17 requires entities to present at least one restated comparative period, while SFRS(I) 9 permits (but does not require) restatement of comparative periods. SFRS(I) 9 prohibits entities from applying SFRS(I) 9 to financial assets derecognised before the date of initial application of SFRS(I) 9.

The main amendment is a narrow-scope amendment to the transition requirements of SFRS(I) 17 for entities that first apply SFRS(I) 17 and SFRS(I) 9 at the same time. The amendment relates to financial assets for which comparative information presented on initial application of SFRS(I) 17 and SFRS(I) 9 has not been restated for SFRS(I) 9 (including financial assets that have been derecognised in the comparative period).

Applying the amendment, an entity is permitted to present comparative information about such financial assets as if the classification and measurement requirements of SFRS(I) 9 had been applied to the financial assets. The option is available on an instrument-by-instrument basis. In applying the classification overlay to a financial asset, an entity is not required to apply the impairment requirements of SFRS(I) 9.

The amendment is also available for entities that have applied SFRS(I) 9 before they apply SFRS(I) 17. For these entities, the classification overlay applies to financial assets that have been derecognised in the comparative period and permits an entity to apply the redesignation requirements of SFRS(I) 17 based on how the entity expects the assets would have been designated at initial application of SFRS(I) 17.

Effective Date
The amendment is effective at the time an entity first applies SFRS(I) 17.

Deferred indefinitely, effective date to be determined by the ASC

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

Amendments to SFRS(I) 10, SFRS(I) 1-28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

Background and amendment

The amendments address an acknowledged inconsistency between the requirements in SFRS(I) 10 *Consolidated Financial Statements* and those in SFRS(I) 1-28 *Investments in Associates and Joint Ventures*, 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

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

Outline of recent key exposure drafts issued by the IASB

Below are highlights of the proposed changes in selected recent exposure drafts (ED) issued by the IASB since 31 December 2020 of which the ASC has similarly sought comments through the public consultation process.

Exposure Drafts	Main proposals
ED Lack of Exchangeability	The amendment proposes to specify when a currency is exchangeable into another currency and, consequently, when it is not. • The amendments, if finalised, would also specify how an entity determines the exchange rate to apply when a currency is not exchangeable. • It is proposed that an entity would disclose information that enables users of its financial statements to evaluate how a currency's lack of exchangeability affects, or is expected to affect, its financial performance, financial position and cash flows. The ED does not propose an effective date, however early application is proposed to be permitted. If finalised, an entity would apply the amendments from the beginning of the annual reporting period beginning on or after the effective date.
ED Subsidiaries without Public Accountability: Disclosures	A new IFRS Standard proposes to permit a subsidiary to provide reduced disclosures when applying IFRS Standards in its financial statements. • A subsidiary would be eligible for the reduced disclosures if it does not have public accountability and its ultimate or any immediate parent produces consolidated financial statements available for public use that comply with IFRS Standards • The new Standard would be optional for subsidiaries that are eligible. It would set out the disclosure requirements for subsidiaries that elect to apply it and the disclosure requirements in IFRS Standards that do not apply and are replaced by the new Standard The ED does not propose an effective date but proposes that earlier application would be permitted. The new Standard would not have specific transition provisions
ED Non-current Liabilities with Covenants (Proposed amendments to IAS 1)	The amendment proposes to specify that conditions an entity must comply with in the 12 months after the reporting period do not affect classification of the corresponding liability as current or non-current. • An entity would present separately in its statement of financial position non-current liabilities subject to such conditions, using a description that indicates that the non-current classification is subject to compliance with conditions within twelve months after the reporting date • It would also be required to explain in the notes the conditions an entity is required to comply with, whether it would have complied with the conditions based on the circumstances at the end of the reporting date, and whether and how the entity expects to comply with the conditions after the reporting period The amendments would be applied retrospectively (applying IAS 8) and the effective date would not be before 1 January 2024. Earlier application is proposed to be permitted.

<table>
<tr><th>Exposure Drafts</th><th>Main proposals</th></tr>
<tr><td>ED Supplier Finance Arrangements (Proposed amendments to IAS 7 and IFRS 7)</td><td>The amendment proposes to introduce a disclosure objective requiring entities to provide information in the notes that enables users of financial statements to assess the effects of supplier finance arrangements on their liabilities and cash flows.

• The ED also specifies the qualitative and quantitative disclosures an entity would need to provide to meet the proposed disclosure objective
• The term ‘supplier finance arrangements’ would not be defined and instead the proposed amendments describe the characteristics of an arrangement for which an entity would be required to provide the proposed information
• In addition, amendments are proposed to IFRS 7 to add supplier finance arrangements as an example within the requirements to disclose information about an entity’s exposure to concentration of liquidity risk

The amendments would be applied retrospectively (applying IAS 8). The ED does not propose an effective date. Earlier application is proposed to be permitted</td></tr>
<tr><td>ED Disclosure Requirements in IFRS Standards – A Pilot Approach: (Proposed amendments to IFRS 13 and IAS 19)</td><td>The ED proposes to develop a draft guidance that would be used to develop disclosure requirements that result in more decision-useful information in financial statements.

Applying the draft guidance, the International Accounting Standards Board (Board) would
• Require entities to comply with overall disclosure objectives that describe the overall information needs of users of financial statements
• Require entities to comply with specific disclosure objectives that describe the detailed information needs of users of financial statements
• Identify items of information to meet each specific disclosure objectives. The Board would identify the items of information that an entity is required to disclose and those that are examples of the information an entity may disclose to meet the specific disclosure objectives.

The draft guidance is not a Standard. However, once finalised, the guidance will be applied in developing and drafting disclosure sections of IFRS Standards in the future. The broad application of the guidance is expected to have a significant effect on the behaviour of entities, auditors and regulators by highlighting the need for judgement. Compliance will be achieved if the information provided effectively meets the disclosure objectives.

The proposals include replacing the disclosure requirements in IFRS 13 and IAS 19 with a new set of disclosure requirements developed by applying the proposed Guidance.

The amendments do not propose an effective date, however early application is proposed to be permitted. If finalised, the amendments would apply prospectively from the date of initial application of the amendments.</td></tr>
</table>

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

Summary of key differences between SFRS(I) and IFRS

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

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

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

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

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

Issue dates by IASB and ASC may also differ, for example (for effective dates from 2021)			Issue dates	
	Pronouncements	Effective	IFRS	SFRS(I)/SFRS
IFRS 17	*Insurance Contracts*	2023	18 May 17	29 Mar 18
IAS 1	*Classification of Liabilities as Current or Non-current*	2023	23 Jan 20	29 May 20
IFRS 3	*Reference to the Conceptual Framework*	2022	14 May 20	30 Jul 20
IAS 37	*Onerous Contracts—Cost of Fulfilling a Contract*	2022	14 May 20	30 Jul 20
IAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*	2022	14 May 20	30 Jul 20
Annual Improvements	*Annual Improvements to IFRS® Standards 2018–2020*	2022	14 May 20	30 Jul 20
IFRS 4	*Extension of the Temporary Exemption from Applying IFRS 9*	-	25 Jun 20	27 Nov 20
IFRS 17	*Amendments to IFRS 17*	2023	25 Jun 20	27 Nov 20
IAS 1	*Classification of Liabilities as Current or Non-current—Deferral of Effective Date*	-	15 Jul 20	23 Jul 20

Issue dates by IASB and ASC may also differ, for example (for effective dates from 2021)			Issue dates	
	Pronouncements	Effective	IFRS	SFRS(I)/SFRS
IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	*Interest Rate Benchmark Reform—Phase 2*	2021	27 Aug 20	27 Nov 20
IAS 8	*Definition of Accounting Estimates*	2023	12 Feb 21	7 Jun 21
Practice Statement 2, IAS 1, IFRS 8, IAS 34, IAS 26, IFRS 7	*Disclosure of Accounting Policies*	2023	12 Feb 21	7 Jun 21
IFRS 1, IAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*	2023	7 May 21	15 Sep 21
IFRS 17, IFRS 9	*Initial Application of IFRS 17 and IFRS 9—Comparative Information*	2023	9 Dec 21	14 Dec 21

Summary of key differences between FRS and IFRS

The FRSs and INT FRSs issued by the Accounting Standards Council (ASC) are largely aligned with the IFRS and interpretations issued by the IASB and the IFRS IC respectively. Differences in effective dates relating to periods before 2018 are not included here. Below, we identify the key differences between FRS and IAS/IFRS as at the date of this publication:

FRS	Content	IAS/IFRS	Comments
FRS 16	*Property, Plant and Equipment*	IAS 16	FRS 16 exempts regular revaluation of assets for which any one-off revaluation was performed between 1 January 1984 and 31 December 1996 (both dates inclusive) or for assets that were revalued prior to 1 January 1984. IAS 16 does not give such an exemption.
FRS 27, FRS 28 and FRS 110	*Consolidated Financial Statements and Accounting for Investments in Subsidiaries, Associates and Joint Ventures*	IAS 27, IAS 28 and IFRS 10	FRS 27 and FRS 110 exempt a parent from presenting consolidated financial statements if its holding company (immediate or ultimate) produces consolidated financial statements available for public use. Under IAS 27 and IFRS 10, such an exemption applies only if the holding company produces consolidated financial statements available for public use that comply with IFRS. Similar differences apply to the exemption from equity accounting for associates and joint ventures in FRS 28, compared to IAS 28.
FRS 102	*Share-based Payment*	IFRS 2	The cut-off grant date for retrospective treatment of equity-settled share-based payment is 7 November 2002 under IFRS 2 and 22 November 2002 under FRS 102.
-	*Members' Shares in Co-operative Entities and Similar Instruments*	IFRIC 2	IFRIC 2 is effective for annual periods beginning on or after 1 January 2005. This Interpretation has not been adopted in Singapore.

IFRS Interpretations Committee Agenda Decisions

The IFRS Interpretations Committee (Interpretations Committee) is the interpretative body of the International Accounting Standards Board (Board). The Interpretations Committee works with the Board in supporting the understanding and consistent application of IFRS Standards. Interpretations Committee projects typically begin as an application question submitted for consideration and the Interpretations Committee decides whether a standard-setting project should be added to the work plan to address the question submitted.

An IFRS Interpretations Committee Agenda Decision (Agenda Decision) explains why a standard-setting project has not been added to the work plan and may include explanatory materials to improve the consistency of application of IFRS Standards. Agenda Decisions (and the included explanatory materials) do not add or change requirements in IFRS Standards. The explanatory material explains how the applicable principles and requirements in IFRS Standards apply to the transaction or fact pattern described in the Agenda Decision.

Explanatory material derives its authority from the IFRS Standards themselves. Accordingly, an entity is required to apply the applicable IFRS Standard(s), reflecting the explanatory material in an Agenda Decision (subject to it having sufficient time to implement that accounting).

Entities applying the frameworks under SFRS(I) and FRS, which are based on the IFRS Standards issued by the IASB, should also consider impact of the Agenda Decisions on their financial statements and if required, apply the accounting policy changes on a timely basis.

The compilations of Agenda Decisions are available at the IFRS website.

Section 2: Other financial reporting matters

SGX RegCo enhances rules on auditors, valuers and valuation reports

In January 2021, the requirements of the SGX Listing Rules (SGX LR) were enhanced in relation to auditors, valuers and valuation reports.

Key enhancements include

- Appointment of auditors
  - All primary-listed issuers must appoint an auditor approved under the Accountants Act
  - Secondary-listed issuers from developed markets may continue to use auditors from their own jurisdictions
  - For other secondary listed issuers, the requirement will be assessed on a case-by-case basis
  - Existing issuers must appoint an auditor in accordance with the enhanced requirements for their financial year beginning on or after 1 January 2022

- Circumstances to direct appointment of additional auditor
  - Expanded powers for Singapore Exchange Regulation (SGX RegCo) to require the appointment of a second auditor (exercised only in exceptional circumstances, e.g., where it believes that possible misstatements in the financial statements are pervasive and yet not evidenced by the incumbent auditor's opinion, and such concerns cannot be addressed by a special auditor)

- Property valuer should meet the following requirements
  - At least 5 years of experience in valuing properties in a similar industry and area as the real property being valued
  - Member of the Singapore Institute of Surveyors and Valuers (SISV) (for Singapore properties)
  - Member of, or authorised by, a relevant professional body or authority (for overseas properties)
  - Independent, cannot be a sole practitioner or have an adverse compliance track record

- Property valuation report
  - Valuations should be prepared in accordance with
    - The SISV Standards (for Singapore properties)
    - Domestic standards or the International Valuation Standards (for overseas properties)

  - Summary property valuation reports will be required for significant transactions
    - Minimum content to be disclosed will be prescribed by SGX RegCo
    - Must be included in offer document for property investment/development companies

- Interim reporting (with effect for interim periods ending on or after 30 June 2021)
  - Listed issuers must prepare interim financial statements in accordance with the relevant accounting standards
  - Refer to FRG 3 for guidance by ISCA on complying with SFRS(I) 1-34 *Interim Financial Reporting* and SGX LR

The SGX LR enhancements are effective from 12 February 2021.

Refer to the amendments to assess the applicability of the enhancements for your entity. The amendment is available at the SGX website.

SGX mandates climate and board diversity disclosures

In the recent years, with growing interests in sustainability business practices, there is also increased demand for entities' sustainability disclosures by investors and other stakeholders in making their decisions. In December 2021, the SGX LR was enhanced to require all issuers to provide climate reporting based on the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD) on a 'comply or explain' basis in their sustainability reports from the financial year (FY) commencing 2022. Climate reporting will subsequently be mandatory for issuers in the (i) financial, (ii) agriculture, food and forest products, and (iii) energy industries from FY2023 and from FY2024, (iv) materials and buildings, and (v) transportation industries.

Other key changes (effective from 1 January 2022) include requiring

- Internal reviews of sustainability reporting process to be conducted in accordance with the International standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors
- All directors to undergo a training on sustainability matters as prescribed by SGX
- Sustainability reports to be issued within 4 months of the end of the financial year, or where external assurance was conducted on the sustainability report, within 5 months of the end of the financial year
- Issuers to maintain a board diversity policy and to describe its policy in the annual reports with details such as its diversity targets, plans and timelines and its progress towards achieving the targets within the timelines and how diversity serves the needs and plans of the issuer

The amendment is available at the SGX website.

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

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

While most of amendments to the SGX LR took effect from 1 January 2019, the following requirements will come into effect from 1 January 2022

- Requirement for a 2-tiered shareholder vote for appointment of Independent Directors who have served for more than 9 years
- Requirement for the Board to comprise of at least one-third independent directors

The amendment is available at the SGX website.

In June 2021, the following areas of the Practice Guidance 4 of the Code of Corporate Governance were amended:

- Clarification relating to selection, appointment and re-appointment process for directors of the Board
- New paragraph relating to multiple directorships
- New section relating to succession planning

The amendment is available at the SGX website.

ACRA Financial Reporting Practice Guidance No. 1 of 2021: Areas of Review Focus for FY2021 Financial Statements under ACRA's Financial Reporting Surveillance Programme

In December 2021, the Accounting and Corporate Regulatory Authority (ACRA) issued Financial Reporting Practice Guidance No. 1 of 2021 to guide directors in their reviews of the upcoming financial statements. The Practice Guidance provides an overview of the results from the completed reviews of financial statements in 2021 under the Financial Reporting Surveillance Programme, and selected case studies on non-compliance areas. It includes tips for directors on what they should consider in the respective areas of review focus.

Areas of review focus for FY2021 include

- Assessment of going concern and classification in cash flows statement
- Impairment assessment of non-financial assets
- Expected credit loss assessment
- Supply chain financing (an emerging risk)
- Interbank offered rate reform (a new development)

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

Financial Reporting Guidances (FRGs)

FRGs issued by ISCA (Institute of Singapore Chartered Accountants) provide technical guidance, views and insights on issues, and/or best practices in an area/industry. The following FRG has been approved for issue by the ISCA Financial Reporting Committee in 2021.

FRG	Description	Issued on
3	Preparation of Interim Financial Statements under SFRS(I) 1-34 Interim Financial Reporting (in compliance with the SGX Listing Rule 705(3A)) Accompanying Guide to FRG 3: Illustrative Condensed Interim Financial Statements	3 May 21

In May 2021, ISCA, through its Financial Reporting Committee (FRC), has issued FRG 3 to provide guidance in understanding the implications of the SGX LR 705(3A) on the interim financial statements. The SGX LR 705(3A) was enhanced by SGX RegCo in January 2021, refer to the section above on *"SGX RegCo enhances rules on auditors, valuers and valuation reports"* for more information. The FRG highlights the key areas of focus when preparing a set of interim financial statements under SFRS(I) 1-34 and includes a summary of the disclosures as prescribed by the SGX LR Appendix 7.2.

Accompanying FRG 3, ISCA has also issued 2 sets of illustrative condensed interim financial statements prepared in accordance with SFRS(I) 1-34 for the 1) first 6 months of the financial year and 2) the second 6 months and full financial year. They illustrate how certain key requirements of SFRS(I) 1-34 and SGX LR Appendix 7.2 could be met concurrently in the interim financial statements.

The FRG 3 and the Accompanying Guide are available at the ISCA website.

Financial Reporting Bulletins (FRBs)

FRBs issued by ISCA are informative/educational publications issued to highlight emerging topical issues for consideration by the accountancy profession in Singapore. The following FRB has been approved for issue by the ISCA Financial Reporting Committee in 2021.

FRB	Description	Issued on
9	Accounting Implications of the Interest Rate Benchmark Reform in Singapore	14 Oct 21

FRB 9 addresses the accounting implications arising from the IBOR reform and is intended to assist entities holding financial contracts with reference benchmark interest rates that will be replaced by alternative benchmark rates during the IBOR reform to understand the accounting implications.

The FRB includes:

- An overview of the IBOR Reform, including changes in interest rate benchmark rates used in Singapore;
- A summary of the accounting reliefs provided under SFRS(I) 9 *Financial Instruments* or SFRS(I) 1-39 *Financial Instruments* in relation to the IBOR Reform; and
- Accounting considerations on specific matters to assist entities in their understanding of the accounting for financial instruments and hedge accounting which are affected by the replacement of interest rate benchmarks within these contracts.

The FRB 9 is available at the ISCA website.

Emerging Topic: Climate Change

In November 2021, the IFRS Foundation established the International Sustainability Standards Board (ISSB) to develop, in the public interest, a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors' information needs. To facilitate this, the IFRS Foundation Trustees have published a revised constitution, which provides for the ISSB to side alongside the International Accounting Standards Board (IASB) and to have a similar structure. The ISSB would address the breadth of sustainability topics that are critical to business, although they would prioritise climate initially given its urgency. Over time, further thematic and industry-specific standards will provide more specific requirements.

The IFRS Foundation Trustees created the Technical Readiness Working Group (TRWG) in March 2021, which has since undertaken significant technical preparatory work for the ISSB, such as the publication of the prototypes for climate and general disclosure requirements, conceptual guidelines for standard-setting and architecture of standards. The ISSB will determine the next steps on the prototypes and any proposed standards will be subject to the independent due process of the ISSB.

While these global standards on broader sustainability and climate-related disclosures are still under development by the ISSB, entities should also consider the possible implications of climate risks and actions on their financial statements under existing financial reporting frameworks. A discussion of these possible financial reporting impacts with reference to SFRS(I) Standards is provided below for consideration.

Possible financial reporting impacts of climate change

Climate change continues to be an area of specific focus for investors, regulators and other business stakeholders globally who increasingly demand better disclosures on climate change matters and challenging companies who are not factoring the effects of climate change into their critical accounting judgements. Investors and stakeholders want:

- to see how the impacts of climate change have been reflected in the measurement and recognition of assets and liabilities;
- more transparency on the assumptions used and sensitivities to those assumptions; and
- to be confident that there is consistency between climate scenarios included in the narrative in the front end of the annual report and the numbers disclosed in the financial statements.

There are several aspects of SFRS(I) Standards that require an entity to 'predict the future' by developing expectations that affect the items recognised or disclosed in financial statements. These assumptions can be driven by external factors (macroeconomic conditions, government action, etc.), planned actions of the entity itself, or a combination of the two.

The possible financial reporting impacts could include the following (not exhaustive):

Issue	Relevant SFRS(I)s	Possible impacts of climate risks
Asset impairment, including goodwill, and effects on impairment calculations because of increased costs or reduced demand	SFRS(I) 1-36	The impact of changing policies and technology as we shift to a low-carbon economy may lead to potential impact to cash flow forecasts used in impairment reviews. Climate-related risks can impact a value in use calculation in a number of ways, including: • Incorporation of expected changes in consumer behaviour and government action into estimates of future cash flows when they represent management's best estimate supported by appropriate evidence. • Incorporation of changes expected to occur beyond the period covered by financial budgets and forecasts via modification to the expected long-term growth rate. Such changes could arise in a variety of ways, for example from decreasing revenues as carbon-intensive production facilities are phased out or increased costs due to the introduction of government levies (cost of compliance), increased cost of resources, or rising cost of insurance. • Consideration of whether a planned restructuring or replacement of assets should be incorporated into forecast cash flows. • Future cash flow forecast incorporating different climate scenarios, for example, the varying degrees of change in temperature due to global warming may produce very different outcome. • Changes in forecast periods due to expected changes in policy. Disclosure of the key assumptions on which cash flow projections have been based on and management's approach to determining the value assigned to these key assumptions is also required (particularly for goodwill or indefinite-life intangible assets), with information about how potentially significant effects of climate-related risks have been factored into recoverable amount calculations being relevant for the users of the financial statements.

Issue	Relevant SFRS(I)s	Possible impacts of climate risks
Changes in the recognition and useful life of assets	SFRS(I) 1-16, SFRS(I) 1-38	Climate-related risks could affect the depreciation or amortisation of assets (through a change in their useful lives) or the recognition of those assets (whether expenses satisfy the definition of an asset when incurred). The estimated useful lives of assets could be affected by physical factors (for example, precipitation levels affecting the viability of agricultural operations) or by economic or legislative ones (for example, fossil fuel power generation equipment being taken out of use while still operational). Entities also should not assume availability to dispose the asset at the end of the useful lives at the current equivalent market prices. Therefore, entities should carefully consider the potential impact of climate change risk on existing estimates of asset useful lives and residual values. In either case, a change in the estimated useful life will be accounted for via a prospective change in the depreciation or amortisation rate and should be disclosed and explained. Adaption of an entity's business to address climate issues could also result in additional research and development activities, requiring disclosure and consideration of the criteria for capitalisation.
Changes in the fair valuation of assets	SFRS(I) 13	Fair valuation of assets applying the principles in SFRS(I) 13 is required for a broad range of assets which could be affected by either climate change or actions pursuant to the Paris Agreement and these factors could affect inputs into valuation models in a number of ways (adjustment to the cash flows or discount rate used in a discounted cash flow calculation, to prices when applying the market approach etc.). Equity premiums may change depending on the assumed future climate scenario and its impact on the underlying asset. Equity volatility may be affected by the uncertainty of climate change. When fair value, rather than value in use, is used in an impairment test under SFRS(I) 1-36, the prohibition on including the effects of future restructurings (SFRS(I) 1-36.44) does not apply. The effect of a restructuring is relevant to a fair value calculation if, and only if, a third party purchaser would factor that into the price they would be willing to pay for the asset (or cash-generating unit). The entity's own intentions are not directly relevant. The broad scope of SFRS(I) 13's requirements could also mean that the effects of climate risks on fair values becomes significant for entities whose own business might not be thought of as being directly affected by the more apparent physical and economic risks of climate change. For example, the plan assets of a defined benefit scheme and the investments held by an investment entity are required to be measured at fair value under SFRS(I) 13 and those values should reflect the risks (including climate) to which the underlying investee is exposed. Demographic assumptions and investment performance can vary under different climate scenarios.

Issue	Relevant SFRS(I)s	Possible impacts of climate risks
Changes in provisions and contingent liabilities arising from fines and penalties or in provisions for onerous contracts because of increased costs or reduced demand	SFRS(I) 1-37	Climate-related risks could affect: • The recognition of provisions (if reductions in revenue or increases in cost mean that a customer contract becomes onerous, due to regulatory requirements to remediate environmental damage, restructurings or redesigning products or services to achieve climate-related targets). • The measurement of provisions (if regulatory changes or shortening of project lives affect the timing or amount of expenses of decommissioning assets or rehabilitating environmental damage). Cash flows and discount rates used in measuring provisions needs to take into account the risks and uncertainties of climate change and accompanying regulations. • The recognition of liabilities or disclosure of contingent liabilities for potential fines or penalties under environmental regulations or where litigation is brought by another interested party. This entails not only identifying new obligations, but also a reassessment of existing obligations and its probability for provisions and a shift from previously considered remote obligation becoming possible, that require disclosures. It should also be noted that liabilities under SFRS(I) 1-37 or levies accounted for under SFRS(I) INT 21 are recognised only when incurred under enacted legislation. In contrast, it is not necessary to wait for the enactment or substantive enactment of a change in environmental or other regulation before it is incorporated into a value in use calculation for the purposes of impairment testing. The consequences of such expected government action should be factored in when they reflect management's best estimate of future cash flows (based on reasonable and supportable assumptions).
Changes in expected credit losses for loans and other financial assets	SFRS(I) 9	Application of the expected credit loss approach requires lenders to consider whether any actual or expected adverse changes in a borrower's regulatory, economic or technological environment has significantly changed the borrower's ability to meet its debt obligations (and, therefore, whether credit risk has increased significantly since initial recognition). For example, a climate disaster may have a dramatic impact on unemployment, economic strength and property values, thus significantly affecting the recoverability of mortgages. As such, banks with loans to businesses (or investments in projects) affected by climate-related risk will need to consider how those risks affect the expected credit losses on those loans or investments. Uncertainty over the physical effects of climate change and the introduction of policy and regulatory measures means that when determining expected credit losses (ECLs), there is a variety of possible adverse economic scenarios that might exist in the future. Each of these scenarios may have potentially differing degrees of adverse economic conditions that could affect the probability of borrowers defaulting and the extent of losses that the lender may incur in the event of borrower default. Specifically: • There may be a greater range of downside economic scenarios to consider. • The credit losses under each of these scenarios could be more severe than previously estimated with the potential increase in the probability of individual loans defaulting or in the loss in the event of default as a result of falling collateral values due to asset write-downs or stranded assets.

Issue	Relevant SFRS(I)s	Possible impacts of climate risks
Accounting for financial instruments	SFRS(I) 9	Investors are increasingly demanding that businesses set climate targets which they use in making their investment decision directly affecting the availability and cost of capital. Innovative finance products such as green finance are emerging. For example, green bond interest rate favour green behaviour and green activities. Loan contracts might include terms linking contractual cash flows to a company's achievement of climate-related targets. Those targets may affect how the loan is classified and measured (i.e. the lender would need to consider those terms in assessing whether the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding). For the borrower, those targets may affect whether there are embedded derivatives that need to be separated from the host contract.
Disclosure of market risks over financial assets	SFRS(I) 7	SFRS(I) 7 requires disclosure of an entity's exposure to market risks arising from financial instruments, its objectives in managing these risks and changes from the previous period. This could be relevant to entities (for example investment funds and insurance companies) holding investments in industries that may be affected by climate-related risk. Quantitative information, such as an analysis of investments by industry or sector, could specifically identify sectors exposed to climate-related risks and explain the company's policy of managing its exposure to those sectors. Disclosures of this nature could also be relevant as investors look to assess the strategies of large institutional investors from a sustainability point of view and for consistency with any commitments made to divert capital away from carbon intensive sectors.
Presentation of financial statements	SFRS(I) 1-1	<u>Sources of estimation uncertainty and significant judgements</u> SFRS(I) 1-1.125 requires disclosure of information about the assumptions management has made about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. This means disclosure of assumptions about climate-related matters may be required, for example when those matters create uncertainties that affect assumptions used to develop estimates, such as which climate scenario management considers to be the most likely in the preparation of its cash flow forecast. Companies must present that disclosure in a manner that helps investors understand the judgements that management makes about the future. SFRS(I) 1-1.122 also requires disclosure of the judgements (apart from those involving estimations) that management has made that have the most significant effect on the amounts recognised in the financial statements. For example, a company operating in an industry particularly affected by climate-related matters might test an asset for impairment applying SFRS(I) 1-36 *Impairment of Assets* but recognise no impairment loss. That company would be required to disclose judgements management has made, for example, in identifying the asset's cash-generating unit if such judgements are among those that have the most significant effect on the amounts recognised in the company's financial statements.

Issue	Relevant SFRS(I)s	Possible impacts of climate risks
		Going concern SFRS(I) 1-1 requires management to assess a company's ability to continue as a going concern when preparing financial statements. In assessing whether the going concern basis of preparation is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, 12 months from the end of the reporting period. If climate-related matters create material uncertainties related to events or conditions that cast significant doubt upon a company's ability to continue as a going concern, SFRS(I) 1-1 requires disclosure of those uncertainties. When management has concluded that there are no material uncertainties related to the going concern assumption that require disclosure but reaching that conclusion involved significant judgement (for example, about the feasibility and effectiveness of any planned mitigation), SFRS(I) 1-1 requires disclosure of that judgement.
Valuation of inventories	SFRS(I) 1-2	Climate-related matters may cause a company's inventories to become obsolete, their selling prices to decline or their costs of completion to increase. When estimating net realisable value, entities are required to consider all relevant facts and circumstances. Estimates of net realisable value could be materially affected by, for example, a regulatory change that renders inventories obsolete, a significant weather event that causes physical damage to inventories, a decrease in demand for an entity's goods resulting from changes in consumer behaviour or an increase in completion costs because of raw material sourcing constraints. If, as a result, the cost of inventories is not recoverable, SFRS(I) 1-2 requires the company to write down those inventories to their net realisable value. Estimates of net realisable value are based on the most reliable evidence available, at the time that estimates are made, of the amount the inventories are expected to realise.
Recognition of deferred tax assets	SFRS(I) 1-12	SFRS(I) 1-12 generally requires companies to recognise deferred tax assets for deductible temporary differences and unused tax losses and credits, to the extent it is probable that future taxable profit will be available against which those amounts can be utilised. Climate-related matters may affect a company's estimate of future taxable profits and may result in the company being unable to recognise deferred tax assets or being required to derecognise deferred tax assets previously recognised.
Insurance contracts	SFRS(I) 17	Climate-related matters may increase the frequency or magnitude of insured events, or may accelerate the timing of their occurrence. Examples of insured events that could be affected by climate-related matters include business interruption, property damage, illness and death. Climate-related matters may, therefore, affect the assumptions used to measure insurance contract liabilities applying SFRS(I) 17. Climate-related matters may also affect required disclosures about (a) the significant judgements and changes in judgements made in applying SFRS(I) 17, and (b) a company's exposure to risks, concentrations of risk, how it manages risks and sensitivity analysis showing the effect of changes in risk variables.

For more information, please refer to the following resources:

- Climate-related Resources
- Deloitte's Climate Change Website

Section 3: Deloitte Resources

Deloitte Resources

IASPlus – http://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.

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

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Deloitte & Touche LLP
6 Shenton Way, OUE Downtown 2, #33-00
Singapore 068809
Telephone: +65 6224 8288
Facsimile: +65 6538 6166