Changes to the financial reporting framework in Singapore

November 2015

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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Introduction

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

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

We have retained the relevant summaries of new/revised FRSs included in the 2014 edition. For Standards that are not effective yet, entities will need to consider and disclose in their current financial statements, the possible effects that these new/revised FRSs might have in the period of initial application.

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

Section 1: Financial Reporting Standards

Revised standards effective for annual periods beginning on or after 1 July 2014

	Title	Effective Date*	Year Issued
FRS 19 (Amended)	*Employee Benefits* - Defined Benefit Plans: Employee Contributions	1-Jul-14	2014
Various	*Improvements to FRSs (January 2014)*	Various	2014
Various	*Improvements to FRSs (February 2014)*	Various	2014

*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 19 *Employee Benefits* - Defined Benefit Plans: Employee Contributions

Background

Defined benefit plans may require employees or third parties to make contributions to the plan. FRS 19 (2011) treats such contribution as part of the post-employment benefit and requires them to be attributed to periods of service as negative benefit.

Amendment

The methods permitted for attributing contributions from employees or third parties to periods of service now differ depending on whether those contributions are dependent on the number of years of service provided by the employee.

Contributions that are independent of the number of years of service (and, as such, are considered to be linked solely to the employee's service rendered in the same period in which they are payable) may be recognised as a reduction in the service cost as they fall due. This would be the case for contributions that are a fixed percentage of the employee's salary, contributions that are fixed throughout the service period or contributions that depend on the employee's age.

For contributions that are not solely linked to current year service, the negative benefit arising from those contributions should be attributed to periods of service either using the plan's contribution formula or on a straight-line basis.

Improvements to Financial Reporting Standards (January 2014)

This is a set of Improvements to FRSs that is intended to deal with non-urgent, minor amendments to FRSs. These amendments focus on areas of inconsistency in FRSs or where clarification of wording is required. The improvements are effective from annual periods beginning on or after 1 July 2014 and are to be applied retrospectively, with early application permitted unless stated otherwise.

Details of amendments

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

Standard	Subject of amendment	Amendments
FRS 102 *Share-based Payment*	Definition of vesting condition	Amended definitions of 'vesting condition' and 'market condition' and added definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'. The amendments clarify that: • a performance target can be based on the operations of the entity or another entity in the same group (i.e. a non-market condition) or on the market price of the equity instruments of the entity or another entity in the same group (i.e. a market condition); • a performance target can relate either to the performance of the entity as a whole or to some part of it (e.g. a division or an individual employee); • a share market index target is a non-vesting condition because it not only reflects the performance of the entity, but also of other entities outside the group; • the period for achieving a performance condition must not extend beyond the end of the related service period; • a condition needs to have an explicit or implicit service requirement in order to constitute a performance condition (rather than being a non-vesting condition); • a market condition is a type of performance condition, rather than a non-vesting condition; and • if the counterparty ceases to provide services during the vesting period, this means it has failed to satisfy the service condition, regardless of the reason for ceasing to provide services. The amendments apply prospectively to share-based payment transactions with a grant date on or after 1 July 2014, with earlier application permitted.

Standard	Subject of amendment	Amendments
FRS 103 *Business Combinations*	Accounting for contingent consideration in a business combination	Clarified that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of FRS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit or loss. The amendments apply prospectively to business combinations for which the acquisition date is on or after 1 July 2014.
FRS 108 *Operating Segments*	Aggregation of Operating Segments	Amendments require an entity to disclose the judgement made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have 'similar economic characteristics'.
	Reconciliation of the total of the reportable segments' assets to the entity's assets	Clarifies that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.
FRS 16 *Property, Plant and Equipment* and FRS 38 *Intangible assets*	Revaluation method: proportionate restatement of accumulated depreciation/amortisation	Removed perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended requirements clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset. For example, the gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the carrying amount. The amended requirements also clarify that the accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.
FRS 24 *Related Party Disclosures*	Key Management Personnel	Clarified that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity must disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, the entity need not disclose compensation paid or payable by the management entity to its employees or directors.

Improvements to Financial Reporting Standards (February 2014)

This is another set of Improvements to FRSs that is intended to deal with non-urgent, minor amendments to FRSs. These amendments focus on areas of inconsistency in FRSs or where clarification of wording is required. The improvements are effective from annual periods beginning on or after 1 July 2014 and are to be applied retrospectively, with early application permitted unless stated otherwise.

Details of amendments

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

Standard	Subject of amendment	Amendments
FRS 103 *Business Combinations*	Scope exception for joint ventures	Scope section amended to clarify that FRS 103 does not apply to the accounting for the formation of all types of joint arrangements in the financial statements of the joint arrangement itself.
FRS 113 *Fair Value Measurement*	Scope of portfolio exception	Scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis was amended to clarify that it includes all contracts that are within the scope of, and accounted for in accordance with, FRS 39, even if those contracts do not meet the definitions of financial assets or financial liabilities within FRS 32. Consistent with the prospective initial application of FRS 113, the amendment must be applied prospectively from the beginning of the annual period in which FRS 113 was initially applied.
FRS 40 *Investment Property*	Interrelationship between FRS 40 and FRS 103	Amended to clarify that FRS 40 and FRS 103 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring an investment property must determine whether (a) the property meets the definition of investment property in FRS 40 and (b) the transaction meets the definition of a business combination under FRS 103. The amendment applies prospectively for acquisitions of investment property in periods commencing on or after 1 July 2014. An entity is only permitted to adopt the amendments early and/or restate prior periods if the information to do so is available.

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

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

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

FRS 114 *Regulatory Deferral Accounts*

Background

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

Which entities are eligible to apply the new Standard?

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

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

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

What are the accounting implications/presentation/disclosure requirements of applying FRS 114?

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

FRS 27 *Separate Financial Statements*
- Equity Method in Separate Financial Statements

Background and amendment

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

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

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

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

The accounting option must be applied by category of investments.

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

Background and amendment

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

<u>Amendments to FRS 16 *Property, Plant and Equipment*</u>

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

<u>Amendments to FRS 38 *Intangible Assets*</u>

The amendments introduce a rebuttable presumption that a revenue-based amortisation method for intangible assets is inappropriate for the same reasons as in FRS 16.

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

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

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

Background and amendment

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

A bearer plant is a living plant that:

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

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

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

Background and amendment

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

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

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

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

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

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 in a transaction involving an associate or a joint venture;

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.

Proposed deferment of effective date

In August 2015, the IASB issued a proposal to defer the effective date of the above indefinitely. Early application of the amendment remains to be permitted.

Within Singapore, the Accounting Standards Council is currently undergoing their due process relating to the proposed deferral of the effective date.

Improvements to Financial Reporting Standards (November 2014)

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

Details of amendments

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

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

FRS 1 *Presentation of Financial Statements*
- Disclosure Initiative

Background and amendment

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

Materiality and aggregation

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

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

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

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

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

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

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

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

Notes

When designing the structure of the notes, entities have the flexibility with respect to the presentation of the notes. The amendment includes guidance of how to determine a systematic order of the notes. In addition, certain examples of significant accounting policies were removed as they did not illustrate why the accounting policies were significant.

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

Background and amendments

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

Amendments to FRS 110 *Consolidated Financial Statements*

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

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

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

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

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

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

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

Application

The amendments apply retrospectively. 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.

New standard 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 109	*Financial Instruments*	1-Jan-18	2014

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

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

FRS 115 *Revenue from Contracts with Customers*

Background

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

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

Overview of the new revenue model

Step 1 – Identify the contract with a customer

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

Criteria

The parties to the contract have approved the contract (in writing, orally, or in accordance with other customary business practices) and are committed to perform their respective obligations;

- the entity can identify the following to be transferred:
  - each party's rights regarding the goods or services;
  - the payment terms for the goods and services.
- the contract has commercial substance (that is, the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract); and
- it is probable that the entity will collect the consideration to which it is entitled in exchange for the goods or services that will be transferred to the customer.

A group of contracts entered into at or near the same time with the same customers (or parties related to the customer) may be combined and not account each contract separately 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 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 retrospectively, which results in a cumulative catch up adjustment to revenue.

Step 2 – Identify the separate performance obligations in the contract

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

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

Step 3 – Determine the transaction price

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

Variable consideration is only included in the transaction price if it is highly probable that its inclusion will not result in a "significant revenue reversal" in the future as a result of re-estimation. A significant revenue reversal occurs when a subsequent change in the estimate of variable consideration results in significant reduction to the cumulative amount of revenue recognised from the customer. This constraint should be applied considering factors such as:

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

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

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

When a 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 or fulfil 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. completed contracts - an entity need not restate contracts that begin and end within the same annual reporting period;

b. 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; and

c. 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.

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 and to sell is classified as fair value through other comprehensive income (FVTOCI). All other debt instruments must be measured at fair value through profit or loss (FVTPL). A fair value option is also available as an alternative, where an entity may irrevocably elect on initial recognition to measure a financial asset at FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortised cost.

Equity instruments

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

Only if the equity investment is not held for trading can an irrevocable election be made at initial recognition to measure it at FVTOCI. If the equity investment is designated as at FVTOCI then all gains or losses (except dividend income) are recognised in other comprehensive income without any subsequent reclassification to profit or loss (although a transfer of the cumulative gain within equity is permitted). Dividend income is recognised in profit or loss. Designation as at FVTOCI means that the current requirements in FRS 39 to perform an assessment of impairment and to reclassify cumulative fair value gains or losses on disposal 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 flow of the hybrid financial asset (i.e. financial host and the embedded derivative) are assessed in their entirety (see above) and the hybrid financial asset as a whole is required to be classified as FVTPL if any of its cash flows do not represent payments of principal and interest. The embedded derivatives concept is retained for all hybrid financial liabilities and asset host contracts that are outside the scope of FRS 39.

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, most liabilities were subsequently measured at amortised cost or bifurcated into a host, which is measured at amortised cost, and an embedded derivative, which is measured at fair value. Liabilities that are held for trading (including all derivative liabilities) are measured at fair value.

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 are 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 were 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 income statement, rather than within profit or loss.

Hedge accounting

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

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

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

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

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

Impairment: expected credit losses

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

General approach

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

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

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

Significant increase in credit risk

With the exception of purchased or originated credit-impaired financial assets (see below), the loss allowance for financial instruments is measured at an amount equal to lifetime expected losses if the credit risk of a financial instrument has increased significantly since initial recognition, unless the credit risk of the financial instrument is low 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. The assessment of whether there has been a significant increase in credit risk is based on an increase in the probability of a default occurring since initial recognition.

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

Purchased or originated credit-impaired financial assets

An entity would recognise 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 impairment gain even if the resulting expected cash flows of a financial asset exceed the estimated cash flows on initial recognition.

For trade receivables or contract assets that result from transactions that are within the scope of FRS 115 or lease receivables that result from transactions that are within the scope of IAS 17, a simplified approach exists where the loss allowance is measured at an amount equal to lifetime expected credit losses.

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.

Macro hedge accounting
Macro hedge accounting which was subsequently separated from the phase on general hedge accounting and treated as a separate project by the IASB has yet to be finalised at the date of issuance of IFRS 9 *Financial Instruments.* The IASB has retained the existing macro hedge accounting requirements under previous IFRSs whilst this project is finalised. Whilst the macro hedge accounting project is on-going, adopters of IFRS 9 may, as an accounting policy choice, continue to apply the macro fair value hedge accounting model for interest rate risk in IAS 39.

On 17 April 2014, the IASB published discussion paper DP/2014/1 *Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging* where comments were due on 17 October 2014.

Outline of recent exposure drafts

Below are highlights of the proposed changes in recent exposure drafts (ED) issued by the IASB since 30 November 2014 of which the ASC has similarly sought comments through the public consultation process.

Exposure Drafts	Main proposals
Amendments to IFRS 2 - Classification and Measurement of Share-based Payment Transactions	The proposals provide guidance on: • the accounting for the effects of vesting conditions on the measurement of a cash-settled share-based payment; • the classification of share-based payment transactions with net settlement features; and • the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.
Amendments to IAS 7 - Disclosure Initiative	The proposals require an entity to provide: • a reconciliation of the amounts in the opening and closing statement of financial position for each item for which cash flows have been, or would be, classified as financing activities, excluding equity items; and • disclosure about matters that are relevant to understanding the entity's liquidity, such as restrictions that affect the decisions of an entity to use cash and cash equivalent balances.
Amendments to IAS 1 - Classification of Liabilities	The proposals: • align the requirements of paragraphs 69(d) (on unconditional right to defer settlement) and 73 (on discretion to refinance or roll over an obligation); • clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period; • make the link clear between the settlement of a liability and the outflow of resources from an entity, and explain that the 'settlement' of a liability for classification purposes may be achieved in different forms, for example, cash, other assets, services, and in some cases, equity; and • reorganise the guidance in IAS 1 with respect to classification of liabilities as current or non-current so that similar examples are grouped together.

<table>
<tr><th>Exposure Drafts</th><th>Main proposals</th></tr>
<tr><td>Conceptual Framework for Financial Reporting</td><td>The proposals aim to improve financial reporting by providing a more complete, clearer and updated set of concepts that can be used by IASB when it develops IFRS and to help others understand and apply those Standards.

The following areas that are either not covered, or not covered in enough detail, in the existing Framework are addressed in the proposal:
• measurement;
• financial performance (including the use of other comprehensive income);
• presentation and disclosure;
• derecognition; and
• the reporting entity.

The proposals also clarify:
• that the information needed to meet the objective of financial reporting includes information that can be used to help assess management’s stewardship of the entity’s resources;
• the roles of prudence and substance over form in financial reporting;
• that a high level of measurement uncertainty can make financial information less relevant;
• that important decisions on, for example, recognition and measurement, are driven by considering the nature of the resulting information about both financial performance and financial position; and
• definitions of assets and liabilities and provides more extensive guidance to support those definitions.</td></tr>
<tr><td>Amendments to IAS 19 and IFRIC 14 - Remeasurement on a Plan Amendment, Curtailment or Settlement/Availability of a Refund from a Defined Benefit Plan</td><td>The proposals clarify that:
• when an entity determines the availability of a refund from a defined benefit plan:
  – the amount of the surplus an entity recognises as an asset on the basis of a future refunds should not include amounts that other parties, such as pension trustees, can use for other purposes without the entity’s consent; and
  – an entity should not assume a right to a refund on the basis of gradual settlement of the plan if other parties can wind up the plan without the entity’s consent
• when a significant event, such as a plan amendment, curtailment or settlement occurs; the current service cost and net interest for the period following the significant event should be determined using the assumptions used in remeasuring the net defined benefit liability (asset); and
• the current service cost and the net interest in the current reporting period prior to a plan amendment, curtailment or settlement should not be included in the past service cost or gain or loss on settlement.</td></tr>
</table>

Exposure Drafts	Main proposals
Amendments to IFRS 15 - Clarifications to IFRS 15	The proposals on principal versus agent considerations: • clarify that an entity should apply principal versus agent guidance to each distinct good or service (or distinct bundle of goods or services) rather than to performance obligation. • describe situations in which an entity that is a principal can control a service that is to be performed by a third party for the entity's customer. • update the indicators in paragraph B37 of IFRS 15 (on indicators that an entity is an agent) by – adding guidance to explain how each indicator supports the assessment of control. – reframing the indicators to indicate when an entity is a principal rather than when an entity is an agent. – removing the indicator relating to the form of the consideration as this indicator would not be helpful in assessing whether an entity is a principal. – clarifying that (1) the purpose of the indicators is to help an entity assess whether it controls the specific good or service (i.e., whether it acts as the principal) and (2) certain indicators may be more or less persuasive for different contracts. • add two examples and revise some of the existing illustrative examples in IFRS 15 to better illustrate the application of the principal versus agent guidance. The proposals on licensing application guidance: • clarify that the assessment of whether the entity's activities change the intellectual property ('IP') to which a customer has rights is based on whether those activities affect the IP's ability to provide benefit to the customer (i.e., the 'utility' of the IP), and in some cases the utility will be derived from the form or functionality of the IP to which the customer has rights and in other cases, from the value of that IP. If the IP has significant stand-alone functionality (i.e., the entity's activities do not significantly affect the functionality of the IP), the licence would be a right to use IP, and revenue would be recognised at a point in time. The proposals on sales-based and usage-based royalties when a licence is bundled with other goods and services in a contract: • clarify that the royalties constraint guidance would be applied either (1) when the royalty relates only to a licence of IP or (2) when a licence of IP is the predominant item to which the royalty relates. The proposals also add the following practical expedients upon transition for contract modifications and completed contracts: • permit entities to use hindsight in determining contract modifications occurred prior to the beginning of the earliest year presented upon initial adoption of IFRS 15 (also known as contract modification adjustment date). • when using the full retrospective transition approach entities are permitted to exclude the evaluation of any contract that was completed in accordance with current IFRSs as of the contract modification adjustment date. The proposals also amend illustrative examples to clarify the application of the concept of 'distinct'.

Exposure Drafts	Main proposals
Amendments to IFRS 10 and IAS 28 - Effective Date of Amendments to IFRS 10 and IAS 28	The proposals defer the effective date of the narrow-scope amendment 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture' indefinitely. Early application of the amendment remains to be permitted.
Draft IFRIC Interpretation on accounting for uncertainties in income taxes	The draft IFRIC Interpretation provides guidance in accounting for uncertainty over income tax treatments. When there is uncertainty over whether the taxation authority will accept a specific tax treatment under the tax law, that tax treatment is an uncertain tax treatment. Judgement is required to determine whether each uncertain tax treatment should be considered independently or together with other uncertain tax treatments. The decision should be based on the method that provides better predictions of the resolution of the uncertainty. An entity should assume that a taxation authority with the right to examine tax treatments will examine those tax treatments and will have full knowledge of all relevant information when doing so. The 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, determine the 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, 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. If facts and circumstances change, the entity should reassess its judgements and estimates.
Draft IFRIC Interpretation on Foreign Currency Transactions and Advance Consideration	The draft IFRIC Interpretation addresses how to determine the date of the transaction for the purpose of determining the spot exchange rate used to translate the asset, expense or income (or part of it) on initial recognition that relates to, and is recognised on the derecognition of, a non-monetary prepayment asset or a non-monetary deferred income liability. The date of the transaction, for the purpose of determining the spot exchange rate, is the earlier of: • the date of initial recognition of the non-monetary prepayment asset or the non-monetary deferred income liability; and • the date that the asset, expense or income (or part of it) is recognised in the financial statements. For transactions recognised initially in stages, a date of transaction is established for each stage. When there is more than one date of the transaction, the spot exchange rate for each date is applied to translate that part of the transaction. The related asset, expense or income (or part of it) is that part that is recognised on the derecognition of the non-monetary prepayment asset or the non-monetary deferred income liability, as determined by IFRS.

Exposure Drafts	Main proposals
IFRS Practice Statement Application of Materiality to Financial Statements	The Draft Practice Statement provides guidance to assist management in applying the concept of materiality to general purpose financial statements prepared in accordance with IFRS. The characteristics of materiality discussed include: • the pervasiveness of the concept in IFRS; • the importance of management's use of judgement; • who the primary users of the financial statements are and what decisions they make based on those financial statements; • the need for a quantitative and qualitative assessment when applying the concept; and • the need to assess whether information is material, both individually and collectively. Guidance to help management make judgements about materiality include: • the objective of the financial statements and how it relates to materiality decisions; • how to deal with immaterial information; • when to aggregate and disaggregate information; • making judgements about materiality in the context of: – the face of the financial statements; – the notes to the financial statements; – the complete set of financial statements; and – interim reports. The Draft Practice Statement also includes guidance on omissions and misstatements on: • assessing whether misstatements are material; • current period misstatements versus prior period misstatements; and • dealing with misstatements made intentionally to mislead.

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. This Standard is available for eligible entities to apply for financial periods beginning on or after 1 January 2011.
FRS 16	Property, Plant and Equipment	IAS 16	FRS 16 exempts regular revaluation of assets for which any one-off revaluation was performed between 1 January 1984 and 31 December 1996 (both dates inclusive) or for assets that were revalued prior to 1 January 1984. IAS 16 does not give such an exemption.
FRS 27(2012), FRS 28(2012) and FRS 110(2012)	Consolidated Financial Statements and Accounting for Investments in Subsidiaries, Associates and Joint Ventures	IAS 27(2011), IAS 28(2011) and IFRS 10(2012)	FRS 27(2012) and FRS 110(2012) exempt a parent from presenting consolidated financial statements if its holding company (immediate or ultimate) produces consolidated financial statements available for public use. Under IAS 27(2011) and IFRS 10(2012), such an exemption applies only if the holding company produces consolidated financial statements available for public use that comply with IFRS. 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.
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 2018. IFRS 9 (2014) supersedes the previous versions of IFRS 9. However, for annual periods beginning before 1 January 2018, an entity may elect to apply those earlier versions of IFRS 9 instead of applying this Standard if, and only if, the entity's 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.

FRS	Content	IAS /IFRS	Comments
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.
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

The Companies (Amendment) Act 2014

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

Phase 1

We provide a summary of some key changes affecting financial reporting and auditing matters implemented in July 2015 below:

<table>
<tr><th colspan="2">Accounts and audit</th></tr>
<tr><td>Audit exemption for "small companies"</td><td>A "small company" will be exempted from audit in a particular financial year ("FY") if it is a private company [1] which meets two of the following criteria for each of the two FYs immediately preceding that particular FY:
• its revenue for each FY does not exceed S$10 million;
• its gross assets at the end of each FY do not exceed S$10 million; or
• it has not more than 50 employees at the end of each FY.

A company in a group of companies may only be exempted from audit if it qualifies as a "small company" and the group qualifies under the "small company" criteria on a consolidated basis.

When determining whether a company belongs to a small group, all entities within that group are taken into account, including foreign entities.

[1] a company having share capital with restrictions on its rights to transfer its shares and the number of members is limited to not more than 50.

The audit exemption will be applicable for financial years beginning on or after 1 Jul 2015. Transitional provisions have been provided for the first two years after the change in law.</td></tr>
<tr><td>New requirements allowing auditors to resign before the end of the term of office</td><td>
<table>
<tr><th rowspan="2">Type of company</th><th colspan="2">Requirements</th></tr>
<tr><th>Auditor</th><th>Company</th></tr>
<tr><td>Non-public interest company (other than subsidiary of public interest company)</td><td>• notify company in writing</td><td>• lodge a notification with ACRA</td></tr>
<tr><td>Public interest company or subsidiary of a public interest company</td><td>• notify company in writing and provide a written statement of reasons for resignation; and
• obtain consent from ACRA</td><td>• send a written statement of reason to every member of the company</td></tr>
</table>

<u>Non-public interest company</u>
A company other than a public interest company.

<u>Public interest company</u>
A company which is listed or in the process of issuing its debt or equity instruments for trading on a securities exchange in Singapore, or such other company as prescribed by the Minister of Finance.</td></tr>
</table>

Higher limits relating to serious offence involving fraud or dishonesty	If an auditor of a public company or a subsidiary corporation of a public company, in the course of the performance of his duties as auditor, has reason to believe that a serious offence involving fraud or dishonesty is being or has been committed against the company by officers or employees of the company, he shall immediately report the matter to the Minister of Finance. A serious offence involving fraud or dishonesty refers to an offence that is punishable by imprisonment for a term that is not less than 2 years and the value of the property obtained or likely to be obtained from the commission of such an offence is not less than S$100,000. The above value for such an offence was increased from S$20,000 to S$100,000.
Terminology changes	Terminology in Section 199 Accounting records and systems of control, Section 201 Accounts, consolidated accounts and directors' report and Section 207 Powers and duties of auditors as to reports on accounts has been amended.

Existing	Amended
• Profit and loss accounts and balance sheets	• Financial statements
• State of affairs and results	• Financial position and performance
• Subsidiaries	• Subsidiary corporations

Duties and obligations of directors and Chief Executive Officers (CEOs)

Abolition of a separate directors' report	Directors' report and disclosure of directors' benefits will no longer be required. Instead, two directors will be required to sign, on behalf of all directors, a statement with information set out in the new Twelfth Schedule of the Companies Act, which includes disclosures in the current directors' report whether in the opinion of the directors - • the financial statements and, where applicable, the consolidated financial statements are drawn up so as to give a true and fair view of the financial position and performance of the company and, if applicable, of the financial position and performance of the group for the period covered by the financial statements or consolidated financial statements; and • at the date of the statement there are reasonable grounds to believe that the company will be able to pay its debts as and when they fall due. The new statement of directors is effective for financial years ending on or after 1 July 2015.
Express provision on directors' responsibility for summary financial statements	Directors of a listed public company are responsible for ensuring that the summary financial statements comply with the requirements in the Act.

Phase 2

We provide a summary of some key changes to be implemented in the second phase below:

Accounts and audit	
Exemption of non-listed dormant companies from preparation of accounts	A dormant company will be exempted from preparation of financial statements for a FY if: • it is not a listed company or a subsidiary of a listed company; • its total assets during the FY does not exceed S$500,000; and • it has been dormant since its time of formation or since end of previous FY. Proper accounting and other records are still required to be kept by the company.
New framework for revision of defective accounts	If financial statements, or consolidated financial statements and balance-sheet did not comply with the requirements of the Act (including the Accounting Standards), it may be voluntarily revised by directors in accordance with the procedures set out in the Companies Act. If it appears to ACRA that such financial statements does not comply with the requirements and is not satisfied with how it was addressed by the directors, an application may be made to the court • to declare that such financial statements are not in compliance with requirements of the Act (including Accounting Standards); and • for a court order requiring directors to make the revisions.

Duties and obligations of directors and Chief Executive Officers (CEOs)	
No maximum age limit for directors	Shareholders' approval for the appointment of a person who is above 70 years old and above as a director of a public company or a subsidiary of a public company is no longer required.
CEOs required to disclose conflict of interests in transactions or property/other office held by them	CEO of the company (not also a director) is required to disclose conflict of interest in transactions/proposed transactions with the company or arising from any offices held or properties possessed by him. An interest of the CEO includes an interest of his family members. To provide flexibility on the manner of disclosures, a director or CEO will be allowed to disclose his interests: • at a directors' meeting; or • by sending a written notice to the company (new alternative for disclosure).

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

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

The above is not a comprehensive list of all the amendments. The Companies (Amendment) Act 2014 includes various other amendments in areas such as accounts and audit, duties and obligations of directors and CEOs, company administration, foreign companies, shareholders' rights and meetings, share capital and capital maintenance regime and scheme of arrangement and amalgamations. Companies should consult with their legal advisers if they have queries on the legislative changes.

New and Revised Auditor Reporting Standards

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

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

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

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

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

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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