Changes to the financial reporting framework in Singapore

November 2017

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Acronyms

ASC	Accounting Standards Council
ED	Exposure Draft
FASB	United States Financial Accounting Standards Board
FRS	Singapore Financial Reporting Standards
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRIC	Interpretation issued by 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
SGX	Singapore Exchange Limited
SGX-ST	Singapore Exchange Securities Trading Limited
SIC	Standing Interpretations Committee
US GAAP	United States Generally Accepted Accounting Principles

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18th edition
Contents of booklet current as of 30 November 2017

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FRS 112 (Amended)	*Disclosure of Interests in Other Entities* - Improvements to FRSs (December 2016)

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Introduction

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

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

We have retained the relevant summaries of new/revised FRSs included in the 2016 edition. For Standards that are not effective yet, entities will need to consider and disclose in their current financial statements, the possible effects that these new/revised FRSs might have in the period of initial application.

Singapore-incorporated companies listed on the SGX will apply a new financial reporting framework identical to the IFRS in 2018. Non-listed Singapore incorporated companies may also voluntarily apply the same framework at the same time.

Section 1:
Financial Reporting Standards

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

	Title	Effective Date*	Year Issued
FRS 7 (Amended)	*Statement of Cash Flows* - Disclosure Initiative	1-Jan-17	2016
FRS 12 (Amended)	*Income Taxes* - Recognition of Deferred Tax Assets for Unrealised Losses	1-Jan-17	2016
FRS 112 (Amended)	*Disclosure of Interests in Other Entities* - Improvements to FRSs (December 2016)	1-Jan-17	2016

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

FRS 7 *Statement of Cash Flows* - Disclosure Initiative

Background and amendments

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

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

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

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

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

Transition

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

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

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

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

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

FRS 112 *Disclosure of Interests in Other Entities*
- Improvements to FRSs (December 2016)

Background and amendments
The Annual Improvements process provides a mechanism for dealing efficiently with a collection of minor amendments to FRSs. This amendment is part of the Improvements to FRSs (December 2016) and is effective for annual periods beginning on or after 1 January 2017.

The following table provides a summary of the amendment.

Standard	Topic	Key amendment
FRS 112 *Disclosure of Interests in Other Entities*	Clarification of the scope of the disclosure requirements	The amendments clarify the scope of FRS 112 by specifying that disclosure requirements in the Standard, except for those in paragraphs B10-B16 (on summarised financial information), apply to any interests that are classified as held for sale, held for distribution to owners or discontinued operations in accordance with FRS 105 *Non-current Assets Held for Sale and Discontinued Operations*.

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

	Title	Effective Date*	Year Issued
FRS 115	*Revenue from Contracts with Customers*	1-Jan-18#	2014
FRS 115 (Amended)	*Revenue from Contracts with Customers* - Effective Date of FRS 115	1-Jan-18	2015
FRS 115 (Amended)	*Revenue from Contracts with Customers* - Clarifications to FRS 115 *Revenue from Contracts with Customers*	1-Jan-18	2016
FRS 109	*Financial Instruments*	1-Jan-18	2014
FRS 102 (Amended)	*Share-based Payment* - Classification and Measurement of Share-based Payment Transactions	1-Jan-18	2016
FRS 40 (Amended)	*Investment Property* - Transfers of Investment Property	1-Jan-18	2016
FRS 101 (Amended)	*First-time Adoption of Financial Reporting Standards* - Improvements to FRSs (December 2016)	1-Jan-18	2016
FRS 28 (Amended)	*Investments in Associates and Joint Ventures* - Improvements to FRSs (December 2016)	1-Jan-18	2016
FRS 104 (Amended)	FRS 104 *Insurance Contracts* - Applying FRS 109 *Financial Instruments* with FRS 104 *Insurance Contracts*	1-Jan-18	2016
INT FRS 122	*Foreign Currency Transactions and Advance Consideration*	1-Jan-18	2016

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

FRS 115 *Revenue from Contracts with Customers*

Background

FRS 115 is intended to bring revenue accounting principles centrally into one standard and will replace several existing standards and interpretations, such as FRS 11 *Construction Contracts*, FRS 18 *Revenue* and INT FRS 115 *Agreements for the Construction of Real Estate*. For numerous entities, particularly those engaged in long-term contracts and bundled arrangements with customers, FRS 115 provides a comprehensive framework on how to account for such contracts. New concepts are introduced to address unbundling of multi-element contracts, recognition of revenue at a point in time or over time, as well as variable consideration and contract modifications, which may impact the amount and/or timing of revenue recognition.

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

Overview of the new revenue model

Step 1 – Identify the contract with a customer

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

Criteria

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

A group of contracts entered into at or near the same time with the same customers (or parties related to the customer) may have to be combined if:

- the contracts are negotiated as a package with a single commercial objective;
- the amount of consideration to be paid in one contract depends on the price or performance of the other contract; or
- the goods or services promised in the contracts (or some goods or services promised in the contracts) are a single performance obligation.

Sometimes, prices or scope (or both) of a contract may be revised. A contract modification that has been "approved" (i.e. the terms of the modification create enforceable rights and obligations) is accounted for as a separate contract if both (i) it results in a separate performance obligation that is "distinct" (see Step 2 below) and (ii) the additional price reflects the stand-alone selling price of that separate performance obligation. Otherwise, the modification is treated as an adjustment to the original contract. The impact is accounted for prospectively, by allocating the remaining revised transaction price to the remaining performance obligations in the contract. For certain performance obligations that are satisfied over time (see Step 5 below), the impact is accounted for as a cumulative catch up adjustment to revenue.

Step 2 – Identify the separate performance obligations in the contract
A good or service would be accounted for as a separate performance obligation if it is deemed "distinct". A good or service is distinct if both of the following conditions are met:

- the customer can benefit from the good or service either on its own or together with resources that are readily available to the customer; and
- the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e. the promise to transfer the good or service is distinct within the context of the contract).

Step 3 – Determine the transaction price
The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. The transaction price can be fixed or it can vary because of discounts, rebates, refunds, credits, incentives, performance bonuses, penalties, concessions and other similar items. The Standard provides guidance with respect to variable consideration and determining significant financing components.

Variable consideration is only included in the transaction price if it is highly probable that its inclusion will not result in a "significant revenue reversal" in the future as a result of the resolution of the contingent event giving rise to the variability in consideration. A significant revenue reversal occurs when it results in significant reduction to the cumulative amount of revenue recognised from the customer. This constraint should be applied considering factors such as:

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

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

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

When a contact contains a significant financing component, the effects of time value of money are taken into account by adjusting the transaction price and recognising interest income or expense over the financing period. This is not required if the time period between the transfer of goods or services and payment is less than one year.

Step 4 – Allocate the transaction price to the separate performance obligations in the contract
When a contract contains more than one performance obligation, an entity allocates the transaction price to each separate performance obligation on the basis of their relative stand-alone selling price. Where the stand-alone selling price is not directly observable, the entity shall estimate the stand-alone selling price using suitable methods (or a combination of methods), such as an adjusted-market-assessment approach, expected-cost-plus-margin approach and a residual approach (which can be used only if certain criteria is met).

Step 5 – Recognise the revenue when (or as) the entity satisfies each performance obligation
The Standard provides guidance as to when a customer obtains control at a point in time and also provided additional guidance that an entity must consider in determining whether control transfers continuously over time.

Revenue recognised over time
An entity is required to recognise revenue over time when at least one of the criteria is met:

- the customer receives and consumes the benefits of the entity's performance as the entity performs.
- the entity's performance creates or enhances an asset that the customer controls.
- the entity's performance does not create an asset with an alternative use to the entity and the entity has a right to payment for performance completed to date.

Revenue recognised at a point in time
The following are considered in assessing the point in time for the transfer of control to customer if a performance obligation does not meet the above criteria to be satisfied over time:

- the entity has transferred physical possession of the asset.
- the entity has present right to demand payment for the asset.
- the customer has accepted the asset.
- the customer has the significant risk and rewards of the asset.
- the customer has legal title to the asset.

Costs relating to a contract
Costs of obtaining a contract are capitalised when and only when such costs are incremental to obtaining a contract (e.g. sales commissions) and are expected to be recovered. As a practical expedient, entities are permitted to expense qualifying costs to obtain a contract as incurred when the expected amortisation period is one year or less.

Costs to fulfil a contract are capitalised when and only when they relate directly to a contract, generate or enhance resources that will be used to satisfy performance obligations, and are expected to be recovered (unless the costs fall under the scope and requirements of other FRSs).

In both cases, capitalised costs are amortised in a manner consistent with the pattern of transfer of the goods or services to which the capitalised costs relate. In certain circumstances, the amortisation period may extend beyond the original contract term with the customer (e.g. future anticipated contracts, expected renewal periods).

Additional guidance
In addition to the above, there are other implementation guidance topics such as licensing, sale with a right of return, warranties, principal versus agent considerations, repurchase agreements, consignment and bill-and-hold arrangements.

Disclosure and presentation
The Standard also significantly expands the current disclosure requirements about revenue recognition.

The required disclosures include:

- a disaggregation of revenue to "depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors";
- certain information about changes in contract balances, e.g. opening and closing balances of receivables, contract assets and liabilities, revenue recognised in the current period that was previously included in the contract liability balance and revenue recognised in the current period that relates to performance obligations satisfied in a prior period;
- for contracts that are expected to extend beyond one year, the aggregate amount of the transaction price allocated to the remaining performance obligations and an explanation of when the entity expects to recognise that revenue;
- information about assets recognised for costs to obtain or fulfil a contract;
- qualitative descriptions of the types of goods or services, significant payment terms and typical timing of satisfying obligations of an entity's contracts with customers;
- a description of the significant judgements about the amount and timing of revenue recognition;
- policy decisions made by the entity related to time value of money and costs to obtain a contract; and
- information about the methods, input and assumptions used to determine the transaction price and to allocate amounts to performance obligations.

Transition
Entities have the option of using either retrospective application (with certain practical expedients) or a modified retrospective approach in applying the Standard. If an entity applies this Standard earlier, it shall disclose that fact.

Retrospective application (with certain practical expedients)
In accordance with the transition guidance on the first-time application of the Standard, an entity needs to present only the amount of adjustment for each financial statement line item affected and if relevant, basic and diluted earnings per share for the annual period immediately preceding the date of initial application of the Standard. An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.

Practical expedients
For any of the practical expedients below that an entity uses, the expedient shall be applied consistently to all contracts within all reporting periods presented:

(a) For completed contracts, an entity need not restate contracts that
  (i) begin and end within the same annual reporting period; or
  (ii) are completed contracts at the beginning of the earliest period presented.

(b) For completed contracts that have variable consideration - an entity may use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods;

(c) For contracts that were modified before the beginning of the earliest period presented, an entity need not retrospectively restate the contracts for those modifications. Instead, an entity shall reflect the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented when:
  (i) identifying the satisfied and unsatisfied performance obligations;
  (ii) determining the transaction price; and
  (iii) allocating the transaction price to the satisfied and unsatisfied performance obligations.

(d) For all reporting periods presented before the date of initial application - an entity need not disclose the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the entity expects to recognise that amount as revenue.

An entity shall disclose the expedients that have been used, and to the extent reasonably possible, a qualitative assessment of the estimated effect of applying each of the expedient.

Modified retrospective approach
Under the modified retrospective approach, comparative years are not restated. Instead, the entity recognises the cumulative effect of initially applying the Standard as an adjustment to the opening balance of retained earnings on the date of initial application. An entity shall apply this Standard retrospectively only to contracts that are not completed contracts at the date of initial application. If an entity elects to use the modified retrospective approach, it must disclose the impact of the change on the financial statement line items in the current reporting period that includes the date of initial application and an explanation of the reasons for the significant changes.

Planning for impact
Entities will need to consider the wider implications of changes to the timing of revenue recognition and these may include:

- significant changes to key performance indicators and other key metrics;
- significant changes to systems;
- significant change to the profile of tax cash payments;
- availability of profits for distribution;
- for compensation and bonus plan, impact of timing of targets being achieved and the likelihood of targets being met; and
- potential impact on loan covenants.

Amendments to FRS 115 Clarifications to FRS 115
The amendments provide clarifications on (i) identifying performance obligations (ii) principal versus agent considerations and (iii) licensing application guidance. The amendments also included two additional transition reliefs on contract modifications and completed contracts.

Revenue recognition for sale of uncompleted residential properties in Singapore
In October 2017, the ISCA's Financial Reporting Committee (FRC), issued a guidance discussing the application of FRS 115 to some types of real estate sales commonly seen in Singapore (i.e. sale of the standard residential properties, executive condominiums, design, build and sell scheme properties and mixed development properties) on whether revenue from such sales could be recognised over time. A copy of the guidance can be obtained from the **ISCA website**.

FRS 109 *Financial Instruments*

Background
This Standard is effective for annual periods beginning on or after 1 January 2018 and shall be applied retrospectively subject to certain exceptions. It introduces new requirements for (i) classification and measurement of financial assets and financial liabilities, (ii) hedge accounting and (iii) impairment.

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

Debt instruments
A debt instrument (e.g. loan receivable) that (1) is held within a business model whose objective is to collect the contractual cash flows (i.e. "business model test") and (2) has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (i.e. "contractual cash flow characteristic test") generally must be measured at amortised cost. A debt instrument whose business objective is to hold to both collect contractual cash flows that are solely payments of principal and interest and to sell is classified as fair value through other comprehensive income (FVTOCI). All other debt instruments must be measured at fair value through profit or loss (FVTPL). A fair value option is also available as an alternative, where an entity may irrevocably elect on initial recognition to measure a financial asset at FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortised cost.

Equity instruments
All equity investments within the scope of FRS 109 are to be measured on the statement of financial position at fair value with the default recognition of gains and losses in profit or loss.

Only if the equity investment is not held for trading nor contingent consideration recognised by an acquirer in a business combination to which FRS 103 *Business Combinations* applies, can an irrevocable election be made at initial recognition to measure it at FVTOCI. If the equity investment is designated as at FVTOCI then all gains or losses (except dividend income) are recognised in other comprehensive income without any subsequent reclassification to profit or loss (although a transfer of the cumulative gain within equity is permitted). Dividend income is recognised in profit or loss. Designation as at FVTOCI means that the current requirements in FRS 39 to perform an assessment of impairment and to reclassify cumulative fair value gains or losses on disposal to profit or loss no longer apply because all fair value movements other than dividend income remain permanently in equity.

The current exemption in FRS 39 that requires unquoted equity investments to be measured at cost less impairment where fair valuation is not sufficiently reliable is not available under the new Standard. Only in limited circumstances, cost may be an appropriate estimate of fair value.

Derivatives
All derivatives within the scope of FRS 109 are required to be measured at fair value. This includes derivatives that are settled by the delivery of unquoted equity instruments where only in limited circumstances, cost may be an appropriate estimate of fair value.

Derivatives embedded in a financial asset host that is within the scope of FRS 109 shall not be bifurcated. Instead the contractual cash flows of the hybrid financial asset (i.e. financial host and the embedded derivative) are assessed in its entirety (see above) and the hybrid financial asset as a whole is required to be classified as FVTPL if any of its cash flows do not represent payments of principal and interest. The embedded derivatives concept is retained for all hybrid financial liabilities and host contracts that are outside the scope of FRS 109.

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

Consistent with the requirements in FRS 109 for investments in unquoted equity instruments (and derivative assets linked to those investments), the exception from fair value measurement was eliminated for derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument. Under FRS 39, if those derivatives were not reliably measurable, they were required to be measured at cost. FRS 109 requires them to be measured at fair value.

The requirements related to the fair value option for financial liabilities are changed to address own credit risk. Those improvements respond to consistent feedback from users of financial statements and others that the effects of changes in a liability's credit risk ought not to affect profit or loss unless the liability is held for trading. With the new requirements, an entity choosing to measure a financial liability at fair value will present the portion of the change in its fair value due to changes in the entity's own credit risk in the other comprehensive income (OCI) section of the statement of profit or loss and other comprehensive income, rather than within profit or loss unless the treatment of the effects of changes in the liability's credit risk described previously would create or enlarge an accounting mismatch in profit or loss. That determination is made at initial recognition and is not reassessed. Amounts presented in other comprehensive income are not subsequently transferred to profit or loss.

Hedge accounting
The FRS 109 hedge accounting requirements are introduced in response to criticism of those under FRS 39 which were often viewed as too stringent and not capable of reflecting risk management policies.

The three types of hedge accounting models remain: fair value, cash flow and net investment hedges. However there have been significant changes to the types of transactions eligible for hedge accounting, specifically a broadening of the risks eligible for hedge accounting of non-financial items, including hedge of specific risk components.

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

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

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

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

General approach
With the exception of purchased or originated credit-impaired financial assets (see below), depending on whether the credit risk of the financial asset has significantly increased since initial recognition, expected credit losses are required to be measured through a loss allowance at an amount equal to:

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

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

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

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

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

Purchased or originated credit-impaired financial assets
An entity would recognise at the end of the reporting period, only the cumulative changes in lifetime expected losses since initial recognition as a loss allowance with any changes recognised in profit or loss for purchased or originated credit-impaired financial assets, as these assets are credit-impaired at initial recognition. Any favourable changes for such assets are recognised as a credit to profit or loss even if the resulting expected cash flows of a financial asset exceed the estimated cash flows on initial recognition.

Basis for estimating expected credit losses
The estimate of expected credit losses reflects an unbiased and probability weighted amount (determined by evaluating the range of possible outcomes) as well as the time value of money. Depending on the status of a financial asset with regard to credit impairment, interest revenue is calculated differently. FRS 109 also amended FRS 107 *Financial Instruments: Disclosures* to include extensive disclosure requirements aimed at identifying and explaining amounts in the financial statements arising from expected credit losses and the effect of deterioration and improvement in the credit risk of the financial instruments subject to the requirements.

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

An entity may assume that the credit risk on a financial instrument has not increased significantly since initial recognition, and therefore the loss allowance is measured at an amount equal to 12-month expected credit losses, if the financial instrument is determined to have low credit risk at the reporting date. Credit risk is considered low if there is a low risk of default or the borrower has a strong capacity to meet its contractual cash flow obligations in the near future.

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

FRS 102 *Share-based Payment*
- Classification and Measurement of Share-based Payment Transactions

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

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

This means that:

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

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

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

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

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

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

Transition

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

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

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

FRS 40 *Investment Property*
- Transfers of Investment Property

Background

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

Amendments

The amendments

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

Effective date and transition

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

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

Background and amendments

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

The following table provides a summary of the amendments.

Standard	Topic	Key amendment
FRS 101 *First-time Adoption of Financial Reporting Standards*	Deletion of short-term exemptions for first-time adopters	The amendments removed short-term exemptions in paragraphs E3-E7 of FRS 101, because the relief provided in those exemptions were relevant for reporting periods that have now passed and, as such, have served its intended purpose. The exemptions in these paragraphs allowed first-time adopters the same transition relief as existing FRS preparers with respect to: • providing certain comparative disclosures about financial instruments, which were required as a result of several amendments to FRS 107; • providing comparative information for the disclosures required by FRS 19 about the sensitivity of the defined benefit obligation to actuarial assumptions; and • retrospective application of the investment entities requirements of FRS 110, FRS 112 and FRS 27. The amendments also remove the requirement in FRS 101 on assessing whether an entity is an investment entity based on facts and circumstances at the date of transition to FRSs on the basis that this has the same outcome as requiring the assessment to be made retrospectively.
FRS 28 *Investments in Associates and Joint Ventures*	Measuring investees at fair value through profit or loss on an investment-by-investment basis	The amendments clarify • that the option for a venture capital organisation or other qualifying entity to measure associates and joint ventures at fair value through profit or loss (rather than equity method) is made on an investment-by-investment basis upon initial recognition of each investment. • for an entity that is not an investment entity (IE) and that has an associate or joint venture that is an IE, – the entity may elect to retain the fair value measurement used by that IE associate or joint venture on their subsidiaries, when applying the equity method. – the choice to retain the fair value measurement above is available on an investment-by-investment basis, and the election will be made for each IE associate or joint venture at the later of: (i) initial recognition of the IE associate or joint venture; (ii) when an associate or joint venture becomes an IE; and (iii) when an IE associate or joint venture first becomes a parent.

FRS 104 *Insurance Contracts*
- Applying FRS 109 *Financial Instruments* with FRS 104 *Insurance Contracts*

Background

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

Amendments

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

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

An insurer's activities are predominantly connected with insurance if

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

Effective date and transition

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

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

INT FRS 122 *Foreign Currency Transactions and Advance Consideration*

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

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

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

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

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

	Title	Effective Date*	Year Issued
FRS 116	*Leases*	1-Jan-19	2016
INT FRS 123	*Uncertainty over Income Tax Treatments*	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.

FRS 116 *Leases*

Background

FRS 116 replaces FRS 17 *Leases* and its associated interpretative guidance. The Standard applies to all leases, except for specific items covered by other standards. The Standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less with no purchase options or the underlying asset has a low value when new.

Overview

A lessee is generally required to present right-of-use asset and lease liabilities separately in the statement of financial position with some exceptions. The lessor accounting approach under FRS 116 is substantially unchanged from its predecessor FRS 17. The Standard also provides guidance on sale and leaseback transactions applicable to both the seller-lessee and buyer-lessor.

FRS 116 applies a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer. Control is conveyed where the customer has (a) the right to direct the identified asset's use and (b) to obtain substantially all the economic benefits from that use. The Standard provides detailed guidance on whether conditions for control are met.

Lessee accounting

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

Subsequently, an entity will measure the right-of-use assets using either the cost or revaluation model of FRS 16 *Property, Plant and Equipment*. However, FRS 116 requires the right-of-use asset of leased investment property to be measured at fair value if the entity uses the fair value model under FRS 40 *Investment Property* to its other investment properties.

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
FRS 116 maintains substantially the lessor accounting requirements in FRS 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 FRS 115 *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 buy-lessor accounts for the purchase of the underlying asset under the applicable Standards (for example, FRS 16 for a purchase of property, plant and equipment) and the lease under FRS 116's lessor accounting model.

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

If the 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
• Right-of-use assets • Lease liabilities Distinguished from other assets and liabilities either by separate presentation in the statement of financial position or by disclosure of the line item that they are included in.	• Interest expense on the lease liability (a component of finance costs) • Depreciation charge from the right-of-use asset	• 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.

Disclosure

The disclosure objective of FRS 116 is that an entity is required to provide information that gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of a lessee and a lessor.

For a lessee, FRS 116 significantly expands the current disclosure requirements about leases. The required quantitative disclosure requirements include:

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

In addition, a lessee is required to disclose a maturity analysis of lease liabilities (separately from other financial liabilities) in accordance with FRS 107 *Financial Instruments: Disclosures*.

For a lessor, FRS 116 also requires the disclosure of how the lessor manages the risk associated with any rights it retains in underlying assets. In particular, a lessor shall disclose its risk management strategy for the rights it retains in underlying assets, including any means by which the lessor reduces that risk. Such means may include, for example, buy-back agreements, residual value guarantees or variable lease payments for use in excess of specified limits.

Effective date and transition

FRS 116 applies to annual reporting periods beginning on or after January 1, 2019, with early application permitted if FRS 115 has also been applied. Several transitional reliefs are available on initial application.

As a practical expedient, an entity is not required to reassess whether a pre-existing contract is, or contains, a lease at the date of initial application. It is allowed to carry forward the conclusion reached under FRS 17 and INT FRS 104 *Determining whether an Arrangement contains a Lease* in respect of contracts entered into prior to the date of initial application of FRS 116.

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

INT FRS 123 *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 FRS 12.

Consensus
<u>Whether tax treatments should be considered collectively</u>
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.

<u>Assumptions for taxation authorities' examinations</u>
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.

<u>Determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates</u>
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.

<u>Effect of changes in facts and circumstances</u>
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.

Deferred indefinitely, effective date to be determined by the ASC

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

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

Background and amendment

The amendments address an acknowledged inconsistency between the requirements in FRS 110 and those in FRS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture.

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

When an entity:

- sells or contributes assets that constitute a business to a joint venture or associate; or
- loses control of a subsidiary that contains a business but it retains joint control or significant influence;

the gain or loss resulting from that transaction is recognised in full.

When an entity:

- sells or contributes assets that do not constitute a business to a joint venture or associate; or
- loses control of a subsidiary that does not contain a business but it retains joint control or significant influence;

the gain or loss resulting from that transaction is recognised only to the extent of the unrelated investors' interests in the joint venture or associate, i.e. the entity's share of the gain or loss is eliminated.

Effective date of amendments to FRS 110 and FRS 28

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

Outline of recent exposure drafts

Below are highlights of the proposed changes in recent exposure drafts (ED) issued by the IASB since 16 November 2016 of which the ASC has similarly sought comments through the public consultation process.

Exposure Drafts	Main proposals
Annual Improvements to IFRSs (2015-2017 Cycle)	**IAS 12 *Income Taxes*** Income tax consequences of payments on financial instrument classified as equity The proposed amendments clarify that an entity should recognise all income tax consequences of dividends (i.e. distribution of profits) in profit or loss, irrespective of how the tax arises. **IAS 23 *Borrowing Costs*** Borrowing costs eligible for capitalisation The proposed amendments clarify 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. **IAS 28 *Investments in Associates and Joint Ventures*** Long-term interests in an associate or joint venture The proposed amendments clarify that IFRS 9 *Financial Instruments*, including its impairment requirements, applies to long-term interests in an associate or joint venture that, in substance, form part of the net investment in the associate or joint venture but to which the equity method is not applied. (In October 2017, IASB issued amendments to IAS 28 relating to the exposure draft on "Long-term Interests in Associates and Joint Ventures". The amendment has not been adopted in Singapore yet.)
Improvements to IFRS 8 Operating Segments (Proposed amendments to IFRS 8 and IAS 34)	The proposed amendments • clarify and emphasise the criteria that must be met before two operating segments may be aggregated; • require companies to disclose the title and role of the person or group that performs the function of the chief operating decision maker; and • require companies to provide information in the notes if segments in the financial statements differ from segments reported elsewhere in the annual report and in accompanying materials. The proposals include amendments to IAS 34 to require that all interim periods of both the current and prior financial years be restated and presented in the first interim financial report following a change in the composition of reportable segments.
Prepayment Features with Negative Compensation (Proposed amendments to IFRS 9)	The proposed amendments allow financial assets with a prepayment option that could result in a party paying or receiving reasonable compensation for early termination to meet the (solely payments of principal and interest) SPPI condition if specific criteria are met. (In October 2017, IASB issued amendments to IFRS 9 relating to the exposure draft on "Prepayment Features with Negative Compensation". The amendment has not been adopted in Singapore yet.)

Exposure Drafts	Main proposals
Property, Plant and Equipment–Proceeds before Intended Use (Proposed amendments to IAS 16)	The proposed amendments • require entities to recognise proceeds from selling items produced before the property, plant and equipment is available for use in profit or loss, together with the costs of producing those items. Entities would no longer be permitted to deduct those proceeds from the cost of the property, plant and equipment.
Accounting Policies and Accounting Estimates (Proposed amendments to IAS 8)	The proposed amendments • clarify the definition of an accounting policy and the definition of an accounting estimate; • clarify that selecting an estimation technique or valuation technique, used when an item cannot be measured with precision, constitutes making an accounting estimate; and • clarify that in applying IAS 2 *Inventories*, selecting the first-in, first-out (FIFO) cost formula or the weighted average cost formula for interchangeable inventories constitutes selecting an accounting policy.
Definition of Material (Proposed amendments to IAS 1 and IAS 8)	The proposed amendments clarify the definition of material and its application. The proposed changes are not intended to change the concept of materiality and are not expected to have a significant effect on how materiality judgements are made in practice or to significantly affect the financial statements.

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

Summary of differences between FRS and IAS/IFRS

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

FRS	Content	IAS/IFRS	Comments
SFRS for Small Entities	Accounting Framework for Small Entities	IFRS for SMEs	The IFRS for SMEs provides an alternative framework that can be applied by eligible entities in place of the full set of IFRSs in issue. It is effective immediately on issue. SFRS for Small Entities is based on the IFRS for SMEs and includes additional eligibility criteria specific to local context.
FRS 16	Property, Plant and Equipment	IAS 16	FRS 16 exempts regular revaluation of assets for which any one-off revaluation was performed between 1 January 1984 and 31 December 1996 (both dates inclusive) or for assets that were revalued prior to 1 January 1984. IAS 16 does not give such an exemption.
FRS 27(2012), FRS 28(2012) and FRS 110(2012)	Consolidated Financial Statements and Accounting for Investments in Subsidiaries, Associates and Joint Ventures	IAS 27(2011), IAS 28(2011) and IFRS 10(2012)	FRS 27(2012) and FRS 110(2012) exempt a parent from presenting consolidated financial statements if its holding company (immediate or ultimate) produces consolidated financial statements available for public use. Under IAS 27(2011) and IFRS 10(2012), such an exemption applies only if the holding company produces consolidated financial statements available for public use that comply with IFRS. Similar differences apply to the exemption from equity accounting for associates and joint ventures in FRS 28(2012), compared to IAS 28(2011).
FRS 102	Share-based Payment	IFRS 2	The cut-off grant date for retrospective treatment of equity-settled share-based payment is 7 November 2002 under IFRS 2 and 22 November 2002 under FRS 102.
ED FRS	Investments in Associates and Joint Ventures	IAS 28	The amendment to IAS 28 on long-term interests in associates and joint ventures is effective for annual periods beginning on or after 1 January 2019. This amendment has not been adopted in Singapore yet.
ED FRS	Financial Instruments	IFRS 9	The amendment to IFRS 9 on prepayment features with negative compensation is effective for annual periods beginning on or after 1 January 2019. This amendment has not been adopted in Singapore yet.
ED FRS	Insurance Contracts	IFRS 17	IFRS 17 is effective for annual periods beginning on or after 1 January 2021. This Standard has not been adopted in Singapore yet.

FRS	Content	IAS/IFRS	Comments
FRS 109	Financial Instruments	IFRS 9	The IASB has previously published versions of IFRS 9 that introduced new classification and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). The July 2014 publication represents the final version of the Standard, replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The final version of IFRS 9 and FRS 109 are both effective for annual periods beginning on or after 1 January 2018. For a limited period, previous versions of IFRS 9 may be adopted early if not already done so provided the relevant date of initial application is before 1 February 2015. However, FRS 109 does not have earlier versions as it was issued in a single version, equivalent to the final version of IFRS 9.
ED INT FRS	Members' Shares in Co-operative Entities and Similar Instruments	IFRIC 2	IFRIC 2 is effective for annual periods beginning on or after 1 January 2005. This Interpretation has not been adopted in Singapore.
INT FRS 115	Agreements for the Construction of Real Estate	IFRIC 15	IFRIC 15 is effective for annual periods beginning on or after 1 January 2009 whereas INT FRS 115 is effective from 1 January 2011. In addition, INT FRS 115 contains an Accompanying Note that takes into account the legal framework in Singapore that is directly relevant to the application of INT FRS 115 in Singapore and summarises the ASC's considerations in reaching its consensus on the accounting treatment for a specific type of sale of uncompleted residential properties. (Note: INT FRS 115 and IFRIC 15 will be superseded by FRS 115 and IFRS 15 respectively, effective for annual periods beginning on or after 1 January 2018.)

FRS	Content	IAS/IFRS	Comments
RAP 8	Foreign Income Not Remitted to Singapore	IAS 12	IAS 12.39 provides an exception to the recognition of deferred tax liability in the case of profits that are retained in subsidiaries, branches, associates and joint ventures that would be taxable if these were to be distributed to the investor. The exception applies provided the parent, investor or venturer is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. IAS 12 does not extend this exception to other types of temporary differences e.g. foreign-sourced income not remitted to Singapore that would be taxable if remitted. RAP 8 recommends that a deferred tax liability in respect of foreign-sourced income not remitted to Singapore (e.g. interest income earned from deposits placed outside of Singapore) should be recognised and accounted for in the same way as temporary differences associated with the unremitted profits from subsidiaries etc.

Section 2: Other Financial Reporting Matters

Sustainability Reporting for Listed Issuers

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

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

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

New Financial Reporting Framework for Listed Entities

Background

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

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

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

What it means for entities in scope for the SG-IFRS adoption

Notwithstanding that the FRS are closely aligned to the equivalent IFRS word-for-word, there are some differences relating to the effective dates and certain specific areas of application. In addition, affected entities will have to apply the requirements of IFRS 1 *First Time Adoption of IFRS* when preparing their first set of SG-IFRS compliant financial statements. IFRS 1 generally disregards the transition provisions in each IFRS, and requires retrospective application of the IFRS currently effective. This means that certain past transactions applying equivalent FRS prospectively may have to be restated using the currently effective IFRS, and certain transition reliefs for new standards effective at the same time (for example, IFRS 15 *Revenue from Contracts with Customers*) will not be available.

Below are some of the key requirements of IFRS 1:

- It generally requires retrospective application of all IFRS policies effective at end of the first IFRS reporting date. However, there are exceptions and exemptions for areas where retrospective application may not be appropriate or practicable.
- It requires the first time adopter to present at least three statements of financial position, two statements of profit or loss and other comprehensive income, two separate statements of profit or loss (if presented), two statements of cash flows and two statements of changes in equity and related notes, including comparative information for all statements presented.

  For December year-end listed entities, the first SG-IFRS annual reporting period will be for the year ending 31 December 2018, with comparative information for the financial year 2017 and an opening balance sheet as at 1 January 2017.

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

Entities are expected to have a good understanding of the IFRS 1 requirements, and to perform a holistic review of their transition approach to the SG-IFRS framework. This would involve, among others, performing a detailed assessment to identify any differences between the current FRS accounting treatment compared to the IFRS requirements, including the differences in transition provisions arising from application of IFRS 1 as explained above, applying the exceptions and electing exemptions in IFRS 1, and quantifying the transition adjustments, if any.

To be ready for the first SG-IFRS reporting period (including interim financial reporting) in 2018, listed entities are expected to have completed their impact assessment and quantified any transition adjustments by the time they issue their last set of FRS financial statements. For example, December year-end listed entities should be in a position to disclose the effects of transition when they issue their financial statements for year ending 31 December 2017.

Guidance on IFRS Convergence 2018 Implementation Roadmap
In October 2017, the ISCA's Financial Reporting Committee (FRC), in collaboration with the Singapore Institute of Directors (SID), developed a publication to provide guidance on the application of IFRS Convergence and the key considerations for entities converging to SG-IFRS. The publication serves as a practical guide to aid entities in their transition to the new framework. A copy of the publication can be obtained from the **ISCA website**.

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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