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Changes to the financial reporting framework in Singapore

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Acronyms

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

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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 SFRS(I) organised based on their effective dates and an outline of recent exposure drafts. A comparison of the SFRS(I) against IFRS and FRS against IFRS has been included, as well as summaries of other financial reporting matters arising from regulatory updates.

We have retained the relevant summaries of new/revised SFRS(I) s included in the 2018 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 or after 1 January 2019

	Title	Effective Date*	Year Issued
Various	<i>Annual Improvements to SFRS(I)s 2015-2017 Cycle</i>	1-Jan-19	2018
SFRS(I) 1-19 (Amended)	<i>Plan Amendment, Curtailment or Settlement</i>	1-Jan-19	2018
SFRS(I) 1-28 (Amended)	<i>Long-term Interests in Associates and Joint Ventures</i>	1-Jan-19	2017
SFRS(I) 9 (Amended)	<i>Prepayment Features with Negative Compensation</i>	1-Jan-19	2017
SFRS(I) 16	<i>Leases</i>	1-Jan-19	2017
SFRS(I) INT 23	<i>Uncertainty over Income Tax Treatments</i>	1-Jan-19	2017

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

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

The Annual Improvements process provides a mechanism for dealing efficiently with a collection of minor amendments to SFRS(I)s. These amendments are part of the Improvements to SFRS(I)s 2015-2017 Cycle and are effective for annual periods beginning on or after 1 January 2019.

The following table provides a summary of the amendments.

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

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

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

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

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

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

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

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

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

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

SFRS(I) 16 Leases

Background

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

Overview

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

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

Lessee accounting

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

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

Lease liability

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

The lease payments should include the following items:

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

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

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

Reassessment of the lease liability

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

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

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

Exemptions

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

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

Lessor accounting

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

Subleases

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

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

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

Sale and leaseback transactions

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

If the sale criteria are met:

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

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

If the sale criteria are not met:

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

Presentation

The main presentation requirements for a lessee are summarised below:

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

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

Disclosure

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

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

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

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

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

Effective date and transition

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

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

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

SFRS(I) INT 23 Uncertainty over Income Tax Treatments

Background

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

Consensus

Whether tax treatments should be considered collectively

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

Assumptions for taxation authorities' examinations

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

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

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

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

Effect of changes in facts and circumstances

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

Effective date and transition

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

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

New/amended standards/interpretation effective for annual periods beginning on or after 1 January 2019

	Title	Effective Date*	Year Issued
Conceptual Framework	<i>Conceptual Framework for Financial Reporting and Amendments to References to the Conceptual Framework in SFRS(I) Standards</i>	1-Jan-20	2019
SFRS(I) 1-1, SFRS(I) 1-8	<i>Definition of Material</i>	1-Jan-20	2019
SFRS(I) 3	<i>Definition of a Business</i>	1-Jan-20	2019
IFRS 9, IAS 39, IFRS 7 (Amended)	<i>Interest Rate Benchmark Reform</i>	1-Jan-20	2019
SFRS(I) 17	<i>Insurance Contracts</i>	1-Jan-21	2018

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

Conceptual Framework for Financial Reporting and Amendments to References to the Conceptual Framework in SFRS(I) Standards

Overview

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

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

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

The revised Framework:

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

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

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

Amendments to References to the Conceptual Framework in SFRS(I) Standards sets out amendments to Singapore Financial Reporting Standards (International) (SFRS(I) Standards), their accompanying documents and SFRS(I) practice statements to reflect the issue of the revised Conceptual Framework for Financial Reporting in 2019.

Some SFRS(I) Standards, their accompanying documents and SFRS(I) practice statements contain references to, or quotations from, the IASB's Framework for the Preparation and Presentation of Financial Statements adopted by the IASB in 2001 (Framework), the IASB's Conceptual Framework for Financial Reporting issued in 2010, or the Conceptual Framework for Financial Reporting issued together with the first volume of SFRS(I) Standards. Amendments to References to the Conceptual Framework in SFRS(I) Standards updates some of those references and quotations so that they refer to the 2019 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

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

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

Overview

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

Primarily, the definition of material was amended in SFRS(I) 1-1.7. It has been replaced with the following: "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The key refinements to the definition include:

- Replacing the threshold 'could influence' with 'could reasonably be expected to influence' as the former may be understood as being too broad, given that almost anything "could" influence the decisions of some users of the financial statements, even if remote.
- Using the wording of the definition of material in the Conceptual Framework. This includes use of the phrase 'primary users' rather than simply referring to 'users' as the unaccompanied term was considered too broad.
- Including 'obscuring' in the definition of material to incorporate the existing concept in SFRS(I) 1-1.30A and address concerns that the effect of including immaterial information should also be considered in addition to 'misstating' and 'omitting'.
- Relocating explanatory wording from the definition to explanatory paragraphs to clarify those requirements that are part of the definition and those that explain the definition.
- Replacing the term 'economic decisions' with 'decisions', which is expected to be interpreted in the same way.

Apart from the definition of material, additional explanatory guidance was added to SFRS(I) 1-1.7.

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

Effective Date

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

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

Overview

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

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

Assessing whether an acquired process is substantive

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

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

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

For integrated sets of activities and assets that do not have outputs at the acquisition date, an acquired process is considered substantive if both of the following criteria are met:

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

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

Market participant's ability to replace missing elements

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

This reference is now removed as it was challenging to assess whether market participants are capable of performing such an integration. Instead, as described above, the focus was on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs.

Narrowed definition of outputs

To narrow the definition of outputs, the definitions of a business in Appendix A of SFRS(I) 3 as well as the definition of outputs in the Application Guidance to SFRS(I) 3 were amended. These amendments put the focus of outputs on goods and services provided to customers to achieve consistency with the notion of outputs in SFRS(I) 15 Revenue from Contracts with Customers.

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

Optional test to identify concentration of fair value

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

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

Effective Date

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

Amendments to SFRS(I) 9, SFRS(I) 1-39 and SFRS(I) 7 Interest Rate Benchmark Reform

Overview

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

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

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

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

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

Effective Date

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

SFRS(I) 17 Insurance Contracts

Introduction

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

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

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

Main features

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

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

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

Separating components from an insurance contract

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

Aggregation of insurance contracts

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

Recognition

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

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

Initial measurement

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

FCF comprises:

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

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

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

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

Subsequent measurement

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

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

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

- A. addition of new contracts to the group;
- B. accretion of interest at the locked-in rate;
- C. changes in FCF relating to future coverage or other services;
- D. foreign currency exchange differences; and
- E. amount recognised in profit or loss relating to the transfer of services in the period.

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

	Changes in the carrying amount of LRC	Changes in the carrying amount of LIC
Insurance revenue	<ul style="list-style-type: none"> Reduction in the LRC because of service provided in the period 	<ul style="list-style-type: none"> Not applicable
Insurance service expense	<ul style="list-style-type: none"> Losses on groups of onerous contracts and reversal of such losses 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Effect of the TVM caused by the passage of time; and Effect of changes in assumptions that relates to financial risk 	<ul style="list-style-type: none"> Effect of changes in assumptions that relates to financial risk

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 contract 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 contracts and it is referred to as the "variable fee approach" or "VFA".

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

Investment contracts with discretionary participation features

An investment contract with discretionary participation features does not include a transfer of significant insurance risk. Consequently, the requirements 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 2021. Early application is permitted for entities that apply SFRS(I) 9 and SFRS(I) 15 at or before the date of initial application of the standard. For the purpose of the transition requirements, the date of initial application is the start of the annual reporting period in which an entity first applies SFRS(I) 17, and the transition date is the beginning of the period immediately preceding the date of initial application.

Transition

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

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

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

Deferred indefinitely, effective date to be determined by the ASC

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

SFRS(I) 10 Consolidated Financial Statements, SFRS(I) 1-28 Investments in Associates and Joint Ventures

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

Background and amendment

The amendments address an acknowledged inconsistency between the requirements in SFRS(I) 10 and those in SFRS(I) 1-28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture.

In such a transaction, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business.

When an entity:

- sells or contributes assets that constitute a business to a joint venture or associate; or
- loses control of a subsidiary that contains a business but it retains joint control or significant influence;
- the gain or loss resulting from that transaction is recognised in full.

When an entity:

- sells or contributes assets that do not constitute a business to a joint venture or associate; or
- loses control of a subsidiary that does not contain a business but it retains joint control or significant influence;
- the gain or loss resulting from that transaction is recognised only to the extent of the unrelated investors' interests in the joint venture or associate, i.e. the entity's share of the gain or loss is eliminated.

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

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

Agenda Decisions

Over Time Transfer of Constructed Good (IAS 23 Borrowing Costs)

In November 2018, the IFRS IC discussed the following matter that may be impactful to the accounting by companies that incurs borrowing costs in relation to the construction of goods which will be transferred overtime under IFRS 15.

Over time transfer of constructed good

The IFRS IC received a submission about the capitalisation of borrowing costs in relation to the construction of a residential multi-unit real estate development for entities which recognise revenue over time for the sale of individual units in the development.

The submission sets out the following fact pattern:

- A real estate developer (entity) constructs the building and sells the individual units in the building to customers
- The entity borrows funds specifically for the purpose of constructing the building and incurs borrowing costs in connection with that borrowing
- Before construction begins, the entity signs contracts with customers for the sale of some of the units in the building (sold units) and the entity markets for sale the remaining units in the building (unsold units)
- The entity recognises revenue over time in accordance with IFRS 15:35(c)

The submission asks whether the entity has a qualifying asset as defined in IAS 23 Borrowing Costs and, therefore, capitalises any directly attributable borrowing costs.

Staff analysis

The staff analysed that the assets the entity might recognise are receivables, contract assets and inventory. None of these are a qualifying asset applying IAS 23, i.e. "...an asset that necessarily takes a substantial period of time to get ready for its intended use or sale".

Furthermore, the staff analysed that the unsold units are ready for their intended sale in their current condition and would not necessarily take a substantial period of time to get ready for such sale, and would not meet the definition of a qualifying asset. Accordingly, the entity does not capitalise borrowing costs in relation to the construction of the building.

Staff recommendation

The staff recommended that the IFRS IC publish an agenda decision that outlines the application of IAS 23. The IFRS IC meeting staff paper and the proposed wording for the tentative agenda decision on "Over time transfer of constructed good (IAS 23)" is available at the IFRS website.

Update in 2019

In March 2019, the IFRS IC published the finalised agenda decision which is consistent with the tentative agenda decision.

An article was published Feature: Agenda decisions—time is of the essence by the International Accounting Standards Board's (IASB) on their view of what is considered 'sufficient time' to implement changes in accounting policy that result from an agenda decision published by the IFRS IC. The Board acknowledges that implementing the accounting policy changes may take time and will depend on the particular facts and circumstances as well as on the accounting policy change and the reporting entity. Judgement needs to be applied and as a guide, the change is expected to be applied in a matter of months rather than years.

ISCA guidance

The ISCA issued a Technical Bite to provide guidance on the agenda decision and what is meant by 'sufficient time' to implement change in accounting policy resulting from the agenda decision published by the IFRS IC. Barring any exceptional circumstances, it would be reasonable to expect entities to implement the change as soon as possible and no later than 31 December 2019.

Cost to fulfil a contract (IFRS 15 Revenue from Contracts with Customers)

In March 2019, the IFRS IC discussed a submission about the recognition of costs incurred to fulfil a contract as an entity satisfies a performance obligation in the contract over time.

Cost to fulfil a contract

In the fact pattern described in the request, the entity:

- Transfers control of a good over time and, therefore, satisfies a performance obligation and recognises revenue over time
- Measures progress towards complete satisfaction of the performance obligation using an output method
- Incurs costs in constructing the good. At the reporting date, the costs incurred relate to construction work performed on the good that is transferring to the customer as the good is being constructed

Staff analysis and agenda decision

The staff analysed that in order to fulfil the capitalisation criterion as required in IFRS 15:95(b), the cost incurred has to be used in satisfying the performance obligation in the future. During the process of construction, there is no resource created in order to satisfy the performance obligation in the future. Instead, the resource (e.g. a contract asset or a receivable) arose from past performance. Accordingly, the cost to fulfil the contract is recognised as an expense in accordance with the requirement in IFRS 15:98(c).

ISCA guidance

The ISCA issued a Technical Bite to provide guidance on whether costs incurred for the construction of a building can be deferred/capitalised to work-in-progress when the contract with the customer is a single performance obligation satisfied over time in accordance with IFRS 115:35(c).

The guidance includes assessment of IFRS 115:95(b), IFRS 115:98(c) and paragraph BC308 of the Basis for Conclusions on IFRS 15.

- Where the performance obligation is satisfied over time
 - Other than inventories of unused building materials, most of the costs incurred for construction would be expensed when incurred.
- Where the performance obligation is satisfied at a point in time
 - The costs incurred for the construction of the building give rise to a resource for satisfying the future performance obligation. These costs will be capitalised as work-in-progress until the performance obligation is satisfied.

In addition, the decision of whether the "costs incurred for construction" can be capitalised to work-in-progress or expensed when incurred is not affected by whether the entity applies the input method or output method to measure progress towards complete satisfaction of a performance obligation.

Outline of recent exposure drafts issued by the IASB

Below are highlights of the proposed changes in recent exposure drafts (ED) issued by the IASB since 30 November 2018 of which the ASC has similarly sought comments through the public consultation process.

Exposure Drafts	Main proposals															
ED Onerous Contracts—Cost of Fulfilling a Contract (Proposed amendments to IAS 37)	<p>The proposed amendments, if finalised, will:</p> <ul style="list-style-type: none"> specify that the ‘cost of fulfilling’ a contract comprises the ‘costs that relate directly to the contract’. provide examples of costs that do, and do not, relate directly to a contract to provide goods or services. 															
ED Annual Improvements to IFRS® Standards 2018–2020	<p>The following table provides a summary of the proposed amendments.</p> <table border="1"> <thead> <tr> <th>Standard</th> <th>Topic</th> <th>Key amendments</th> </tr> </thead> <tbody> <tr> <td>IFRS 1 First-time Adoption of International Financial Reporting Standards</td> <td>Subsidiary as a first-time adopter</td> <td>Extend the exemption in IFRS 1.D16(a) to cumulative translation differences reported by a subsidiary that becomes a first-time adopter later than its parent. The amendment would permit a subsidiary, associate or joint venture to measure cumulative translation differences using the amounts reported by the parent, based on the parent’s date of transition to IFRS Standards.</td> </tr> <tr> <td>IFRS 9 Financial Instruments</td> <td>Fees in the ‘10 per cent’ test for derecognition</td> <td> <p>Clarify that the fees an entity includes in the ‘10 per cent’ test for derecognition of a financial liability would be those paid or received between the entity (the borrower) and the lender, including those paid or received on behalf of the other.</p> <p>The proposed amendment would be applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment.</p> </td> </tr> <tr> <td>IFRS 16 Leases</td> <td>Lease incentives</td> <td>Amend Illustrative Example 13 accompanying IFRS 16 to remove from the illustration a reimbursement from the lessor relating to leasehold improvements. The amendment would remove potential for confusion regarding the treatment of lease incentives applying IFRS 16.</td> </tr> <tr> <td>IAS 41 Agriculture</td> <td>Taxation in fair value measurements</td> <td> <p>Align the fair value measurement in IAS 41 with the requirements of IFRS 13 and would enable preparers to determine whether to use pre- or post-tax cash flows and discount rates for the most appropriate fair value measurement without restriction.</p> <p>The proposed amendment would be applied prospectively, i.e. for fair value measurements on or after the date an entity initially applies the amendment.</p> </td> </tr> </tbody> </table>	Standard	Topic	Key amendments	IFRS 1 First-time Adoption of International Financial Reporting Standards	Subsidiary as a first-time adopter	Extend the exemption in IFRS 1.D16(a) to cumulative translation differences reported by a subsidiary that becomes a first-time adopter later than its parent. The amendment would permit a subsidiary, associate or joint venture to measure cumulative translation differences using the amounts reported by the parent, based on the parent’s date of transition to IFRS Standards.	IFRS 9 Financial Instruments	Fees in the ‘10 per cent’ test for derecognition	<p>Clarify that the fees an entity includes in the ‘10 per cent’ test for derecognition of a financial liability would be those paid or received between the entity (the borrower) and the lender, including those paid or received on behalf of the other.</p> <p>The proposed amendment would be applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment.</p>	IFRS 16 Leases	Lease incentives	Amend Illustrative Example 13 accompanying IFRS 16 to remove from the illustration a reimbursement from the lessor relating to leasehold improvements. The amendment would remove potential for confusion regarding the treatment of lease incentives applying IFRS 16.	IAS 41 Agriculture	Taxation in fair value measurements	<p>Align the fair value measurement in IAS 41 with the requirements of IFRS 13 and would enable preparers to determine whether to use pre- or post-tax cash flows and discount rates for the most appropriate fair value measurement without restriction.</p> <p>The proposed amendment would be applied prospectively, i.e. for fair value measurements on or after the date an entity initially applies the amendment.</p>
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ED Reference to the Conceptual Framework (Proposed amendments to IFRS 3)	<p>The proposed amendments, if finalised, will:</p> <ul style="list-style-type: none"> update IFRS 3 to refer to the 2018 Conceptual Framework instead of the 1989 Framework. add a requirement for transactions and other events within the scope of IAS 37 or IFRIC 21, the acquirer should apply IAS 37 or IFRIC 21 (instead of the 2018 Conceptual Framework) to identify the obligations assumed in a business combination. clarify that an acquirer should not recognise contingent assets acquired in a business combination <p>The proposed amendment would apply to business combinations for which the acquisition date is on or after the beginning of the annual period in which the entity first applies the amendments.</p>															

Exposure Drafts	Main proposals
ED Onerous Contracts—Cost of Fulfilling a Contract (Proposed amendments to IAS 37)	<p>The proposed amendments, if finalised, will:</p> <ul style="list-style-type: none"> • amend the effective date of IFRS 17 to require mandatory application for annual periods beginning on or after 1 January 2022, and as a consequence, also amend the fixed expiry date of the IFRS 9 deferral option in IFRS 4 Insurance Contracts to the same date. • provide additional optional scope exclusion for <ul style="list-style-type: none"> – loan contracts that transfer significant insurance risk and related transition requirements to enable entities issuing such contracts to account for those contracts applying either IFRS 17 or IFRS 9. – certain credit card contracts that provide insurance coverage which transfer significant insurance risk and hence bringing such credit card contracts into the scope of IFRS 17. <p>Other amendments include</p> <ul style="list-style-type: none"> • allocation, recognition, assessment of the recoverability, and disclosure regarding insurance acquisition cash flows relating to expected contract renewals. • contractual service margin (CSM) allocation relating to investment components and related disclosure requirements so that in the general model the CSM is allocated on the basis of coverage units that are determined by considering both insurance coverage and any investment return service. • extension of the risk mitigation option to include reinsurance contracts held. • 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 reliefs for <ul style="list-style-type: none"> – business combinations. – date of application of the risk mitigation option and the use of the fair value transition approach.

Exposure Drafts	Main proposals
ED Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Proposed amendments to IAS 12)	<p>The proposed amendments, if finalised, will:</p> <ul style="list-style-type: none"> • introduce an exception to the initial recognition exemption in IAS 12. <ul style="list-style-type: none"> – applying this exception, the initial recognition exemption would not apply to transactions in which both deductible and taxable temporary differences arise on initial recognition that result in the recognition of deferred tax assets and liabilities of the same amount. <p>As a transition relief, an entity does not have to make this assessment for the date when the transaction was recognised initially. Instead an entity is permitted to make this assessment at the beginning of the earliest comparative period presented, based on the facts and circumstances at that date. A first-time adopter is permitted to make the assessment at the date of transitioning to IFRS Standards, based on the facts and circumstances at that date.</p> <p>The proposed amendments would be applied retrospectively in accordance with IAS 8 and early adoption would be permitted.</p>
ED Onerous Contracts—Cost of Fulfilling a Contract (Proposed amendments to IAS 37)	<p>The proposed amendments, if finalised, will:</p> <ul style="list-style-type: none"> • require an entity to disclose its material accounting policies instead of its significant accounting policies. • explain how an entity can identify a material accounting policy. <p>Examples of accounting policies that are likely to be material include those relating to material transactions, other events and circumstances and that:</p> <ul style="list-style-type: none"> • have changed during the reporting period. • were chosen from alternatives allowed in IFRS Standards. • were developed in accordance with IAS 8 in the absence of an IFRS Standard that specifically applies. • relate to an area of significant judgement and assumption. • reflect unique entity-specific application of an IFRS Standard. <p>To support this amendment, the IASB is also proposing to add guidance and examples to explain and demonstrate the application of the ‘four-step materiality process’ described in IFRS Practice Statement 2.</p> <p>The proposed amendments would be applied prospectively.</p>

Exposure Drafts	Main proposals
<p>ED Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Proposed amendments to IAS 12)</p>	<p>The new Standard, if finalised, would replace IAS 1 Presentation of Financial Statements, carrying forward many of the requirements in IAS 1 unchanged and complementing them with new requirements.</p> <ul style="list-style-type: none"> • Key changes in the profit or loss statement would include: <ul style="list-style-type: none"> – Income and expenses would have to be categorised as operating, investing and financing. – An entity would have to provide three additional mandatory subtotals (operating profit or loss, operating profit or loss and income from integral associates and joint ventures, and profit or loss before financing and income tax). – Entities would be required to present their analysis of operating expenses using the method (by nature or by function) that provides the most useful information. A list of indicators would be provided to help entities assess the method that provides the most useful information. • In the statement of financial position, entities would be required to separate goodwill from intangible assets and to distinguish integral associates and joint ventures and non-integral associates and joint ventures. • In the statement of cash flows, entities would no longer have a choice as to where to present cash flows from dividends and interest. Dividends and interest paid would be cash flows from financing activities, while dividends and interest received would be cash flows from investing activities. • In the notes to the financial statements, entities would be required to disclose and explain unusual items (i.e. income and expenses with limited predictive value) in a single note. • Information that constitutes management performance measures (MPMs) would be defined and entities would be required to disclose all MPMs in a single note to the financial statements, accompanied by disclosures aimed at enhancing their transparency. <p>The new Standard would be applied retrospectively. The IASB does not propose an effective date, however preparers would be given at least 18–24 months between finalisation of the new Standard and the initial application. Earlier application is proposed to be permitted.</p>

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

Summary of differences between SFRS(I) and IFRS

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

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

Paragraphs that are specific to SFRS(I)s are indicated with a prefix 'SG'.
Below are the key difference between SFRS(I) and IFRS.

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

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

			Issue dates		
	Pronouncements	Effective	IFRS	SFRS(I)	FRS
IFRS 17	Insurance Contracts	2021	18 May 17	29 Mar 18	29 Mar 18
IFRS 9	Prepayment Features with Negative Compensation	2019	12 Oct 17	29 Dec 17	29 Dec 17
IAS 28	Long-term Interests in Associates and Joint Ventures	2019	12 Oct 17	29 Dec 17	29 Dec 17
Practice Statement	Making Materiality Judgements	2018	14 Sep 17	1 Aug 18	1 Aug 18
Improvements	Annual Improvements to IFRS® Standards 2015–2017 Cycle	2019	11 Dec 17	7 Mar 18	7 Mar 18
IAS 19	Plan Amendment, Curtailment or Settlement	2019	7 Feb 18	1 Aug 18	1 Aug 18
Framework	Conceptual Framework for Financial Reporting	2020	29 Mar 18	14 Jan 19	14 Jan 19
IFRS 3	Definition of a Business	2020	22 Oct 18	11 Mar 19	11 Mar 19
IAS 1, IAS 8	Definition of Material	2020	31 Oct 18	11 Mar 19	11 Mar 19
IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform	2020	26 Sep 19	4 Dec 19	4 Dec 19

Summary of differences between FRS and IFRS

The FRSs and INT FRSs issued by the Accounting Standards Council (ASC) are largely aligned with the IFRS and interpretations issued by the IASB and the IFRS IC respectively. Differences in effective dates 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
SFRS for Small Entities	Accounting Framework for Small Entities	IFRS for SMEs	<p>The IFRS for SMEs provides an alternative framework that can be applied by eligible entities in place of the full set of IFRSs in issue. It is effective immediately on issue.</p> <p>SFRS for Small Entities is based on the IFRS for SMEs and includes additional eligibility criteria specific to local context.</p>
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	<p>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.</p> <p>Similar differences apply to the exemption from equity accounting for associates and joint ventures in FRS 28, compared to IAS 28.</p>
-	Members' Shares in Co-operative Entities and Similar Instruments	IFRIC 2	<p>IFRIC 2 is effective for annual periods beginning on or after 1 January 2005.</p> <p>This Interpretation has not been adopted in Singapore.</p>

Section 2: Other financial reporting matters

ACRA's Financial Reporting Practice Guidance No. 2 of 2019 Areas of Review Focus for FY2019 Financial Statements under ACRA's Financial Reporting Surveillance Programme

In November 2019, the Accounting and Corporate Regulatory Authority (ACRA) issued Financial Reporting Practice Guidance No. 2 of 2019 to provide guidance to directors on areas of possible reporting misstatements and to provide questions they may ask management to improve the quality of financial reporting.

- Areas of review focus for FY2019 financial statements include
- Accounting standards that took effect recently - What are the common challenges faced by companies and the areas for improvement?
 - SFRS(I) 16 / FRS 116 Leases
 - SFRS(I) INT 23 Uncertainty over Income Tax Treatments
 - SFRS(I) 15 / FRS 115 Revenue from Contracts with Customers
 - SFRS(I) 9 / FRS 109 Financial Instruments
- Impairment assessment and valuation - What are the common mistakes in estimating future cash flows?
- Business acquisitions - Have other intangible assets been separated from goodwill and what is the acquisition date for accounting purposes?

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

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

In December 2019, the revised RAP 7 was issued by the ISCA to include the reporting framework for Variable Capital Companies ("VCCs").

This revised RAP sets out recommendations on the way in which the financial statements of investment funds should be prepared. This RAP is intended to be applicable to all authorised unit trusts and authorised Variable Capital Companies ("VCCs") in the Republic of Singapore, regardless of their constitution, size or complexity. Managers, directors and trustees, where appropriate, are encouraged to comply with the recommendations set out in this revised RAP.

For the purposes of this revised RAP 7,

- A. an authorised unit trust is a collective investment scheme constituted in Singapore and authorised by the Monetary Authority of Singapore under Section 286 of the Securities and Futures Act (Chapter 289) or any other unit trust that elects to adopt RAP 7 in the preparation of its financial statements. The Code on Collective Investment Schemes requires authorised unit trusts and authorised VCCs to prepare their annual and semi-annual financial statements in the manner prescribed under the revised RAP 7.
- B. a VCC is a body corporate incorporated in Singapore by forming one or more collective investment schemes. It is regulated by the Variable Capital Companies Act which is administered by the Accounting and Corporate Regulatory Act ("ACRA"). The Variable Capital Companies Act provides an option for authorised VCCs to prepare

Effective date and transition

The revised RAP 7 will be applicable with effect from annual periods beginning on or after 1 July 2020.

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

ISCA Financial Reporting Codification Framework

In November 2019, ISCA announced its Financial Reporting Codification Framework ("Codification Framework").

The Codification Framework establishes formalised categorisations of technical content by ISCA (such as the Financial Reporting Practice (FRP), the Financial Reporting Guidance (FRG) and the Financial Reporting Bulletin (FRB)), the degrees of authority, and the due process required for issuance. The Codification Framework seeks to establish stature/credence to an ISCA technical content, promulgate ISCA's view and promote and enhance quality, consistency and best practices to uphold technical excellence.

The details of the Codification Framework is available at the ISCA website.

Financial Reporting Guidance 1 (FRG 1) *Real Property Valuation for Financial Reporting – Best practices when engaging valuers: Considerations for Scope Of Work ("SOW") and Valuation Report ("VR")*

In November 2019, ISCA, through its Financial Reporting Committee ("FRC"), FRC Valuation Sub-Committee and Property Valuation Working Group, issued FRG 1 to facilitate the valuation process amongst the Valuer, the Client and the Auditor for real property valuation that is intended to be used for financial reporting under Singapore Financial Reporting Standards (International) ("SFRS(I)s"), International Financial Reporting Standards ("IFRSs") or Financial Reporting Standards issued by the Accounting Standards Council ("FRSs"). Although FRG 1 is written with the Singapore context in mind, the best practices shared in FRG 1 would also apply to valuation of properties outside Singapore for financial reporting under the above-mentioned financial reporting standards.

The FRG 1 is available at the ISCA website.

ED FRG 2 *Accounting for Cryptoassets: From a Holder's Perspective*

In November 2019, ISCA, through its FRC and FRC Core Sub-Committee, has issued an exposure draft of FRG 2 for comments. FRG 2 is intended to guide preparers, who report under SFRS(I)s, IFRSs or FRSs, on the accounting for holdings of cryptoassets.

For accounting of cryptoassets from the issuer's perspective, a separate FRG is expected to be issued in the future.

The ED FRG 2 is available at the ISCA 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.

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

The table below shows a high-level overview of the structure of the Code

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

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

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

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

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

Key changes (non-exhaustive)

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

When

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

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

Section 3: Resources

Resources

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

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

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

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