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# Changes To The Financial Reporting Framework In Singapore

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**Acronyms**

| | |
|---|---|
| ASC | Accounting Standards Council |
| ED | Exposure Draft |
| FRS | Singapore Financial Reporting Standards |
| FASB | United States Financial Accounting Standards Board |
| IASB | International Accounting Standards Board |
| ICPAS | Institute of Certified Public Accountants of Singapore |
| IFRIC | International Financial Reporting Interpretations, or International Financial Reporting Interpretations Committee, as appropriate |
| IFRS | International Financial Reporting Standards |
| INT FRS | Interpretation of Singapore Financial Reporting Standards |
| LM | SGX Listing Manual |
| SGX | Singapore Exchange Securities Trading Limited |
| US GAAP | United States Generally Accepted Accounting Principles |

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# Introduction

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

In this edition, we continue to provide a summary of the new/revised FRS and INT FRS issued since the last edition in October 2008, including an updated comparison of FRS against IFRS.

# Section I: Financial Reporting Standards

# New/revised FRS issued in 2007

| New/Revised FRS | |
|---|---|
| FRS 108 (New) | Operating Segments (effective for annual periods beginning on or after 1 January 2009) |
| FRS 23 (Revised) | Borrowing Costs (effective for annual periods beginning on or after 1 January 2009) |

## FRS 108 *Operating Segments*

FRS 108 replaces FRS 14 Segment Reporting, and is applicable for entities whose equity or debt securities are publicly traded and entities that are in the process of issuing equity and debt securities in public securities markets. When both separate and consolidated financial statements of the parent are presented in a single financial report, segment information is only required on the basis of the consolidated financial statements.

### Key changes

| | FRS 14 Segment Reporting | FRS 108 Operating Segments |
|---|---|---|
| Identifying segments | On the basis of "system of internal financial reporting to key management personnel", identify primary and secondary segments (business and geographical segments).<br><br>Limited reportable segments to those that earn a majority of their revenue from sales to external parties. Different stages of a vertically-integrated entity not required to be identified as separate segments. | On the basis of internal reports (Components of the entity that are regularly reviewed by the chief operating decision maker to allocate resources and assess performance)<br><br>A component of an entity that sells primarily or exclusively to other operating segments of the entity meets the definition of an operating segment if the entity is managed in that manner. |
| Measurement of segment information | Based on accounting policies adopted for the preparation and presentation of the consolidated financial statements, defined segment revenue, expense, result, assets and liabilities. | Discretion in defining segment information. Limited only by an entity's internal reporting practice, with explanation of bases required. |

### Disclosures required by FRS 108

- Information about how the entity identified its reportable segments and the types of products and services from which each reportable segment derives its revenues;

- Information about the reported segment profit or loss, including certain specified revenues and expenses included in segment profit or loss, segment assets(1) and segment liabilities(1) and the basis of measurement;

- Reconciliations of the totals of segment revenues, reported segment profit or loss, segment assets(1), segment liabilities(1) and other material items to corresponding amounts in the entity's financial statements;

- Some entity-wide disclosures that are required even when an entity has only one reportable segment, including:

  - revenues(2) earned from external customers for each product and service or groups of products and services;

  - analyses of revenues(2) and certain non-current assets(2) by geographical area – with an expanded requirement to disclose revenues/assets by individual foreign country (if material), irrespective of the identification of operating segments. If such analyses are not available due to excessive costs, the fact must be disclosed; and

* information about transactions with major customers, which amount to more than 10% of the entity's revenues;

The entity-wide disclosures above are required if the information is not already provided as part of the reportable segment information required by FRS 108.

- Similar segment information is required for interim reporting under FRS 34; and

- Identification of cash generating units for goodwill impairment testing under FRS 36 may be affected when FRS 36 was amended by FRS 108. With the amendment, for the purposes of goodwill impairment, FRS 36 requires that each cash generating unit (or group of units) to which goodwill is allocated cannot be larger than an operating segment as defined by FRS 108[3], as opposed to a segment under FRS 14.

If FRS 108 is early adopted, the changes to FRS 34 and FRS 36 will also be triggered. In the year of transition to FRS 108, prior year comparative segment information must be restated unless information is unavailable due to excessive costs.

*Note*

1. FRS 108 requires an entity to report a measure of liabilities for each reportable segment if such an amount is regularly provided to the chief operating decision maker.

   In June 2009, Improvements to FRS was issued and it clarified that an entity is required to report a measure of assets for each reportable segment if such an amount is regularly provided to the chief operating decision maker. The amendments are to be applied for annual periods beginning on or after January 1, 2010 with early adoption permitted.

2. The amounts reported here shall be based on the financial information that is used to produce the entity's financial statements.

3. In June 2009, Improvements to FRS was issued and it clarified that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment before the aggregation of segments with similar economic characteristics permitted by FRS 108.12. The amendments are to be applied for annual periods beginning on or after January 1, 2010 with early adoption permitted.

## FRS 23 *Borrowing Costs*

An entity is required to capitalise borrowing costs directly attributable to the acquisition, construction, or production of a qualifying asset as part of the cost of that asset. The option of immediately recognising those borrowing costs as an expense, which was in the previous version of FRS 23, has been removed.

The amendments are generally to be applied prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after the effective date of the revised Standard. Therefore, if an entity has previously followed an accounting policy of immediately expensing borrowing costs, it is not required to restate its prior year's financial statements by capitalising those costs incurred before the effective date of the Standard. The entity is also not required to capitalise those borrowing costs incurred subsequent to the effective date on projects that have commenced before the effective date.

# Revised/amended FRS and INT FRS issued in 2008

| Revised/amended FRS | |
|---|---|
| FRS 1 (Revised) | *Presentation of Financial Statements*<br>(effective for annual periods beginning on or after 1 January 2009) |
| FRS 1 and FRS 32<br>(Amended) | Amendments to FRS 1 *Presentation of Financial Statements* and<br>FRS 32 *Financial Instruments: Presentation*<br>- Puttable Financial Instruments and Obligations Arising on Liquidation<br>(effective for annual periods beginning on or after 1 January 2009) |
| FRS 39 and FRS 107<br>(Amended) | Amendments to FRS 39 *Financial Instruments : Recognition and Measurement* and<br>FRS 107 *Financial Instruments: Disclosures*<br>- Reclassification of Financial Assets<br>(effective from 1 July 2008) |
| FRS 102 (Amended) | *Share-based Payment*<br>- Vesting Conditions and Cancellations<br>(effective for annual periods beginning on or after 1 January 2009) |
| FRS 101 and FRS 27<br>(Amended) | Amendments to FRS 101 *First-time Adoption of Financial Reporting Standards* and<br>FRS 27 *Consolidated and Separate Financial Statements*<br>– Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate<br>(effective for annual periods beginning on or after 1 January 2009) |
| General amendments | *Improvements to FRSs*<br>- issued in October 2008<br>(refer to document for effective dates) |
| FRS 39 (Amended) | *Financial Instruments: Recognition and Measurement*<br>- Eligible Hedged Items<br>(effective for annual periods beginning on or after 1 July 2009) |
| INT FRS 113 | *Customer Loyalty Programmes*<br>(effective for annual periods beginning on or after 1 July 2008) |
| INT FRS 116 | *Hedges of a Net Investment in a Foreign Operation*<br>(effective for annual periods beginning on or after 1 October 2008) |

## FRS 1 (Revised) *Presentation of Financial Statements*

The revised Standard is effective for annual periods beginning on or after 1 January 2009, with earlier application permitted. On adoption of the revised Standard, the presentation of comparative information should be amended in line with any revised presentation. Entities presenting interim financial reports in accordance with FRS 34 Interim Financial Reporting will be required to present interim information using the new formats for interim reports covering annual periods beginning on or after 1 January 2009.

### New titles for the financial statements

A 'balance sheet' is now referred to as a 'statement of financial position', and a 'cash flow statement' is referred to as a 'statement of cash flows'. Where an entity elects to present income and expenses using a single statement (see below), that statement is referred to as a 'statement of comprehensive income'. Where an entity elects to present income and expenses using a two-statement approach, the title 'statement of recognised income and expense' has been replaced by 'statement of comprehensive income'. Although these new titles will be used in all accounting standards from now on, they are not mandatory for use in financial statements.

The revised Standard introduces a requirement to include a statement of financial position as at the beginning of the earliest comparative period whenever:

- an entity retrospectively applies an accounting policy, or
- makes a retrospective restatement of items in its financial statements,
- or when it reclassifies items in its financial statements.

In those limited circumstances, an entity is required to present, as a minimum, three statements of financial position (and related notes), i.e. as at:

- The end of the current period;
- The end of the previous period; and
- The beginning of the earliest comparative period.

### Statement of comprehensive income

The requirements regarding the presentation of income and expenses have been revised but entities retain a choice as to the format adopted. The revised Standard requires that all items of income and expense (including those accounted for directly in equity) be presented either:

a) In a single statement (a 'statement of comprehensive income'); or
b) In two statements (a separate 'income statement' and 'statement of comprehensive income').

Where option (a) is selected, an entity will effectively combine the current content of the income statement and the statement of recognised income and expense. Under the two-statement approach, the statement of comprehensive income will begin with a total profit or loss for the year (brought forward from the separate income statement) and continue with items of other comprehensive income. Other comprehensive income (also known as non-owner changes in equity) are items of income and expense (including reclassification adjustments - as discussed below) that are not recognised in profit or loss as required or permitted by other FRSs, and include the following:

- Changes in revaluation surplus (under FRS 16 *Property, Plant and Equipment* and FRS 38 *Intangible Assets*);
- Actuarial gains and losses on defined benefit plans recognised in accordance with paragraph 93A of FRS 19 *Employee Benefits*;
- Gains and losses arising from translating the financial statements of a foreign operation (under FRS 21 *The Effects of Changes in Foreign Exchange Rates*);
- Gains and losses on remeasuring available-for-sale financial assets (under FRS 39 Financial Instruments: *Recognition and Measurement*); and
- The effective portion of gains and losses on hedging instruments in a cash flow hedge (under FRS 39).

Under the previous version of FRS 1, entities could elect to present these items separately in the statement of changes in equity (thereby avoiding the requirement to present a statement of recognised income and expense). This option is no longer available. Components of non-owner movements in equity may not be presented as separate items in the statement of changes in equity. This revision has been made so as to clearly segregate changes in equity arising from transactions with owners in their capacity as owners from non-owner changes in equity.

### Statement of changes in equity

The principal change regarding the statement of changes in equity is, as discussed above, that entities will no longer have the option of presenting non-owner movements as separate items in a statement of changes in equity. Such non-owner movements must be presented in a statement of comprehensive income and the total carried to the statement of changes in equity. In addition, entities are no longer permitted to present transactions with owners in their capacity as owners in the notes – the statement of changes in equity must be presented as a separate financial statement.

### Disclosure of income tax and reclassification adjustments in other comprehensive income

The revised Standard requires an entity to disclose income tax relating to each component of other comprehensive income. An entity may present components of other comprehensive income either:

- Net of related tax effects ('net presentation'); or

- Before related tax effects, with one amount shown for the aggregate amount of income tax relating to those components ('gross presentation').

The 'net presentation' facilitates the identification of other comprehensive income items in the equity section of the statement of financial position. The 'gross presentation' facilitates the traceability of other comprehensive income items to profit or loss, because items of profit or loss are generally displayed before tax. Regardless of whether a pre-tax or post-tax display is used, disclosure of the amount of income tax expense or benefit allocated separately to individual components of other comprehensive income is required in the notes.

### Reclassification adjustments

'Reclassification adjustments' is the term used when amounts previously recognised in other comprehensive income are reclassified to profit or loss (more commonly described as 'recycling' in the past). The revised Standard requires reclassification adjustments relating to components of other comprehensive income to be disclosed. Entities may choose to present reclassification adjustments in the statement of comprehensive income or in the notes. An entity presenting reclassification adjustments in the notes presents the components of other comprehensive income in the statement of comprehensive income after any related reclassification adjustments.

## Amendments to FRS 1 *Presentation of Financial Statements* (Puttable financial instruments and obligations arising on liquidation) and FRS 32 *Financial Instruments: Presentation*

The amendments are relevant to entities that have issued financial instruments that are (i) puttable financial instruments, or (ii) instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a pro-rata share of the net assets of the entity only on liquidation. Under the revised FRS 32, subject to specified criteria being met, these instruments will be classified as equity whereas, prior to these amendments, they would have been classified as financial liabilities. It should be noted that the amendments differ significantly in some respects compared to the ED issued in November 2006.

The amendments are effective for annual periods beginning on or after 1 January 2009, with earlier adoption permitted.

### Purpose of the amendments

Under the current requirements of FRS 32, if an issuer can be required to pay cash or another financial asset in return for redeeming or repurchasing a financial instrument, the instrument is classified as a financial liability. This principle applies even if the amount payable is equal to the holder's interest in the net assets of the issuer, or if the amount is only ever payable at liquidation and liquidation is certain because, for example, there is a fixed liquidation date.

The current requirements often lead to counter-intuitive results. For example, the total amount payable may equal the market value of the whole entity, which may well be in excess of the accounting net assets of the entity. In another scenario, where liquidation is certain or is at the option of the holder, instruments that represent the last residual interest in the entity may be recognised as financial liabilities even when the instruments have characteristics similar to equity. The objective of the amendments is to provide a "short-term, limited scope amendment" designed to avoid these outcomes.

It is considered that some puttable financial instruments and financial instruments that impose on the issuer an obligation to deliver a pro-rata share of net assets of the entity only on liquidation are equity. The amendments deal with these two types of instruments separately and set out extensive detailed criteria that need to be met in order to present the instrument as equity. The impact of the amendments is restricted to the specific cases cited – no analogies can be made to these requirements.

### Puttable financial instruments

Puttable financial instruments will be presented as equity only if all of the following criteria are met:

(i) The holder is entitled to a pro-rata share of the entity's net assets on liquidation;

(ii) The instrument is in the class of instruments that is the most subordinate and all instruments in that class have identical features;

(iii) The instrument has no other characteristics that would meet the definition of a financial liability; and

(iv) The total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the entity (excluding any effects of the instrument itself). Profit or loss or change in recognised net assets for this purpose is as measured in accordance with relevant FRSs.

In addition to the criteria set out above, the entity must have no other instrument that has terms equivalent to (iv) above and that has the effect of substantially restricting or fixing the residual return to the holders of the puttable financial instruments.

### Instruments that impose an obligation to deliver a pro-rata share of net assets only on liquidation

The criteria for equity classification for instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a pro-rata share of the net assets of the entity only on liquidation are the same as above except (iii) and (iv) do not apply. Criterion (iii) does not apply because, if there is a component of the instrument that meets the definition of a liability (other than the right at liquidation itself), this will be recognised separately as a financial liability and the instrument will be presented as a compound instrument, i.e. with both liability and equity components. Criterion (iv) does not apply because should any cash flows be paid to the holder of the instrument during the instrument's life, this will reduce the amount ultimately payable at liquidation.

### Instruments issued by subsidiaries

For instruments of this nature issued by a subsidiary that are held by non-controlling parties and presented as equity in the subsidiary's financial statements, equity presentation will not be appropriate in the consolidated financial statements as the instrument will not be the most subordinated instrument of the group.

### Examples of impact of amendments

The following examples illustrate the types of instruments impacted by the new requirements.

| Issued financial instrument | Classification under existing FRS 32 | Classification under amended FRS 32 |
|---|---|---|
| Share puttable throughout its life at fair value, that is also the most subordinate, does not contain any other obligation, with discretionary dividends based on profits of the issuer | Liability | Equity |
| Share puttable at fair value, that is not the most subordinate | Liability | Liability |
| Share puttable at fair value only on liquidation, that is also the most subordinate, but contains a fixed non-discretionary dividend | Liability | Compound (part equity, part liability) |
| Share puttable at fair value only on liquidation, that is also the most subordinate, but contains a fixed discretionary dividend and does not contain any other obligation | Liability | Equity |
| Any of the instruments described above issued by a subsidiary held by non-controlling parties, in the consolidated financial statements | Liability | Liability |

### Derivatives over instruments in the scope of the amendment

Even though the amendments permit certain instruments that were previously presented as financial liabilities to now be presented as equity, derivatives over such equity instruments may not be presented as equity.

### Reclassifications

The amendments require reclassification from or to equity when the specified criteria are no longer met, or when they are subsequently met. If the instrument presented as equity is reclassified as a financial liability, it will be measured at fair value at the date of reclassification with any difference between the fair value and the carrying amount to be recognised in equity. When the inverse applies, the financial liability will be reclassified to equity at its carrying amount at the date of reclassification.

### Disclosures

FRS 1 has been amended to require the following additional disclosures if an entity has a puttable instrument that is presented as equity:

- Summary quantitative data about the amount classified as equity;
- The entity's objectives, policies and processes for managing its obligation to repurchase or redeem the instruments when required to do so by the instrument holders, including any changes from the previous period;
- The expected cash outflow on redemption or repurchase of that class of financial instruments; and
- Information about how the expected cash outflow on redemption or repurchase was determined.

If an instrument is reclassified into and out of each category (financial liabilities or equity) the amount, timing and reason for that reclassification must be disclosed. If an entity is a limited-life entity, disclosure is also required regarding the length of its life.

### Effective date and transitional provisions

The amendments are effective for annual periods beginning on or after 1 January 2009, with earlier adoption permitted. If entities adopt the amendments for a period beginning before 1 January 2009, consequential amendments to FRS 107 *Financial Instruments: Disclosures* and FRS 39 *Financial Instruments: Recognition and Measurement* should be adopted from the same earlier date. The fact that the amendments have been adopted in advance of their effective date should be disclosed.

In the absence of specific transitional provisions, the amendments should be applied retrospectively in accordance with FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

## Amendments to FRS 39 *Financial Instruments: Recognition and Measurement* and FRS 107 *Financial Instruments: Disclosures* - Reclassification of Financial Assets

The amended FRS 39 permits an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category in particular circumstances.

The amendment also permits an entity to transfer from the available-for-sale category to the loans and receivables category a financial asset that would have met the definition of loans and receivables (if the financial asset had not been designated as available for sale), if the entity has the intention and ability to hold that financial asset for the foreseeable future.

FRS 107 is amended where references are made to FRS 39 in respect of disclosures required for such reclassifications.

An entity shall apply these amendments from 1 July, 2008. However, any reclassification of a financial asset made in periods beginning on or after 1 November, 2008 shall take effect only from the date when the reclassification is made.

## FRS 102 (Amended) *Share-based Payment* - Vesting Conditions and Cancellations

The amendments to FRS 102 clarify the definition of vesting conditions and the accounting treatment of cancellations by the counterparty to a share-based arrangement. The revised Standard is effective from 1 January 2009, with earlier application permitted. The amendments are to be applied retrospectively.

### Vesting conditions

Vesting conditions are the conditions imposed under a share-based payment arrangement that the counterparty (whether an employee or otherwise) must satisfy in order to receive cash, other assets or equity instruments of the entity. Prior to the amendments, FRS 102 stated that vesting conditions include service conditions (which require the counterparty to complete a specified period of service) and performance conditions (which require specified performance targets to be met – for example, a specified increase in the entity's profit over a period of time). The Standard was silent as to whether other features of a share-based payment arrangement could fall within the definition of vesting conditions.

The amendments:

- clarify that vesting conditions are those conditions that determine whether the entity receives the services that result in the counterparty's entitlement;
- restrict the definition of vesting conditions to include only service conditions and performance conditions; and
- amend the definition of performance conditions to require the completion of a service period in addition to specified performance targets.

All features of a share-based payment arrangement other than service conditions and performance conditions will be considered to be non-vesting conditions.

FRS 102 (as revised) specifies that, when estimating the fair value of equity instruments granted, an entity shall take into account:

- all non-vesting conditions (i.e. all conditions other than service and performance conditions); and
- vesting conditions that are market conditions (i.e. conditions that are related to the market price of the entity's equity instruments – for example, attaining a specified share price).

### Failure to meet a non-vesting condition and cancellations

Prior to the amendments, FRS 102 described the treatment of a failure to meet a vesting condition, but was not explicit about the accounting consequences of a failure to meet a condition other than a vesting condition. The Standard dealt with scenarios where the entity cancelled the share-based arrangement but provided no guidance as to how to treat either:

- cancellations by the counterparty (e.g. counterparty stops making contributions to a Save-As-You-Earn scheme); or

- circumstances where neither the entity nor the counterparty is in a position to choose whether or not to meet a non-vesting condition (e.g. performance of a commodity index).

The amendments address each of these scenarios. If the entity or the counterparty can choose whether to meet a non-vesting condition, a failure by the entity or the counterparty to meet the non-vesting condition will be treated as a cancellation. If neither the entity nor the counterparty has the choice as to whether to meet a non-vesting condition, a failure to meet this non-vesting condition does not have any accounting effect, similar to the treatment of market conditions.

If a grant of equity instruments is cancelled or settled by the entity or the counterparty, the entity recognises immediately the amount of the expense that would otherwise have been recognised over the remainder of the vesting period (i.e. the share-based payment expense is accelerated and recognised immediately). If the share-based payment contains a liability component, the liability should be fair valued at the date of cancellation or settlement. Any payment made to settle the liability component should be accounted for as an extinguishment of the liability.

## Amendments to FRS 101 *First-time Adoption of Financial Reporting Standards* and FRS 27 *Consolidated and Separate Financial Statements* – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

The amendments for FRS 101 and FRS 27 have been issued because of concerns that retrospectively determining cost and applying the cost method in accordance with FRS 27 could not, in some circumstances, be achieved without undue cost or effort for first-time adopters of FRS. The amendments to FRS 101 are effective for annual periods beginning on or after 1 January 2009, with early application permitted.

The amendments to FRS 27 regarding the recognition of dividends from subsidiaries, associates and jointly controlled entities (and consequential amendments to FRS 18 *Revenue* and FRS 36 *Impairment of Assets*) are also to be applied for annual periods beginning on or after 1 January 2009, with early application permitted. These amendments are to be applied prospectively.

The amendments to FRS 27 regarding group reorganisations are generally to be applied prospectively to reorganisations that occur in annual periods beginning on or after 1 January 2009, with early application permitted. The amendments may be applied retrospectively to past reorganisations falling within their scope provided that, where an entity restates any reorganisation in line with the amended Standard, it also restates all later qualifying reorganisations.

Where any of the amendments are applied before their effective dates, that fact should be disclosed.

### Measurement of investments in subsidiaries

FRS 27 requires a parent, in its separate financial statements, to account for its investments in subsidiaries, jointly controlled entities and associates either at cost or in accordance with FRS 39 *Financial Instruments: Recognition and Measurement*. This requirement presented a problem for some parent entities when FRSs were adopted for the first time, in circumstances where the parent was unable to determine cost in accordance with FRSs, but was deterred from using fair value to account for the investment by the need to remeasure the investment at fair value at each subsequent reporting date.

Following the revision, FRS 101 permits a first-time adopter that has chosen to account for such investments at cost, to measure that cost using a 'deemed cost' approach. This deemed cost can be determined as either:

- Fair value (determined in accordance with FRS 39) at the entity's date of transition to FRSs in its separate financial statements; or

- The previous GAAP carrying amount of the investment at that date.

First-time adopters are permitted to choose which measurement to use for each investment on an individual basis – therefore, some investments could be measured in accordance with the general rules of FRS 27, and some at deemed cost; and, for those measured at deemed cost, the choice between fair value and the previous GAAP carrying amount will be made on an individual investment basis.

### Disclosures required where deemed cost is used

An entity that has elected to use the deemed cost alternative available under the revised FRS 101 in its opening FRS statement of financial position is required to disclose the following in its first FRS financial statements:

- The aggregate deemed cost of those investments for which deemed cost is their previous GAAP carrying amount;

- The aggregate deemed cost of those investments for which deemed cost is fair value; and

- The aggregate adjustments to the carrying amounts reported under previous GAAP.

### Recognition of dividends from subsidiaries, jointly controlled entities and associates

Prior to the amendment, FRS 27 also required a parent to recognise distributions received from the pre-acquisition accumulated profits of a subsidiary, associate or joint venture accounted for using the cost method as a reduction in the cost of the investment.  Again, this caused a potential problem for first-time adopters because, if the parent had acquired a subsidiary before the parent's date of transition to FRSs, the parent might need to know the subsidiary's pre-acquisition accumulated profits under FRSs in order to determine the appropriate accounting for a subsequent dividend.

FRS 101 exempts entities from restating business combinations prior to the date of transition to FRSs because of the numerous practical difficulties involved, and it would therefore be unfortunate if the entity were required to restate the business combination simply to arrive at an amount for pre-acquisition profits in order to meet the FRS 27 requirements. The requirement in FRS 27 to distinguish between pre and post acquisition dividends has therefore been removed. The Standard now applies the general requirements of FRS 18 *Revenue* and requires that dividends received from subsidiaries, jointly controlled entities and associates be recognised in profit or loss when the entity's right to receive the dividend is established.

### An indicator of impairment

To address concerns that the new rules for recognition of dividends could result in inappropriate recognition of profit, FRS 36 *Impairment of Assets* has been amended by the introduction of a new indicator of impairment.  In assessing whether a full impairment test is required for an investment in a subsidiary, jointly controlled entity or associate, an entity is required to consider whether it has recognised a dividend from the investment and evidence is available that:

- The carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets; or

- The dividend exceeds the total comprehensive income of the subsidiary, jointly controlled entity or associate in the period in which the dividend is declared.

### Reorganisations by establishing a new parent

FRS 27 has also been amended to deal with circumstances where a parent reorganises the structure of its group by

establishing a new entity as its parent. In such reorganisations, the new parent obtains control of the original parent by issuing equity instruments in exchange for equity instruments of the original parent. Under the new rules, in a reorganisation that meets specified criteria, the new parent measures the cost of its investment in the previous parent at the carrying amount of its share of the equity items shown in the separate financial statements of the original parent at the date of the reorganisation.

## *Improvements to FRS* - issued in October 2008

The Improvements to FRS 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 1 January 2009 except if otherwise specified.

**Detail of amendments**

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

| Standard | Subject of amendment | New requirements |
|---|---|---|
| FRS 105 *Non-current Assets Held for Sale and Discontinued Operations* | Plan to sell a controlling interest in a subsidiary | Clarification that assets and liabilities of a subsidiary should be classified as held for sale if the parent is committed to a sale plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest after the sale.<br><br>Effective date aligned with FRS 27(2009) (i.e. from 1 July 2009) |
| FRS 107 *Financial Instruments: Disclosures* | Presentation of finance costs | Resolution of the potential conflict between FRS 1 *Presentation of Financial Statements (revised 2008)* and FRS 107 *Financial Instruments: Disclosures* by amending the Implementation Guidance accompanying FRS 107 to clarify that interest income is not a component of finance costs. |
| FRS 1 *Presentation of Financial Statements* | Current/non-current classification of derivatives | Amendment to examples in paragraphs 68 and 71 of FRS 1 (revised 2008) to clarify that financial instruments that are classified as held for trading in accordance with FRS 39 are not always required to be presented as current assets/current liabilities. |
| FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* | Status of implementation guidance | Amendment to clarify that application of the Implementation Guidance issued with FRSs that is not an integral part of the Standard is not mandatory in selecting and applying accounting policies. |
| FRS 10 *Events after the Reporting Period* | Dividends declared after the end of the reporting period | Clarification of the explanation as to why a dividend declared after the reporting period does not result in the recognition of a liability. |

| Standard | Subject of amendment | New requirements |
|---|---|---|
| FRS 16<br>*Property, Plant and Equipment* | Recoverable amount | Replacement of the term 'net selling price' with 'fair value less cost to sell' in the definition of recoverable amount for consistency with the terminology used in FRS 105 *Non-current Assets Held for Sale and Discontinued Operations* and FRS 36 *Impairment of Assets*. |
| FRS 16<br>*Property, Plant and Equipment* | Sale of assets held for rental | Entities that routinely sell items of property, plant and equipment that they have previously held for rental to others should transfer such assets to inventories at their carrying amount when they cease to be rented and are held for sale. FRS 105 *Non-current Assets Held for Sale and Discontinued Operations* do not apply to such assets. The proceeds from the sale of such assets should be recognised as revenue in accordance with FRS 18. |
| FRS 7<br>*Statement of Cash Flows* | | Cash payments to manufacture or acquire such assets and cash receipts from rental and sale of such assets are to be included within operating activities. |
| FRS 18<br>*Revenue* | Costs of originating a loan | Removal of inconsistency between FRS 39 and the guidance in FRS 18 relating to the definition of costs incurred in originating a financial asset that should be deferred and recognised as an adjustment to the effective interest rate. FRS 18 is amended to refer to transaction costs as defined in FRS 39. |
| FRS 19<br>*Employee Benefits* | Curtailments and negative past service cost | Clarification that:<br>• when a plan amendment reduces benefits, the effect of the reduction for future service is a curtailment and the effect of any reduction for past service is a negative past service cost;<br>• negative past service cost arises when a change in the benefits<br>• attributable to past service results in a reduction in the present value of the defined benefit obligation; and<br>• a curtailment may arise from a reduction in the extent to which future salary increases are linked to the benefits payable for past service.<br><br>In addition, references to materiality have been replaced with 'significant' in paragraph 111 of the Standard. |
| | Plan administration costs | Amendment of the definition of return on plan assets to require the deduction of plan administration costs only to the extent that such costs have not been reflected in the measurement of the defined benefit obligation. |
| | Replacement of term 'fall due' | Amendment of the definition of short-term employee benefits and other long-term employee benefits to refer to when the benefits are "due to be settled" rather than when they 'fall due'. |

| Standard | Subject of amendment | New requirements |
|---|---|---|
| | Guidance on contingent liabilities | Removal of the reference to 'recognition' in relation to contingent liabilities as it is inconsistent with FRS 37 which states that an entity shall not recognise a contingent liability. |
| FRS 20 *Accounting for Government Grants and Disclosure of Government Assistance* | Consistency of terminology with other FRSs | Amendments to conform terminology used in FRS 20 to the equivalent defined or more widely-used terms. |
| | Government loans with a below-market rate of interest | Amendment to require that the benefit of a loan received from a government with a below-market rate of interest should be accounted for as a government grant, which is quantified by the imputation of interest in accordance with FRS 39. |
| FRS 23 *Borrowing Costs* | Components of borrowing costs | Paragraphs 6(a)-(c) of FRS 23 *Borrowing Costs* are to be replaced with a reference to interest expense calculated in accordance with the effective interest method as defined in FRS 39 to improve consistency between FRSs. The reference to 'ancillary costs' is also deleted as there is no definition of this term in FRSs. |
| FRS 27 *Consolidated and Separate Financial Statements* | Measurement in separate financial statements of investments in subsidiaries, jointly controlled entities and associates held for sale | Amendment to require that investments in subsidiaries, jointly controlled entities and associates accounted for in accordance with FRS 39 in the parent's separate financial statements should continue to be measured in accordance with FRS 39 when classified as held for sale (or included in a disposal group classified as held for sale). |
| FRS 28 *Investments in Associates* | Required disclosures when investments in associates are accounted for at fair value through profit or loss | Clarification of disclosures required in respect of investments in associates accounted for at fair value in accordance with FRS 39.<br>(i.e. only certain of FRS 28's disclosures are required in addition to those required by FRS 107). |
| | Impairment of investments in associates | Clarification that an investment in an associate is treated as a single asset for impairment testing. Therefore, an impairment loss recorded by an investor after applying the equity method is not allocated against any goodwill included in the equity-accounted investment balance. Such an impairment charge should be reversed in a subsequent period to the extent that the recoverable amount of the associate increases. |

| Standard | Subject of amendment | New requirements |
|---|---|---|
| FRS 29 *Financial Reporting in Hyper-inflationary Economies* | Description of historical cost financial statements | Amendment to reflect the fact that in historical cost financial statements, some assets and liabilities may be measured at current values (e.g. property, plant and equipment measured at fair value). |
| | Consistency of terminology with other FRSs | Amendments to conform terminology used in FRS 29 to the equivalent defined or more widely-used terms. |
| FRS 31 *Interests in Joint Ventures* | Required disclosures when interests in jointly controlled entities are accounted for at fair value through profit or loss | Clarification of disclosures required in respect of interests in jointly controlled entities accounted for at fair value in accordance with FRS 39. (i.e. only certain of FRS 31's disclosures are required in addition to those required by FRS 107). |
| FRS 34 *Interim Financial Reporting* | Earnings per share disclosures in interim financial reports | Clarification that the presentation of basic and diluted earnings per share is required in interim financial reports only when the entity is within the scope of FRS 33 *Earnings per Share.* |
| FRS 36 *Impairment of Assets* | Disclosure of estimates used to determine recoverable amount of cash-generating units containing goodwill or intangible assets with indefinite useful lives. | Amendment to expand the disclosures when discounted cash flows are used to estimate fair value less costs to sell to include:<br>• the period over which management has projected cash flows;<br>• the growth rate used to extrapolate cash flow projections; and<br>• the discount rate(s) applied to the cash flow projections. |
| *FRS 38 Intangible Assets* | Advertising and promotional activities | The amendments clarify the circumstances in which an entity can recognise a prepayment asset for advertising or promotional expenditure.<br><br>Recognition of an asset would be permitted up to the point at which the entity has the right to access the goods purchased or up to the point of receipt of services. |
| | Unit of production method of amortisation | Removal of wording perceived as prohibiting the use of the unit of production method if it results in a lower amount of accumulated amortisation than under the straight-line method.<br><br>Entities may use the unit of production method in these circumstances when the resultant amortisation charge reflects the expected pattern of consumption of the expected future economic benefits embodied in an intangible asset. |
| FRS 39 *Financial Instruments: Recognition and Measurement* | Reclassifying instruments into and out of the classification of at fair value through profit or loss | FRS 39 prohibits the reclassification of financial instruments into or out of the fair value through profit or loss (FVTPL) category after initial recognition. Amendments set out a number of changes in circumstances that are not considered to be reclassifications for this purpose. |

| Standard | Subject of amendment | New requirements |
|---|---|---|
| | Designating and documenting hedges at the segment level | Removal of references to the designation of hedging instruments at the segment level. |
| | Applicable effective interest rate on cessation of fair value hedge accounting | Clarification that the revised effective interest rate calculated on cessation of fair value hedge accounting in accordance with paragraph 92 of the Standard should be used for the re-measurement of the hedged item when paragraph AG8 of the Standard is applicable. |
| FRS 40 *Investment Property* | Property under construction or development for future use as investment property | Amendment to bring property under construction or development for future use as an investment property within the scope of FRS 40. Such property currently falls within the scope of FRS 16. |
| | Consistency of terminology with FRS 8 | Amendment to the requirements relating to measurement after recognition to ensure consistency with the text of FRS 8. |
| | Investment property held under lease | Clarification as to how an investment property under lease should be measured where the fair value model is applied. |
| FRS 41 *Agriculture* | Point-of-sale costs | Replacement of the terms 'point-of-sale costs' and 'estimated point-of-sale costs' in FRS 41 *Agriculture* with 'costs to sell' to ensure consistency with FRS 2, FRS 105 and FRS 36. |
| | Discount rate for fair value calculations | Currently, FRS 41 requires that the discount rate used to determine fair value should be a pre-tax rate. The amendment requires a current market-determined rate to be used, but permits this to be a pre-tax or post-tax rate according to the valuation methodology used to determine fair value. |
| | Additional biological transformation | Removal of prohibition on taking 'additional biological transformation' into consideration when calculating the fair value of biological assets using discounted cash flows.<br><br>In addition, the definition of 'agricultural activity' has been amended to include the harvest of biological assets. |
| | Examples of agricultural produce and products | Removal of 'logs' as an example of agricultural produce (and replacement by 'felled trees'), since logs have been processed. |

## FRS 39 *Financial Instruments: Recognition and Measurement* - Eligible hedged items

The amendment clarifies how the existing principles underlying hedge accounting should be applied in below given situations:

(a) Inflation in a financial hedged item, and

(b) Hedging one sided risk with options.

### Identifying inflation as a hedged risk or portion

The amendment clarifies that it is not possible to designate the inflation component of a fixed rate instrument as an inflation portion because inflation is not a separately identifiable component of such an instrument. Also, changes in inflation do not have a reliably measurable effect on the cash flows or fair value of the entire financial instrument. However, inflation may only be hedged in the instance where changes in inflation are a contractually-specified portion of cash flows of a recognised financial instrument. This may be the case where an entity acquires or issues inflation-linked debt. In such circumstances, the entity has a cash flow exposure to changes in future inflation that may be designated as a hedged portion of an inflation linked bond.

### Hedging on sided risk with options

FRS 39 permits an entity to designate purchased (or net purchased) options as a hedging instrument in a hedge of a financial or non-financial item. An entity may designate an option as a hedge of changes in the cash flows or fair value of a hedged item above or below a specified price or other variable (a one-sided risk).

The amendment make it clear that the 'intrinsic value' not the 'time value' of an option reflects a one-sided risk, therefore, an option designated in its entirety cannot be perfectly effective. The 'time value' of a purchased option is not a component of the forecast transaction that impacts profit or loss. Entities can continue to use option-hedging but will need to designate only the intrinsic value of the option within the relationship. As a result of this designation, changes in the time value of the option will be recognised immediately in the profit or loss account.

The amendments are to be applied retrospectively for annual periods beginning on or after 1 July 2009. Therefore, if an entity has a hedge accounting relationship which, following the amendments would be considered non-qualifying, the entity must restate its comparative information, including the opening reserves, in order to reflect that hedge accounting was not applied in the reporting period. The entities that follow calendar year should adopt this amendment in the year 2010 but restate comparatives for 2009 if option hedging strategies including time value were used during that period. In order to avoid loss of hedge accounting and restating comparatives figures, calendar year entities will need to alter their strategies prior to 1 January 2009. Entities with year ends between July and December need to act as early as possible.

In some cases, this may result in the restatement of the cash flow hedge reserve to the retained earnings reserve. It is not permitted to restate the comparatives to reflect an alternative hedge accounting designation as hedge accounting can only ever be applied prospectively when all hedge accounting documentation is complete.

## INT FRS 113 *Customer Loyalty Programmes*

This Interpretation addresses the accounting by entities that provide their customers with incentives to buy goods or services by providing awards (called 'award credits' in the Interpretation) as part of a sales transaction.

Common examples are airline and hotel loyalty schemes and credit card reward schemes. The Interpretation requires the entity that grants the awards to account for the sales transaction that gives rise to the award credits as a 'multiple element revenue transaction' and allocate the fair value of the consideration received or receivable between the award credits granted and the other components of the revenue transaction. This treatment applies irrespective of whether the entity supplies the awards (the discounted goods or services) or whether a third party supplies them.

INT FRS 113 is applicable for annual periods beginning on or after 1 July 2008. Earlier application is permitted. No specific transition is specified. Therefore, FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires that any changes be recognised retrospectively, where practicable. If an entity has previously applied FRS 18 *Revenue* paragraph 19 and provided for the future cost of providing the awards, it must treat the adoption of INT FRS 113 as a change in accounting policy. If an entity has previously used the deferred revenue model, but based on an allocation method other than fair value, the adoption of the Interpretation may be treated as a change in an accounting estimate.

### Background

Entities use customer loyalty programmes to provide their customers with incentives to buy their goods or services. If a customer buys goods or services, the entity grants the customer award credits (described as 'points', 'air miles', etc). Customers subsequently redeem the award credits for awards such as free or discounted goods or services.

### Scope

INT FRS 113 addresses the accounting by the entity that grants award credits. It applies to customer loyalty award credits that:

- Entities grant to their customers as part of an FRS 18 sales transaction (a sale of goods, rendering of services or use by the customer of entity assets); and

- Subject to meeting any further qualifying conditions, the customers can redeem in future for free or discounted goods or services.

### Deferred revenue or a provision for future costs?

The Interpretation identified two possible approaches to these transactions – dealt within paragraphs 13 and 19 of FRS 18. Applying paragraph 13 would result in allocating some of the consideration received or receivable from the sales transaction to the award credits and deferring the recognition of revenue; applying paragraph 19 would result in providing for the estimated future costs of supplying the awards (i.e. recognising a liability).

It was concluded that FRS 18 paragraph 13 is the appropriate approach and that some of the consideration received in respect of the initial sale should be allocated to the award credits and recognised as deferred revenue until the entity fulfils its obligations to deliver awards to customers. The amount of revenue deferred would be measured by reference to the fair value of the award credits to the customer (not their cost to the entity) and recognised as an allocation of revenue.

The Interpretation noted that:

- Award credits granted to a customer as a result of a sales transaction are a separately identifiable element of the transaction itself and represent rights granted to the customer, for which the customer implicitly paid;

- Loyalty awards are not delivered to the customer at the same time as the other goods or services and it is therefore necessary to divide the initial sale into components and apply the recognition criteria separately to each component in order to reflect the substance of the transaction; and

- Award credits can be distinguished from marketing expenses because they are granted to the customer as an integral part of the sales transaction. Marketing expenses, in contrast, are incurred independently of the sales transactions they are designed to secure.

### Accounting treatment

INT FRS 113 requires entities to account for award credits as a separately identifiable component of the sales transaction(s) in which they are granted. The fair value of the consideration received or receivable is allocated between the award credits and the other components of the sale. The consideration allocated to the award credits is measured by reference to their fair value, i.e. the amount for which the award credits could be sold separately.

If the entity supplies the awards itself, it recognises the consideration allocated to award credits as revenue when award credits are redeemed and the entity fulfils its obligations to supply awards. The amount of revenue recognised is to be based on the number of award credits that have been redeemed in exchange for awards, relative to the total number expected to be redeemed.

If a third party supplies the awards, the entity is required to assess whether it is collecting the consideration allocated to the award credits on its own account or on behalf of the third party. In other words, it must assess whether it is acting as principal in the transaction or as an agent for the third party.

If the entity is collecting the consideration on behalf of the third party, it:

- Measures its revenue as the net amount retained on its own account, i.e. the difference between the consideration allocated to the award credits and the amount payable to the third party for supplying the awards; and

- Recognises this net amount as revenue when the third party is obliged to supply the awards and entitled to receive consideration for doing so. (These events may occur as soon as the award credits are granted. Alternatively, if the customer can choose to claim awards from either the entity or a third party, these events may occur only when the customer chooses to claim awards from the third party.)

If the entity is collecting the consideration on its own account, it measures its revenue as the gross consideration allocated to the award credits and recognises the revenue when it fulfils its obligations in respect of the awards.

### Measuring the fair value of award credits

The Interpretation requires the consideration allocated to award credits to be measured by reference to their fair value – the amount for which the award credits could be sold separately. If the fair value is not directly observable, it must be estimated, e.g. by reference to the fair value of the awards for which they could be redeemed. That fair value is adjusted to take into account the fair value of awards that would be offered to customers who have not earned award credits from an initial sales transaction and the proportion of the award credits expected to be redeemed. If there is a range of awards from which customers may choose, the fair value of the award credits will reflect the fair values of the range of available awards, weighted in proportion to the frequency with which each award is expected to be selected.

## INT FRS 116 *Hedges of a Net Investment in a Foreign Operation*

The Interpretation provides guidance on net investment hedging, including:
- Which foreign currency risks qualify for hedge accounting, and what amount can be designated;
- Where within the group the hedging instrument can be held; and
- What amount should be reclassified to profit or loss when the hedged foreign operation is disposed of.

INT FRS 116 is effective for annual periods beginning on or after 1 October 2008.

### Background

FRS 21 *The Effects of Changes in Foreign Exchange Rates* sets out the requirements for accounting for foreign operations. A foreign operation is an entity that is a subsidiary, associate, joint venture or branch of a reporting entity, the activities of which are based on or conducted in a country or currency other than those of the reporting entity. Under FRS 21, when translating the financial position and results of a foreign operation, any exchange differences arising from that translation are recognised in other comprehensive income (OCI), and the cumulative differences are presented in a separate component of equity until the foreign operation is disposed of. That separate component of equity is often referred to as the foreign currency translation reserve (FCTR).

An entity may choose to hedge the foreign exchange exposure arising from such foreign operations (referred to as a 'net investment hedge') and may apply hedge accounting if the foreign operations are included in the financial statements of the entity using consolidation, proportionate consolidation or by applying the equity method. If the hedging relationship meets the requirements for hedge accounting in FRS 39 *Financial Instruments: Recognition and Measurement*, any exchange gains or losses arising on the portion of the hedging instrument that is determined to be an effective hedge are recognised outside profit or loss in OCI.

### Scope

INT FRS 116 applies to entities that hedge the foreign currency risk arising from their net investments in foreign operations and that apply hedge accounting.  The Interpretation states explicitly that it does not apply to other types of hedge accounting (i.e. fair value and cash flow hedge accounting), and that the consensus should not be extended by analogy to other types of hedge accounting.

For the remainder of this section the discussion refers to hedging a foreign operation that is a subsidiary in the consolidated financial statements, as this is the most common hedge relationship.  INT FRS 116 applies equally to hedges of net investments in associates and jointly controlled entities that are accounted for by applying equity accounting or, in the latter case, by using proportionate consolidation. Also, the Interpretation applies to financial statements that include branches that qualify as foreign operations.

### Consensus

**Which foreign currency risks qualify for hedge accounting, and what amount can be designated?**

Divergence had emerged in practice as to what risks could be designated as hedged risks for hedge accounting purposes. Specifically, some entities considered that the hedged risk could incorporate the exchange differences arising between the functional currency of the foreign operation and the presentation currency used in the consolidated financial statements of the parent entity.

The IFRIC has disagreed with this viewpoint, and has concluded that the eligible risk is restricted to the exchange differences arising between the functional currency of a parent and the functional currency of the foreign operation.

The IFRIC has also come to the following conclusions.

- For the purpose of identifying the hedged risk, it is irrelevant whether the net investment is held by the parent directly or indirectly. Any foreign currency risk arising between the functional currency of a foreign operation and the functional currency of an immediate, intermediate or the ultimate parent is eligible for hedge accounting.

- The amount that may be designated as a hedged item in a net investment hedge is limited to the carrying amount of the net assets of the foreign operation included in the consolidated financial statements of the parent.

- Any foreign currency risk arising from a net investment in a foreign operation may qualify for hedge accounting only once in the consolidated financial statements. Therefore, if the same risk arising from the same net assets of a foreign operation is hedged by more than one parent within the group (e.g. by both a direct and an indirect parent), only one hedging relationship will qualify for hedge accounting in the consolidated financial statements of the higher-level parent. In preparing its consolidated financial statements, the higher-level parent can choose to reverse the hedge accounting at the lower parent entity level and start afresh, or it can maintain the hedge accounting at the lower parent entity level and identify whether any incremental foreign currency risk has been hedged at the higher level which qualifies of hedge accounting.

**Where within the group can the hedging instrument be held?**

A hedging instrument in a net investment hedge may be a derivative or a non-derivative financial instrument, and it may be held by any entity or entities within the group (other than the foreign operation that is itself being hedged). This is the case provided that the designation, documentation and effectiveness requirements of FRS 39.88 are satisfied. In particular, it is important that the hedging strategy of the group is clearly documented because of the possibility of different designations at different levels of the group.

The Interpretation also clarifies that, for the purpose of testing hedge effectiveness for a net investment hedge, the change in the fair value of the hedging instrument is computed by reference to the functional currency of the parent entity against whose functional currency the hedged risk is measured, in accordance with the hedge accounting documentation. All changes in fair value of the hedging instrument are taken into account in testing effectiveness, irrespective of whether (in the absence of hedge accounting) those changes would be recognised in profit or loss, in OCI, or both.

The assessment of effectiveness is not affected by the type of hedging instrument (derivative or non-derivative) nor by the method of consolidation ('direct' or 'indirect' (also known as 'step-by-step') – see INT FRS 116 for a description of these approaches).

**What amount should be reclassified to profit or loss when the hedged foreign operation is disposed of?**

When an entity disposes of a foreign operation, FRS 21.48 requires that the cumulative exchange gains and losses deferred in the FCTR be reclassified to profit or loss when the gain or loss on disposal is recognised. In the case of a multi-tiered group, the amount held in the FCTR for an individual foreign operation (and, therefore, the amount to be reclassified to profit or loss on disposal of that operation) can be affected by whether the group uses a 'direct' or a 'step-by-step' approach to consolidation.

Where an entity's net investment in a foreign operation has been hedged, and the hedge accounting provisions of FRS 39 have been applied, FRS 39.102 requires that the foreign exchange differences arising on the hedging instrument that have previously been reported in OCI and presented in equity should be reclassified from equity to

profit or loss on the disposal or partial disposal of the foreign operation.

Where the step-by-step approach to consolidation is used, there is a potential mismatch between the amount reclassified to profit or loss under FRS 21.48 and amount reclassified under FRS 39.102. In these circumstances, INT FRS 16 allows (but does not require) the entity to adjust the amount deferred in OCI for the hedged item to the amount that would have resulted had the entity applied the direct method of consolidation. The entity should apply this accounting policy consistently for all its net investments.

### Effective date and transition

INT FRS 116 is effective for annual periods beginning on or after 1 October 2008. Earlier application is permitted if the entity discloses that fact.

The Interpretation is to be applied prospectively and, therefore, entities are not required to restate the results of prior periods to reflect the effects of the new Interpretation. Instead, entities are required to evaluate all hedging relationships at the date of adoption of INT FRS 116. If an entity determines that a hedge accounting relationship no longer qualifies in accordance with the Interpretation, it should discontinue hedge accounting and any amounts previously recognised in OCI will continue to be deferred until the hedged item affects profit or loss, i.e. when the foreign operation is disposed of.

### Application guidance

INT FRS 116 is accompanied by (mandatory) Application Guidance which illustrates the consensus reached by way of examples.

# Revised/amended FRS and INT FRS issued in 2009

| New/revised/amended FRS/INT FRS | |
|---|---|
| FRS 107 (Amended) | *Financial Instruments: Disclosures*<br>- Improving Disclosures about Financial Instruments<br>(effective for annual periods beginning on or after 1 January 2009) |
| General amendments | *Improvements to FRSs*<br>- issued in June 2009<br>(refer to document for effective dates) |
| FRS 27 and FRS 103 (Revised) | Revised FRS 27 *Consolidated and Separate Financial Statements* and FRS 103 *Business Combinations*<br>(effective for annual periods beginning on or after 1 July 2009) |
| FRS 39 and INT FRS 109 (Amended) | FRS 39 *Financial Instruments: Recognition and Measurement* and INT FRS 109 *Reassessment of Embedded Derivatives*<br>- Amendments regarding the assessment of embedded derivatives on reclassification<br>(effective for periods ending on or after 30 June, 2009) |
| FRS 101 (Revised) | *First-time Adoption of Financial Reporting Standards*<br>- Amendments to improve the structure of the Standard<br>(effective for annual periods beginning on or after 1 July 2009)) |
| FRS 101 (Amended) | *First-time Adoption of Financial Reporting Standards*<br>- Additional Exemptions for First-time Adopters<br>(effective for annual periods beginning on or after 1 January 2010)) |
| FRS 102 (Amended) | FRS 102 *Share-based payment*<br>– INT FRS 108 *Scope of FRS102 and INT FRS 111 FRS 102 – Group and Treasury Share Transactions*<br>(effective for annual periods beginning on or after 1 January 2010) |
| INT FRS 117 | *Distributions of Non-cash Assets to Owners*<br>(effective for annual periods beginning on or after 1 January 2009) |
| INT FRS 118 | *Transfer of Assets from Customers*<br>(effective for transfers of assets on or after 1 July 2009) |

## FRS 107 *Financial Instruments: Disclosures* - Improving Disclosures about Financial Instruments

The objective of the amendments is to enhance disclosures about fair value measurements and the liquidity risk of financial instruments.

**Disclosures on fair value measurements:**
For each class of financial assets and financial liabilities carried at fair value, an entity is required to disclose:

(a) The level in the fair value hierarchy into which fair value measurements are categorised in their entirety. The fair value hierarchy that reflects the significance of the inputs used in making the measurements shall have the following levels:

- Level 1 - Quoted prices (unadjusted) in active markets for identical instrument
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(b) Significant gross movements between Level 1 and Level 2 and reasons for those transfers. Significance is judged with respect to profit or loss and total assets or total liabilities.

(c) For fair value measurements in Level 3, a reconciliation from the beginning balances to the ending balances, showing:

- total (realised and unrealised) gains or losses recognised in profit or loss for the period (and where they are presented within the statement of comprehensive income or the separate income statement, if presented);
- total gains or losses for the period included in profit or loss attributable to those assets and liabilities held at the end of the reporting period and a description of where those gains or losses are presented in the statement of comprehensive income or the separate income statement (if presented).
- total gains or losses recognised in other comprehensive income;
- purchases, sales, issues and settlements (each type of movement disclosed separately); and
- gross transfers in and out of level 3 (e.g. transfers attributable to changes in the observability of market data) and reasons for the transfers.

(d) For fair value measurements in Level 3, if changing one or more of the inputs to reasonably possible alternative assumption would change fair value significantly, an entity is to disclose

- that fact; and
- the effect of those changes for each class of financial instruments and how it was calculated.

Significance is judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in other comprehensive income, total equity.

**Disclosures on liquidity risk:**

In addition, the amendments to FRS 107 clarify that:

(a) the scope of liquidity risk disclosures excludes financial liabilities that are not settled by delivering cash or another financial asset e.g. settled by the entity delivering its own equity instruments or non-financial assets;

(b) a hybrid contract that is a financial liability is not separated for the purpose of providing the maturity analysis, and is treated as a non-derivative financial liability;

(c) for non-derivative financial liabilities (including issued financial guarantee contracts), the maturity analysis is required to show the remaining contractual maturities; and

(d) for derivative financial liabilities, the maturity analysis is required to include the remaining contractual maturities where these are essential for an understanding of the timing of cash flows.

The revisions to FRS 107 do not specify how the maturity analysis for other derivative financial liabilities should be presented. Where contractual maturity information is not essential for an understanding of the timing of cash flows, consideration should be given to the information provided to key management personnel. One approach that may be acceptable is disclosure of cash flows based on expected maturity.

Additional requirements to enhance the relationship between qualitative and quantitative analyses include:

(a) explanation on how the data disclosed are determined; and

(b) unless already provided in the maturity analyses, entities are required to provide additional quantitative information for cash outflows included in those data that could either:

- occur significantly earlier than indicated in the data; or

- be for significantly different amounts from those indicated in the data.

Amendments proposed to be applied on or after 1 January 2009. In the first year of application, no comparative information is required. Earlier application is permitted.

## Improvements to FRS - issued in June 2009

This is the second set of Improvements to FRS 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 1 January 2010 except if otherwise specified.

### Detail of amendments

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

| Standard | Subject of amendment | New requirements |
|---|---|---|
| FRS 102 *Share-based Payment* | Scope of FRS 102 and revised FRS 103 | Amendment to confirm that, in addition to business combinations as defined by FRS 103(2009) *Business Combinations*, contributions of a business on formation of a joint venture and common control transactions are excluded from the scope of FRS 102 *Share-based Payment.*<br><br>Effective for annual periods beginning on or after 1 July 2009. Linked to application of FRS 103(2009). |
| FRS 105 *Non-current Assets Held for Sale and Discontinued Operations* | Disclosures required in respect of noncurrent assets (or disposal groups) classified as held for sale or discontinued operations | Amendment to clarify that FRS 105 *Non-current Assets Held for Sale and Discontinued Operations* specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. Consequently, disclosures in other FRSs do not apply to such assets (or disposal groups) unless:<br><br>• Those FRSs specifically require disclosures in respect of noncurrent assets (or disposal groups) classified as held for sale or discontinued operations; or<br><br>• The disclosures relate to the measurement of assets or liabilities within a disposal group that are outside the scope of FRS 105's measurement requirements and the information is not disclosed elsewhere in the financial statements.<br><br>To be applied prospectively. Earlier application permitted |

| Standard | Subject of amendment | New requirements |
|---|---|---|
| FRS 108 *Operating Segments* | Disclosure of information about segment assets | Minor textual amendment to the Standard, to clarify that an entity is required to disclose a measure of segment assets only if that measure is regularly reported to the chief operating decision maker.<br><br>Segment information for prior periods presented as comparatives shall be restated unless the necessary information is not available and the cost to develop it would be excessive.<br><br>Earlier application permitted. |
| FRS 1 *Presentation of Financial Statements* | Current/non-current classification of convertible instruments | Clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or noncurrent.<br><br>By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.<br><br>Earlier application permitted. |
| FRS 7 *Statement of Cash Flows* | Classification of expenditures on unrecognised assets | Amendment to require that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities.<br><br>Earlier application permitted. |

| Standard | Subject of amendment | New requirements |
|---|---|---|
| FRS 17<br>*Leases* | Classification of leases of land and buildings | **Amendments made to IAS 17** - Deletion of specific guidance regarding classification of leases of land. Leases of land should be classified as either finance or operating using the general principles of IAS 17.<br><br>To be applied retrospectively to existing leases if the necessary information is available at the inception of the lease. Otherwise land leases should be reassessed on the date of adoption of the amendment. Earlier application permitted.<br><br>**Comparison of FRS 17 and IAS 17** - Before the amendments, IAS 17 states that land normally has an indefinite economic life and, if title is not expected to pass to the lessee by the end of the lease term, the lessee does not receive substantially all of the risks and rewards incident to ownership.<br><br>On the other hand, FRS 17 did not explicitly state that leases of land will be operating leases unless title passes.<br><br>Thus, with this amendment, FRS 17's treatment of leases of land does not change, but IAS 17's treatment of leases of land appear to be consistent with FRS 17. |
| FRS 18<br>*Revenue* | Determining whether an entity is acting as a principal or as an agent | Additional guidance added to the appendix to FRS 18 *Revenue* regarding the determination as to whether an entity is acting as a principal or an agent.<br><br>No effective date is applicable for this as the appendix is not part of the Standard. |

| Standard | Subject of amendment | New requirements |
|---|---|---|
| FRS 36 *Impairment of Assets* | Unit of accounting for goodwill impairment test | Amendment to clarify that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment as defined by paragraph 5 of FRS 108 *Operating Segments* (i.e. before the aggregation of segments with similar economic characteristics permitted by FRS 108.12).<br><br>To be applied prospectively. Earlier application permitted. |
| FRS 38 *Intangible Assets* | Additional consequential amendments arising from revised FRS 103(2009) | Amendments to FRS 38 *Intangible Assets* to clarify the requirements under FRS 103(2009) regarding accounting for intangible assets acquired in a business combination.<br><br>FRS 103(2004) included reliability of measurement as a recognition condition for intangible assets. FRS 103(2009), on the other hand, presumes that if an intangible asset acquired in a business combination is separable or arises from contractual or other legal rights, sufficient information exists to measure the fair value of the asset reliably.<br><br>Related amendments are made to FRS 38 to be consistent with the recognition criteria in FRS 103(2009).<br><br>Effective for annual periods beginning on or after 1 July 2009. To be applied prospectively. Linked to application of FRS 103(2009). |
| | Measuring the fair value of an intangible asset acquired in a business combination | Amendments to paragraphs 40 and 41 of FRS 38 to clarify the description of valuation techniques commonly used by entities when measuring the fair value of intangible assets acquired in a business combination that are not traded in active markets.<br><br>To be applied prospectively. Earlier application permitted. |

| Standard | Subject of amendment | New requirements |
|---|---|---|
| FRS 39 *Financial Instruments: Recognition and Measurement* | Treating loan prepayment penalties as closely related derivatives | Clarification that prepayment options, the exercise price of which compensates the lender for loss of interest by reducing the economic loss from reinvestment risk, should be considered closely related to the host debt contract.<br><br>Earlier application permitted. |
| | Scope exemption of business combination contracts | Amendments to the scope exemption in paragraph 2(g) of FRS 39 *Financial Instruments: Recognition and Measurement* to clarify that:<br><br>• It only applies to binding (forward) contracts between an acquirer and a vendor in a business combination to buy an acquiree at a future date;<br><br>• The term of the forward contract should not exceed a reasonable period normally necessary to obtain any required approvals and to complete the transaction; and<br><br>• The exemption should not be applied to option contracts (whether or not currently exercisable) that on exercise will result in control of an entity, nor by analogy to investments in associates and similar transactions.<br><br>To be applied prospectively to all unexpired contracts. Earlier application permitted. |
| | Cash flow hedge accounting | Amendment to clarify when to recognise gains or losses on hedging instruments as a reclassification adjustment in a cash flow hedge of a forecast transaction that results subsequently in the recognition of a financial instrument. The amendment clarifies that gains or losses should be reclassified from equity to profit or loss in the period in which the hedged forecast cash flow affects profit or loss.<br><br>To be applied prospectively to all unexpired contracts. Earlier application permitted. |
| | Hedging using internal contracts | Amendment to clarify that entities should no longer use hedge accounting for transactions between segments in their separate financial statements.<br><br>Effective for annual periods beginning on or after 1 January 2009. Earlier application permitted. |

| Standard | Subject of amendment | New requirements |
|---|---|---|
| INT FRS 109 *Reassessment of Embedded Derivatives* | Scope of INT FRS 109 and revised FRS 103 | Amendment to confirm that, in addition to business combinations as defined by FRS 103(2009), derivatives acquired in the formation of a joint venture and in common control transactions are outside the scope of INT FRS 109.<br><br>Effective for annual periods beginning on or after 1 July 2009. To be applied prospectively. Linked to application of FRS 103(2009). |
| INT FRS 116 *Hedges of a Net Investment in a Foreign Operation* | Amendment to the restriction on the entity that can hold hedging instruments | Amendment to clarify that hedging instruments may be held by any entity or entities within the group. This includes a foreign operation that itself is being hedged.<br><br>Effective for annual periods beginning on or after 1 July 2009. Earlier application permitted. |

## Revised FRS 103 *Business Combinations* and FRS 27 *Consolidated and Separate Financial Statements*

### Overview

The revised Standards promise significant change, including:

- a greater emphasis on the use of fair value, potentially increasing the judgement and subjectivity around business combination accounting, and requiring greater input by valuation experts;
- focusing on changes in control as a significant economic event – introducing requirements to remeasure interests to fair value at the time when control is achieved or lost, and recognising directly in equity the impact of all transactions between controlling and non-controlling shareholders not involving a loss of control; and
- focusing on what is given to the vendor as consideration, rather than what is spent to achieve the acquisition. Transaction costs, changes in the value of contingent consideration, settlement of pre-existing contracts, share-based payments and similar items will generally be accounted for separately from business combinations and will generally affect profit or loss.

The revised Standards resolve many of the more contentious aspects of business combination accounting by restricting options or allowable methods. As such, they should result in greater consistency in accounting among entities applying FRSs.

### Summary of main changes to FRS 103

The main changes to FRS 103 are as follows:

- Acquisition-related costs: Acquisition-related costs e.g. finder's fees, advisory, legal, accounting, valuation and other professional or consulting fees are generally recognised as period expenses (rather than included in goodwill). Costs incurred to issue debt or equity securities will be recognised in accordance with FRS 39.
- Step acquisitions: Changes to FRS 27 and FRS 103 work together with the effect that a business combination leading to acquisition accounting applies only at the point where control is achieved. This has a number of implications:
  - Where the acquirer has a pre-existing equity interest in the entity acquired: that equity interest may be accounted for as a financial instrument in accordance with FRS 39, as an associate or a joint venture using the equity method in accordance with FRS 28 *Investments in Associates* or FRS 31 *Interests in Joint Ventures*, or as a jointly controlled entity using the proportionate consolidation method in accordance with FRS 31. If the acquirer increases its equity interest sufficiently to achieve control (described in the revised FRS 103 as a 'business combination achieved in stages'), it must remeasure its previously-held equity interest in the acquiree at acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss.
  - Once control is achieved: all other increases and decreases in ownership interests are treated as transactions among equity holders and reported within equity (see below). Goodwill does not arise on any increase, and no gain or loss is recognised on any decrease.

- **Goodwill**: The acquirer recognises goodwill at the acquisition date, measured as the difference between:
  - the aggregate of:

    → the acquisition-date fair value of the consideration transferred;
    → the amount of any non-controlling interest (NCI) in the entity acquired; and
    → in a business combination achieved in stages, the acquisition date fair value of the acquirer's previously-held equity interest in the entity acquired; and

  - the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, both measured in accordance with the revised FRS 103.

- **Non-controlling interests (formerly known as minority interests):** On a transaction-by-transaction basis, the acquirer has an option to measure any non-controlling interest (NCI) in the entity acquired either at fair value or at the non-controlling interest's proportionate share of the net identifiable assets of the entity acquired. The latter treatment corresponds to the measurement basis in the current version of FRS 103.

  For the purpose of measuring NCI at fair value, it may be possible to determine the acquisition-date fair value on the basis of market prices for the equity shares not held by the acquirer. When a market price for the equity shares is not available because the shares are not publicly-traded, the acquirer must measure the fair value of the NCI using other valuation techniques.

- **Contingent consideration:** The revised FRS 103 requires the consideration for the acquisition to be measured at fair value at the acquisition date. This includes the fair value of any contingent consideration payable. FRS 103 permits very few subsequent changes to this measurement and only as a result of additional information about facts and circumstances that existed at the acquisition date. All other changes (e.g. changes resulting from events after the acquisition date such as the acquiree meeting an earnings target, reaching a specified share price, or meeting a milestone on a research and development project) are recognised in profit or loss.

- **Re-acquired rights:** Where the acquirer and acquiree were parties to a pre-existing relationship (e.g. the acquirer had granted the acquiree a right to use its intellectual property), there are two implications for acquisition accounting:

  - firstly, where the terms of any contract are not market terms, a gain or loss is recognised and the purchase consideration adjusted to reflect a payment or receipt for the non-market terms; and

  - secondly, an intangible asset (being the rights re-acquired) is recognised at fair value and amortised over the contract term.

- **Reassessments:** The revised FRS 103 clarifies that an entity must classify and designate all contractual arrangements at the acquisition date with two exceptions: (i) leases, and (ii) insurance contracts.

  In other words, the acquirer applies its accounting policies and makes the choices available to it as if it had acquired those contractual relationships outside of the business combination. The existing treatment applied by the acquiree for classification of leases and insurance is applied by the acquirer and therefore is not reassessed. Reassessing assets and liabilities is particularly relevant when acquiring financial assets and financial liabilities in a business combination.

  Consideration will be required as to how financial instruments are classified, whether embedded derivatives exist (which the acquiree may not have previously recognised) and whether hedge accounting performed by the acquiree will continue to be highly effective by the acquirer.

### Summary of main changes to FRS 27

The main changes of the revised FRS 27 are as follows:

- **Acquisitions and disposals that do not result in a change of control:** Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for within shareholders' equity as transactions with owners acting in their capacity as owners. No gain or loss is recognised on such transactions and goodwill is not re-measured. Any difference between the change in the NCI and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the parent.

- **Loss of control:** A parent can lose control of a subsidiary through a sale or distribution, or through some other transaction or event in which it takes no part (e.g. expropriation or the subsidiary being placed in administration or bankruptcy).

If a parent loses control of a subsidiary, it:

(a) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost;
(b) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them);
(c) recognises:

  i. the fair value of the consideration received, if any, from the transaction, event or circumstances that resulted in the loss of control; and
  ii. if the transaction that resulted in the loss of control involves a distribution of shares of the subsidiary to owners in their capacity as owners, that distribution;

(d) recognises any investment retained in the former subsidiary at its fair value at the date when control is lost;
(e) reclassifies to profit or loss, or transfers directly to retained earnings if required in accordance with other FRSs, the amounts recognised in other comprehensive income in relation to that subsidiary on the same basis as would be required if the parent had directly disposed of the related assets or liabilities e.g. if a subsidiary has available-for-sale financial assets and the parent loses control of the subsidiary, the parent shall reclassify to profit or loss the gain or loss previously recognised in other comprehensive income in relation to those assets ; and
(f) recognises any resulting difference as a gain or loss in profit or loss attributable to the parent.

- **Attribution of profit or loss to non-controlling interests:** The revised Standard requires an entity to attribute their share of total comprehensive income to the NCI even if this results in the NCI having a deficit balance.

- **Loss of significant influence or joint control:** Amendments to FRS 28 and FRS 31 extend the treatment required for loss of control to these Standards. Thus, when an investor loses significant influence over an associate, it derecognises that associate and recognises in profit or loss the difference between the sum of the proceeds received and any retained interest, and the carrying amount of the investment in the associate at the date significant influence is lost. A similar treatment is required when an investor loses joint control over a jointly controlled entity.

### Consequential amendments to FRS 21 *The Effects of Changes in Foreign Exchange Rates*

As a consequence of the amendments to FRS 27, FRS 21 has also been amended to clarify the meaning of disposals as opposed to partial disposals of a foreign operations i.e. where disposals are those that result in loss of control of a subsidiary, loss of significant influence of an associate, or loss of joint control over a jointly controlled entity. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognised in other comprehensive income and accumulated in the separate component of equity, shall be reclassified from equity to profit or loss.

Any other reduction in an entity's ownership interest in a foreign operation is considered as partial disposals. On partial disposal of a subsidiary that includes a foreign operation, the entity shall re-attribute the proportionate share of the cumulative amount of the exchange differences recognised in other comprehensive income to the non-controlling interests in that foreign operation. In any other partial disposal of a foreign operation the entity shall reclassify to profit or loss only the proportionate share of the cumulative amount of the exchange differences recognised in other comprehensive income.

The amendments are effective for annual periods beginning on or after 1 July 2009. Earlier application is permitted if both revised standards are applied together, and the revised FRS 103 and FRS 27 are not applied earlier than an annual reporting period beginning before 30 June 2007.

## FRS 39 *Financial Instruments: Recognition and Measurement* and INT FRS 109 *Reassessment of Embedded Derivatives* - Amendments regarding the assessment of embedded derivatives on reclassification

The amendments require an assessment of embedded derivatives when there is a reclassification of a financial asset out of the 'fair value through profit or loss' (FTVPL) category as permitted by the December 2008 amendments to FRS 39 and FRS 107 on reclassifications.

Prior to the amendments, INT FRS 109 prohibited the reassessment of the separation of an embedded derivative after an entity first became a party to the contract unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract. INT FRS 109 did not consider whether reassessment is appropriate when a financial asset is reclassified out of FVTPL because such reclassifications were prohibited at the time INT FRS 109 was issued.

The amendments added new requirements where:

- an entity should assess whether an embedded derivative is required to be separated from a host contract when the entity reclassifies a hybrid (combined) financial asset out of the fair value through profit and loss category;

- such an assessment should be made based circumstances that existed on the later of (a) when the entity first became a party to the contract, i.e. when the financial asset was initially recognised and (b) when there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract; and

- if the fair value of an embedded derivative cannot be reliably measured on reclassification, the entire hybrid financial instrument must remain in the FVTPL category.

An entity shall apply these amendments for periods ending on or after 30 June 2009, and must be applied retrospectively.

## FRS 101 (Revised) - *First-time Adoption of Financial Reporting Standards* - Amendments to improve the structure of the Standard

The objective of the revision is to improve the structure of the Standard – no new or revised technical material has been introduced. FRS 101 had been amended a number of times, so that the text of the Standard had become increasingly complex.

The revisions are designed to make the Standard clearer and easier to follow by reorganising and moving to appendices most of the Standard's numerous exceptions and exemptions. The improved structure is also intended to better accommodate future changes to the Standard.

Material has been reorganised within appendices as follows:

- exceptions to the retrospective application of other FRSs (new Appendix B);
- exemptions for business combinations (new Appendix C); and
- exemptions from other FRSs (new Appendix D).

Interestingly, another appendix (Appendix E) was created which for the moment is unused, but which could be used for future possible short-term exemptions from FRSs on first-time adoption.

Certain out-of-date transitional provisions are also removed and some minor wording amendments made.

The revisions are effective for periods beginning on or after 1 July 2009, with earlier application permitted.

## FRS 101 (Revised) - *First-time Adoption of Financial Reporting Standards* - Additional Exemptions for First-time Adopters

The amendments relate to two new exemptions related to the accounting on first-time adoption for oil and gas assets and arrangements containing leases.

The new exemptions will be reflected in FRS 101 and will be effective for annual periods beginning on or after 1 January 2010 with earlier application permitted.

### Exemption for oil and gas assets

For the purposes of this exemption, the term 'oil and gas assets' is limited to those assets used in the exploration and evaluation (FRS 106) or development and production (FRS 38) of oil and gas.

Under some national GAAPs, exploration and development costs for oil and gas properties in the development or production phases are accounted for in cost centres that include all properties in a large geographical area.

FRS 101 has been amended to permit a first-time adopter that has previously used this basis of accounting to elect to measure the related oil and gas assets at the date of transition to FRSs on the following basis:

- exploration and evaluation assets at amounts determined under the entity's previous GAAP; and

- oil and gas assets in the development or production phases at the amount determined for the cost centre under the entity's previous GAAP. The entity shall allocate this amount to the cost centre's underlying assets pro rata using reserve volumes or reserve values as of that date.

Entities electing to use the exemption are required to test both exploration and evaluation assets and assets in the development and production phases for impairment at the date of transition to FRSs. The exploration and evaluation assets are tested in accordance with FRS 106 *Exploration for and Evaluation of Mineral Resources* and development and production assets are tested in accordance with FRS 36 *Impairment of Assets*.

Any identified impairment losses must be recognised at the date of transition.

Entities are required to disclose the fact that they have used the deemed cost exemption for oil and gas assets and disclose the basis on which the carrying amounts determined under previous GAAP were allocated.

**Decommissioning liabilities included in the cost of property, plant and equipment** - Decommissioning liabilities included the cost of property, plant and equipment. If an entity elects to use the deemed cost exemption discussed above for oil and gas assets in the development or production phases, the entity must:

- measure decommissioning, restoration and similar liabilities as at the date of transition to FRSs in accordance with FRS 37; and

- recognise directly in retained earnings any difference between that amount and the carrying amount of those liabilities at the date of transition to FRSs determined under the entity's previous GAAP.

This treatment differs from the existing exemption in FRS 101 which requires entities to measure the liability as at the date of transition to FRSs in accordance with FRS 37 and then estimate the amount that would have been included in the cost of the related asset when the liability first arose, and calculating accumulated depreciation on the amount, as of the date of transition.

### Exemption for leases

Under INT FRS 104 *Determining whether an Arrangement contains a Lease*, the assessment as to whether an arrangement contains a lease is made at the inception of the arrangement. Prior to this new exemption, FRS 101 contained an exemption for all first-time adopters which allowed them to undertake that assessment for existing arrangements based on facts and circumstances at the date of transition to FRSs. Alternatively, if the exemption was not used an entity was required to refer to facts and circumstances at the inception of the arrangement.

An additional exemption has been added to provide further relief to certain first-time adopters. The new exemption applies to a first-time adopter who has made an assessment of whether an arrangement contains a lease under its previous GAAP that is consistent with INT FRS 104, but at a date other than that required under INT FRS 104. With the exemption, a first-time adopter will not be required to reassess its determination of whether an arrangement contains a lease under previous GAAP if that previous determination would have given the same outcome as that resulting from the application of FRS 17 *Leases* and INT FRS 104.

## Amendments to FRS 102 *Share-based payment* – INT FRS 108 *Scope of FRS 102* and INT FRS 111 *FRS 102 – Group and Treasury Share Transactions*

The amendments to FRS 102 clarify the scope of FRS 102, as well as the accounting for group cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award.

Guidance in these areas previously provided in INT FRS 108 Scope of FRS 102 and INT FRS 111 FRS 102 – Group and Treasury Share Transactions have been incorporated into the amended FRS 102 and, as a result, these Interpretations will be withdrawn from the effective date of the amendments.

The amendments are effective for annual periods beginning on or after 1 January 2010, with earlier application permitted.

### Key principles

The amendments to FRS 102:

- provide additional guidance on the accounting for share-based payment transactions among group entities (incorporating guidance previously contained in INT FRS 111); and

- amend the scope of the Standard to incorporate the guidance previously provided in INT FRS 108.

### Share-based payment transactions among group entities

FRS 102 applies when an entity enters into a share-based payment transaction regardless of whether the transaction is to be settled by the entity itself, or by another group member on behalf of the entity.

The amendments to FRS 102 clarify the classification of share-based payment transactions for both the entity that receives the goods or services, and the entity that settles the share-based payment transaction. These amendments are summarised below.

**The entity receiving the goods or services** - will recognise the transaction as an equity-settled share-based payment transaction only if:

- the awards granted are its own equity instruments; or

- it has no obligation to settle the transaction.

In all other circumstances, the entity will measure the transaction as a cash-settled share-based payment.

Subsequent remeasurement of such equity-settled transactions will only be carried out for changes in nonmarket vesting conditions.

**The entity responsible for settling the transaction** - will recognise it as an equity-settled share-based payment only if the transaction is settled in its own equity instruments. In all other circumstances, the transaction will be recognised by the entity that settles the award as a cash-settled share-based payment.

The guidance incorporated into FRS 102 can be illustrated for the most commonly occurring scenarios as follows:

| Entity receiving goods and services | Obligation to settle share-based payment transaction | How is it settled? | Classification: Subsidiary's individual financial statements | Classification: Consolidated financial statements |
|---|---|---|---|---|
| Subsidiary | Subsidiary | Equity of the subsidiary | Equity | Equity |
| Subsidiary | Subsidiary | Cash | Cash | Cash |
| Subsidiary | Subsidiary | Equity of the parent | Cash | Equity |
| Subsidiary | Parent* | Equity of the parent | Equity | Equity |
| Subsidiary | Parent* | Cash | Equity | Cash |

* The same classification will result if the settlement obligation lies with the shareholders or another group entity (e.g. a fellow subsidiary).

### Amendment of the scope of FRS 102

The scope of FRS 102 has been amended to clarify that it applies to all share-based payment transactions, whether or not the goods or services received under the share-based payment transaction can be individually identified.

Any unidentifiable goods and services are measured on the grant date as the difference between the fair values of the share-based payment and the identifiable goods and services. This guidance was previously set out in INT FRS 108.

The amendments to FRS 102 arising from the incorporation of the requirements of INT FRS 108 and INT FRS 111 are subject to the effective date and transitional provisions of the original Interpretations (now withdrawn). The other amendments to FRS 102 are to be applied retrospectively for annual periods beginning on or after 1 January, 2010 (subject to the transitional provisions in FRS 102), with earlier application permitted. If sufficient information for retrospective application is not available, the entity will reflect in its separate or individual financial statements the amounts previously recognised in the group's consolidated financial statements.

## INT FRS 117 *Distributions of Non-cash Assets to Owners*

The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders.

**Scope**

The interpretation applies to non-reciprocal distributions of non-cash assets made by an entity to its shareholders acting in their capacity as owners, covering:

- distributions of non-cash assets (e.g. items of property, plant and equipment, businesses as defined in FRS 103 *Business Combinations*, ownership interests in another entity and disposal groups as defined in FRS 105); and

- distributions that give owners a choice of receiving either non-cash assets or a cash alternative.

Specifically excluded from the scope of the Interpretation are:

- distributions in which all owners of the same class of equity instruments are not treated equally. For example, the Interpretation will not apply if the distribution is made to a specific shareholder and is not offered to other shareholders of the same class of shares;

- distributions of non-cash assets that are ultimately controlled by the same party or parties before and after the distribution; and

- distributions by an entity of some of its ownership interest in a subsidiary where the entity retains control of that subsidiary. In such circumstances, FRS 27 sets out the appropriate accounting treatment.

**Consensus**

The specific questions addressed in the Interpretation are:

**1) When should the entity recognise the dividend payable?**

It was concluded that an entity should recognise a liability when it has incurred an obligation to pay that liability. In the context of non-cash distributions, the point at which an obligation arises is the point at which the dividend is appropriately authorised (and is no longer at the discretion of the entity), which will vary according to the legal requirements in particular jurisdictions.

INT FRS 117 concludes that the entity should recognise a liability for a non-cash distribution:
- in jurisdictions where the approval of shareholders (or an equivalent authority) is required, when that approval is obtained; and
- in jurisdictions where further approval of dividends is not required, when the dividend is declared (e.g. by management or the board of directors).

**2) How should the entity measure the dividend payable?**

It was concluded that the liability should be measured at the fair value of the non-cash assets to be distributed. If shareholders have a choice of receiving either a non-cash asset or a cash alternative, the liability should be measured considering both the fair value of each alternative and management's assessment of the probabilities for each outcome.

**3) When the entity settles the dividend payable, how should it account for any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable?**

When an entity settles the dividend payable, the interpretation requires that it should recognise the difference, if any, between the carrying amounts of the assets distributed and the carrying amount of the dividend payable in profit or loss.

### Consequential amendment to FRS 105 Non-current Assets Held for Sale and Discontinued Operations

The Interpretation has resulted in consequential amendments to FRS 105 regarding the appropriate treatment of the non-cash assets held for distribution. Whether or not a non-cash asset is classified as 'held for distribution to owners' is determined using FRS 105's general principles regarding whether the transaction is highly probable. Reclassification under FRS 105 can be triggered in advance of approval by shareholders, but it will be necessary to consider the probability of that approval being obtained (if required in the jurisdiction) as part of the assessment as to whether the transaction is highly probable.

When the non-cash asset is classified as held for distribution to owners, it is remeasured at the lower of its carrying amount and fair value less costs to distribute, with any adjustment to carrying amount recognised in accordance with the general principles of FRS 105. Therefore, where the fair value less costs to distribute of an asset accounted for using the cost model is less than its carrying amount, an impairment loss should be recognised in profit or loss. Where the fair value less costs to distribute is higher than the carrying amount, no adjustment is made until the distribution is made.

This interpretation is to be applied prospectively. Retrospective application is not permitted.

## INT FRS 118 *Transfers of Assets from Customers*

The Interpretation provides guidance by recipients for transfers of property, plant and equipment from customers.

### Scope

The Interpretation applies to all agreements in which an entity receives from a customer an item of property, plant and equipment (or cash to construct or acquire an item of property, plant and equipment) that the entity must then use either to:

- connect the customer to a network; or
- to provide the customer with ongoing access to a supply of goods or services; or
- to do both.

In some cases, the transferor of the asset may not be the entity that will be the recipient of the ongoing supply of goods and/or services. However, for convenience, the Interpretation refers to the entity transferring the asset as the 'customer'.

Specifically excluded from the scope of the Interpretation are:

- transfers of assets that are government grants as defined in FRS 20 *Accounting for Government Grants and Disclosure of Government Assistance;*

- transfers of assets that are infrastructure used in service concession arrangements within the scope of INT FRS 112 *Service Concession Arrangements;* and

- accounting for the transfer by the customer.

**Consensus**

The basic principle of INT FRS 118 is that when the item of property, plant and equipment transferred from a customer meets the definition of an asset under the FRS Framework from the perspective of the recipient, the recipient must recognise the asset in its financial statements. If the customer continues to control the transferred item, the asset definition would not be met even if ownership of the asset is transferred to the recipient entity.

The deemed cost of that asset is its fair value on the date of the transfer.

INT FRS 118 provides guidance on how to identify the entity's obligation to provide one or more separately identifiable services in exchange for the transferred asset – and, therefore, how to recognise revenue. The following lists out revenue recognition for the various forms of service obligations:

- If the entity has only one service obligation, it would recognise revenue when the service is performed in accordance with FRS 18;

- If the entity has more than one separately identifiable service obligation, it should allocate the fair value of the total consideration received to each service and recognise revenue from each service separately in accordance with FRS 18; and

- If the entity has an obligation to provide ongoing services, the period over which revenue is recognised is generally determined by the terms of the agreement with the customer. If the agreement does not specify a period, the revenue shall be recognised over a period no longer than the useful life of the transferred asset used to provide the ongoing service;

In addition to the above, the Interpretation suggests that when a connection to a network is delivered to the customer and represents stand-alone value for that customer, and the fair value of the connection to that network can be measured reliably, the entity would conclude that connecting the customer to a network is a separately identifiable service, and is thus an event for which revenue should be recognised.

The Interpretation also addresses agreements where an entity receives cash instead items of property, plant and equipment from customers, and such agreements are in scope of INT FRS 118. The accounting for the credit side of such transactions is outlined above.

The Interpretation must be applied prospectively to transfers of assets from customers received on or after 1 July 2009. Earlier application is permitted provided the valuations and other information needed to apply to the Interpretation to past transfers were obtained at the time those transfers were made.

# Exposure drafts

| Exposure Drafts |
| --- |
| ED 9 *Joint Arrangements* |
| ED INT D21 *Real Estate Sales* |
| ED of *An Improved Conceptual Framework for Financial Reporting* |
| ED Proposed amendments to FRS 33 *Earnings per Share*<br>- Simplifying earnings per share |
| ED *FRS for Small and Medium-sized Entities* |
| ED Proposed amendments to FRS 105 *Non-current Assets Held for Sale and Discontinued Operations*<br>- Discontinued Operations |
| ED Proposed amendments to FRS 24 *Related Party Disclosures*<br>- Relationships with the State |
| ED 10 *Consolidated Financial Statements* |
| ED Proposed amendments to FRS 39 *Financial Instruments: Recognition and Measurement* and FRS 107 *Financial Instruments: Disclosure*<br>- Derecognition |
| ED *Income Tax* |
| ED Proposed amendments to INT FRS 114 *FRS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*<br>- Prepayments of a Minimum Funding Requirement |
| ED *Management Commentary* |
| ED *Financial Instruments: Classification and Measurement* |
| ED *Fair Value Measurement* |
| ED *Rated-regulated Activities* |
| ED Proposed amendments to FRS 32 *Financial Instruments : Presentation*<br>- Classification of Rights Issues |
| ED INT FRS *Extinguishing Financial Liabilities with Equity Instruments* |
| ED *Improvements to FRSs*<br>- Issued in October 2009 |

## ED 9 *Joint Arrangements*

ED 9 was proposed to replace FRS 31 *Interests in Joint Ventures* with a new Standard to be titled *Joint Arrangements.* The most significant changes proposed are:

- To shift the focus in accounting for joint arrangements away from the legal form of the arrangements and onto the contractual rights and obligations agreed by the parties; and
- To remove the choice currently available for accounting for jointly controlled entities (equity method or proportionate consolidation) by requiring parties to recognise both the individual assets to which they have rights and the liabilities for which they are responsible, even if the joint arrangement operates in a separate legal entity. If the parties only have a right to a share of the outcome of the activities, their net interest in the arrangement would be recognised using the equity method.

### General principles

A joint arrangement is a contractual arrangement whereby two or more parties undertake an economic activity together and share decision-making relating to that activity. Joint arrangements include joint assets, joint operations and joint ventures.

The ED proposes that the form of an arrangement should not be the most significant factor in the determination of the appropriate accounting for the arrangement. This is unlike the approach taken under FRS 31 which is closely aligned to the legal structure of joint venture arrangements, with only jointly controlled entities being singled out for equity accounting (or proportionate consolidation).

## ED INT D21 *Real Estate Sales*

This draft interpretation seeks to standardise accounting practice among real estate developers for sale of units, such as apartments or houses, "off-plan", i.e., before construction is complete.

While this remains as an ED in Singapore, the IASB has issued IFRIC 15 *Agreements for the Construction of Real Estate.* The following summary is based on the IFRIC issued.

### IFRIC 15 *Agreements for the Construction of Real Estate*

IFRIC 15 addresses the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. IFRIC 15 addresses two (related) issues:

- determining whether an agreement for the construction of real estate is within the scope of IAS 11 *Construction Contracts* or IAS 18 *Revenue*; and

- when revenue from the construction of real estate should be recognised.

The Interpretation provides some limited additional guidance on the distinction between 'construction contracts' (falling within the scope of IAS 11) and other agreements for the construction of real estate (falling within the scope of IAS 18). Agreements involving the construction of real estate will need to be examined carefully to determine whether they should be accounted for in accordance with IAS 11 or IAS 18. Entities most affected are likely to be those that undertake construction of multiple-unit developments. For some agreements falling within the scope of IAS 18 and involving the supply of goods, the Interpretation has introduced a new concept, i.e. that IAS 18's revenue recognition criteria may be met 'continuously as construction progresses'. In such circumstances, revenue is recognised by reference to the stage of completion of construction, using the percentage of completion method.

IFRIC 15 is effective for annual periods beginning on or after 1 January 2009 for entities reporting under IFRS.

## ED of an *Improved Conceptual Framework for Financial Reporting*

The ED is based on an equivalent ED issued by the IASB. On 29 May 2008, the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) jointly published for comment an Exposure Draft (ED) An improved Conceptual Framework for Financial Reporting – Chapter 1: Objective of Financial Reporting and Chapter 2: Qualitative Characteristics and Constraints of Decision-useful Financial Reporting Information. The ED develops the Boards' thinking from the 2006 Discussion Paper on the same subject. This is the first ED issued in the Boards' ongoing project to develop a common conceptual framework.

Chapter 1 of the ED concludes that the fundamental objective of general purpose financial reporting is 'to provide financial information about the reporting entity that is useful to present and potential equity investors, lenders and other creditors in making decisions in their capacity as capital providers'.

Chapter 2 of the ED considers the qualitative characteristics and constraints of decision-useful financial reporting information. The Boards have refined the approach in the Discussion Paper, so that two 'fundamental' qualitative characteristics are identified: relevance and faithful representation.

A number of additional characteristics are highlighted that 'enhance' the decision-usefulness of financial information and that are complementary to the fundamental qualitative characteristics. The enhancing characteristics identified in the ED are comparability (including consistency), verifiability, timeliness and understandability.

Fundamental qualitative characteristics differentiate useful information from information that is not useful or is misleading – whereas enhancing qualitative characteristics differentiate more useful information from less useful information.

In addition, two pervasive constraints are identified that limit the information provided in useful financial reports: materiality and cost. Information is material if its omission or misstatement could influence the decisions that users make on the basis of an entity's financial information.

Materiality is not a matter to be considered by standard-setters but by preparers and their auditors. The benefits of providing financial reporting information should justify the costs of providing that information.

## ED Proposed amendments to FRS 33 *Earnings per Share* - Simplifying Earnings per Share

The ED is based on an equivalent ED issued by the IASB. The ED on amendments to IAS 33 was issued simultaneously with a proposed amendment to FAS 128 Earnings per Share, the US GAAP equivalent. Both proposals are part of the ongoing convergence project between the IASB and the Financial Accounting Standards Board.

The effective date of these amendments has not yet been determined.

**What is converged?**

The basis of conclusions to the ED acknowledges that the numerator, i.e. earnings, will continue to be different between IFRSs and US GAAP. The aim of the ED is to eliminate some existing differences in determining the denominator, i.e. the number of shares, where these differences are capable of resolution in a relatively short time and can be addressed outside current and planned major projects.

The ED aims to converge:

- The basic principle of determining what instruments are included in basic Earnings Per Share (EPS). The ED proposes that only ordinary shares that give (or are deemed to give) the holder the right to share currently in profit or loss of the period should be included in the calculation of basic EPS.

- The EPS impact for contracts that require the entity to buy back its own ordinary shares for cash or other financial assets that are not fair valued through profit or loss, e.g. some forward purchase contracts over own equity. It proposes to treat those contracts as if the entity had already repurchased the shares, therefore as a reduction in the number of ordinary shares outstanding.

- The EPS treatment of participating instruments that are classified as financial liabilities. FRS 33 currently only takes into account participating instruments that are classified as equity when determining the amount of earnings and number of ordinary shares. The ED proposes extending this to participating instruments that are classified as financial liabilities if they are not fair valued through profit or loss.

- The calculation of diluted EPS for participating instruments and two-class ordinary shares. The ED proposes that in determining whether a participating instrument or a second class of shares convertible into ordinary shares is dilutive, the entity must calculate dilutive EPS assuming both conversion does and does not occur. Diluted EPS reflects the more dilutive of these scenarios.

### What is simpler?

The ED proposes that if an instrument (or part of an instrument in the case of an embedded derivative that is separated) is fair valued through profit or loss and may result in the issue or acquisition of ordinary shares in the future, then no adjustment is required to earnings or the number of shares for either basic or diluted EPS. As the instrument's fair value is already recognised in current earnings, thereby impacting current equity holders, no further adjustment is required to earnings or the number of shares. This proposed change in treatment will be relevant to all standalone derivatives over own equity that under FRS 32 are not classified as equity instruments and to convertible debt where the embedded conversion option into own equity fails to meet the definition of equity.

In determining whether an option, warrant, or equivalent is dilutive, the existing standard looks to the average share price for the period. The ED proposes that the period end share price should be used instead. The ED also clarifies that in determining whether a forward sale contract over own equity is dilutive the treasury stock method should be used, which is the same method used for options and warrants.

The ED proposes removing the guidance on determining whether forward purchase contracts or written puts over own equity are dilutive. The ED presumes that these are either fair valued through profit or loss and therefore not adjusted for EPS purposes, or else may be participating instruments if a financial liability is presented for the present value of the redemption amount and dividends are still payable under the shares to be acquired.

The ED proposes clarifying that if a supplementary EPS is disclosed using a different amount of earnings than is required by the Standard, then this may only be disclosed in the notes and not presented in the statement of comprehensive income. The ED does not propose additional disclosures beyond those required in FRS 33.

## ED *FRS for Small and Medium-sized Entities ("SMEs")*

The ED proposes to allow small entities with no public accountability the option to use a simplified set of accounting principles that are based on the full FRS. While this remains as an ED in Singapore, the IASB has issued IFRS for Small and Mediumsized Entities. The following summary is based on the Standard issued by the IASB.

**IFRS for SMEs**

The IFRS for SMEs is a self-contained Standard, incorporating accounting principles that are based on full IFRSs but that have been simplified to suit the entities within its scope (known as SMEs). By removing some accounting treatments permitted under full IFRSs, eliminating topics and disclosure requirements that are not generally relevant to SMEs, and simplifying requirements for recognition and measurement, the IFRS for SMEs reduces the volume of accounting requirements applicable to SMEs by more than 90 per cent when compared with the full set of IFRSs.

Where financial statements are prepared using the Standard, the basis of presentation note (and, where applicable, the auditor's report) would refer to compliance with the IFRS for SMEs. Many SMEs may find that this internationally recognised 'cachet' for their financial statements will improve their access to capital.

The IASB has not set an effective date for the Standard because the decision as to whether to adopt the IFRS for SMEs (and also, therefore, the timing for adoption) is a matter for each jurisdiction.

The IFRS for SMEs is intended by the IASB for use by entities that have no public accountability and that are required, or choose, to publish general purpose financial statements for external users. Essentially, an entity is considered to have public accountability if its debt or equity instruments are publicly traded, or if it is a financial institution or other entity that, as part of its primary business, holds and manages financial resources entrusted to it by clients.

Ultimately, the decision regarding which entities should use the IFRS for SMEs rests with national regulatory authorities and standard-setters – and those bodies will often specify more detailed eligibility criteria, including quantified criteria based on revenue, assets etc.

The effective date of the IFRS for SMEs will be determined in each jurisdiction that adopts it. The Standard contains a section on transition which contains all of the exemptions in IFRS 1 *First-time Adoption of International Financial Reporting Standards*– with additional simplifications in relation to comparative information. IFRS 1 requires an entity's first IFRS financial statements to include at least one year of comparative information under IFRSs. The IFRS for SMEs provides some relief from this by including an 'impracticability' exemption. Similarly, it provides an impracticability exemption with respect to restating the opening statement of financial position.

## ED Proposed amendments to FRS 105 *Non-current Assets Held for Sale and Discontinued Operations* - Discontinued Operations

The proposals are to revise the definition of discontinued operations and require additional disclosure about components of an entity that have been disposed of or are classified as held for sale. It was decided that the definition of discontinued operations based on operating segments, as defined in FRS 108 *Operating Segments*, best captures a strategic shift in the entity's operations because the determination of operating segments is based on how the chief operating decision maker makes decisions about allocating resources and assessing performance.

The exposure draft thus proposes to change the definition of a discontinued operation to be a component of an entity that:

(a) is an operating segment (as that term is defined in FRS 108) and either has been disposed of or is classified as held for sale; or

(b) is a business (as that term is defined in FRS 103 Business Combinations (Revised in 2009) that meets the criteria to be classified as held for sale on acquisition.

The exposure draft proposes that an entity should determine whether the component of an entity meets the definition of an operating segment regardless of whether it is required to apply FRS 108.

In addition, notwithstanding the alignment of the definition with FRS 108, the exposure draft clarifies that the amounts presented for discontinued operations should be based on the amounts presented in the statement of comprehensive income, even if segment information disclosed to comply with FRS 108 includes different amounts that are reported to the chief operating decision maker.

The proposed definition could result in fewer items being recognised in financial statements as discontinued operations than at present. However, additional disclosures are proposed that would give information about components of an entity that have been disposed of or are held for sale but do not meet the definition of a discontinued operation.

## ED Proposed Amendments to FRS 24 *Related Party Disclosures* – Relationships with the State

The ED addresses the disclosure of 'relationships with the state', with the objective of simplifying the disclosure requirements that apply to state-controlled entities under the existing FRS 24. The ED also proposes a new definition for 'related party'. While this remains as an ED in Singapore, the IASB has issued amendments to IAS 24 Related Party Disclosures. The following summary is based on the amendments to IAS 24 issued by the IASB.

### Partial exemption for government-related entities

The revised Standard provides a partial exemption from the disclosure requirements of IAS 24 for government-related entities. Specifically, a reporting entity is exempt from the general disclosure requirements set out in IAS 24 in relation to related party transactions and outstanding balances (including commitments) with:
• a government that has control, joint control or significant influence over the reporting entity; and
• another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

In this context, government refers to government, government agencies and similar bodies whether local, national or international.

### Revised definition of a related party

The revised Standard simplifies the definition of a related party, clarifies its intended meaning and eliminates a number of inconsistencies.

*A related party* is a person or entity that is related to the entity that is preparing its financial statements (in IAS 24 referred to as the 'reporting entity').

(a) A person or a close member of that person's family is related to a reporting entity if that person:
(i) has control or joint control over the reporting entity;
(ii) has significant influence over the reporting entity; or

(iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:
(i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
(iii) Both entities are joint ventures of the same third party.
(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
(v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
(vi) The entity is controlled or jointly controlled by a person identified in (a).
(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

### Effective date

The revised Standard is effective for annual periods beginning on or after 1 January 2011. The revised Standard requires retrospective application. Therefore, in the year of initial application, disclosures for the comparative period will need to be restated. Earlier application is permitted, either of the whole revised Standard or of the partial exemption for government-related entities. If an entity applies either the whole Standard or the partial exemption for a period beginning before 1 January 2011, it is required to disclose that fact.

## ED 10 *Consolidated Financial Statements*

The new standard is meant replace the requirements of FRS 27 Consolidated and Separate Financial Statements and INT FRS 12 Consolidation – Special Purpose Entities. The key proposals in the ED are for a revised definition of control, and enhanced disclosures about consolidated and unconsolidated entities.

### Revised definition of control

The revised definition of control is intended to be more robust, and reduce perceived inconsistencies between FR 27 and INT FRS 12.

The ED proposes the following definition of control - "a reporting entity controls another entity when the reporting entity has the **power to direct the activities** of that other entity to generate returns for the reporting entity" [emphasis added].

Essentially, when assessing control, a reporting entity would be required to consider power and returns together and how the reporting entity can use its power to affect the returns.

Power to direct activities: The current FRS 27 definition of control i.e. "the power to govern the financial and operating policies of another entity" is only one way in which power to direct activities can be achieved. Other ways include potential voting rights, by contractual arrangements etc. Thus, the proposed definition covers a wider scope.

Additional proposed changes relating to 'power' include:

- Power to direct the activities of another entity can also exist despite holding less than half of the voting rights in that other entity i.e. where the reporting entity has more voting rights than any other party and those voting rights

are sufficient to give it the ability to determine the other entity's strategic operating and financing policies.

- It would not be necessary for options or convertible instruments to be currently exercisable for them to have an impact on the assessment of control. It would also not be necessary for all currently exercisable instruments to automatically affect assessment of control.

*Returns*: The change in terminology is to encompass both positive and negative returns, as well as clarification that returns are not limited to quantifiable amounts, they can include know-how, cost savings, synergies etc.

### Structured entities

The proposals also include guidance for Structured Entities where control is hard to assess. The ED proposes consideration points to be analysed in determining control of Structured Entities, emphasising on arrangements for sharing of returns, and how any decisions are made about the activities of the structured entity.

When a reporting entity concludes that it does not control a structured entity, additional disclosure requirements would apply.

## ED Proposed amendments to FRS 39 Financial Instruments: *Recognition and Measurement a*nd FRS 107 *Financial Instruments: Disclosures - Derecognition*

The ED proposes to replace the existing guidance on derecognition of financial assets and financial liabilities in FRS 39 *Financial Instruments: Recognition and Measurement* and the related disclosures required by FRS 107 *Financial Instruments: Disclosures,* and interacts with the ED 10 *Proposed new Standard on Consolidated Financial Statements*. The ED also sets out an alternative derecognition model preferred by a minority of the IASB members.

The ED proposes different approaches to derecognition for financial assets and financial liabilities.

### Financial assets

The approach proposed for financial assets focuses on the existence of control. This differs from the current guidance in FRS 39 which is primarily concerned with 'risks and rewards' (control being a secondary test).

The ED illustrates the proposed approach in the following steps:

### Step 1 – identifying the reporting entity

The first step would be to identify the reporting entity from which perspective derecognition is to be assessed. When preparing consolidated financial statements, the reporting entity is the group and, therefore, derecognition would be assessed for the consolidated entity, including all subsidiaries that are required to be consolidated. When preparing separate financial statements, the reporting entity is the separate entity and, therefore, the derecognition model would be applied at the separate entity level, even if the transferee is part of the same consolidated group.

### Step 2 - identifying the "Asset"

The entity would next identify the "Asset" to which the derecognition principles are to be applied.
This term is used to refer to either a part of a financial asset (or a part of a group of financial assets) that is assessed separately for derecognition or, otherwise, to a financial asset (or a group of financial assets) in its entirety.

### Step 3 - applying the derecognition criteria

For the purposes of applying the derecognition criteria (see below), the term 'transfer' is defined broadly in the ED to include all forms of sale, assignment, provision of collateral, sacrifice of benefits, distribution and other exchange. It includes transferring rights to the cash flows from a financial asset as it is believed that this is akin to transferring the

actual cash flows.
The ED proposes that an entity should derecognise an Asset only in the following circumstances:

* The contractual rights to the cash flows from the Asset expire; or
* The entity transfers the Asset and has no continuing involvement; or
* The entity transfers the Asset and retains a continuing involvement in it but the transferee has the practical ability to transfer the Asset for the transferee's own benefit.

A transferor has no continuing involvement in the Asset if, as part of the transfer, it neither retains any of the contractual rights or obligations inherent in the Asset nor obtains any new contractual rights or obligations relating to the Asset.

**Step 4 – accounting for derecognition**
If a transfer qualifies for derecognition, the asset would be derecognised and any new assets or liabilities recognised and initially measured at fair value. The proposal does not prescribe specific accounting for those new assets and liabilities created (and would delete the current requirements in FRS 39 regarding so-called 'continuing involvement' in the assets and liabilities).

* For transfers of an entire financial asset, any gain or loss arising would be calculated as the difference between (1) the carrying amount of the asset transferred and (2) the sum of the consideration received (including the effects of new assets/liabilities) and any cumulative gain or loss recognised in other comprehensive income ("OCI").
* For transfers of a part of a financial asset, the carrying amount and the amount in OCI would be allocated between the parts transferred and retained using their relative fair values. The ED also addresses situations where the consideration received (in part) is an interest in the entity to which the Asset has been transferred.
* If a transfer does not qualify for derecognition, the entity would continue to recognise the entire financial asset and recognise a financial liability for the consideration received (if any). FRS 32 *Financial Instruments: Presentation* would be amended to clarify that neither the asset and the associated liability nor any income or expense arising from them should be offset. Furthermore, the proposals would prohibit the use of the fair value option for the associated liability if the asset transferred (but not derecognised) is measured at amortised cost.

**The alternative view for financial assets**
The alternative model for derecognition of financial assets is also based on control. The main difference when compared to the model discussed in the previous section is that, under the alternative model, an entity would derecognise a transferred financial asset if the transferor ceases to have the ability to:

(a) Obtain all of the future economic benefits inherent in the asset; and

(b) Restrict others' access to those benefits.

Therefore, if the transferor's rights to cash flows after the transfer differ from its rights before the transfer, the asset would be derecognised (and, where appropriate, a new asset recognised). The alternative model does not distinguish between a fully proportionate share in cash flows transferred and a disproportionate share'. The alternative model would result in a greater likelihood of derecognition of more financial assets, and recognition of new assets and liabilities, compared with the model favoured by the majority of the IASB members.

### Financial liabilities

The ED also proposes to amend the guidance on derecognition of financial liabilities to make it more consistent with the FRS *Framework for the Preparation and Presentation of Financial Statements.* The ED would require derecognition of a financial liability if it no longer qualifies as a liability of the entity – i.e. if the present obligation is eliminated and the entity is no longer required to transfer economic resources in respect of that obligation. The ED also includes expanded guidance on debt renegotiations and in-substance defeasances.

The proposed model for derecognising financial liabilities is broadly similar to the current requirements in FRS 39.

### Disclosures

The ED proposes to extend and improve the current derecognition-related disclosures for both transferred assets that remain on the balance sheet and those that are derecognised to allow users of financial statements:

- To understand better the relationship between transferred financial assets that are not derecognised and the associated liabilities; and

- To evaluate an entity's risk exposure associated with its ongoing involvement in derecognised financial assets, i.e. any residual exposure arising from assets that have been removed from the balance sheet. The proposed disclosures are illustrated in the proposed amendments to the Implementation Guidance on FRS 107 which accompany the ED.

- The ED contains guidance on transition to the new guidance when the new standard becomes effective. The ED proposes prospective application, i.e. application to transfers that occur after the effective date. Therefore:

- Financial assets and financial liabilities derecognised under the previous guidance would remain derecognised; and

- Financial assets and financial liabilities not derecognised under the previous guidance would not be derecognised.

However, earlier application to transactions before the effective date would be permitted if the entity obtained the information necessary to apply the amended guidance on derecognition at the point of initially accounting for those transactions. If an entity chooses to apply the guidance before the effective date, it would have to apply it to all transfers occurring after the early adoption date and disclose that fact.

## ED *Income Tax*

This exposure draft contains proposals for an FRS to replace the current FRS 12 *Income Taxes* and related Interpretations.

**Significant changes**

The most significant changes proposed, compared with the requirements of FRS 12, include:

- A revised calculation methodology for deferred taxes - Deferred tax accounting is only performed where the entity expects an effect on taxable profit from recovering assets or settling liabilities. The 'tax basis' of an asset/liability is determined by reference to the tax consequences that would arise if the asset was sold or the liability settled at the end of the reporting period;

- Elimination of recognition exceptions on initial recognition of assets and liabilities. The current exception prohibits the recognition of deferred tax liabilities and assets in relation to temporary differences arising on the initial recognition of an asset or liability other than in a business combination where the asset or liability does not impact accounting profit or taxable profit at the time of recognition. The ED proposes a 'split-accounting' approach in recognising deferred tax in such situations, resulting in separate recognition of an asset/liability and any entity-specific tax advantage/disadvantage. The effect may in some cases be similar to the outcome under the initial recognition exemption;

- Elimination of recognition exception to the temporary difference approach for some investments in subsidiaries, branches, associates and joint ventures which were based on whether an entity controls the timing of the reversal of the temporary difference and the probability of it reversing in the foreseeable future. The ED proposes a recognition exception that is restricted to only differences between the tax basis and the financial reporting carrying amount for an investment in a foreign subsidiary or joint venture that is essentially permanent in duration. No exception is proposed for associates.

- Changes to the allocation of taxes between the various components of the financial statements. For initial recognition of deferred taxes, the ED is consistent with FRS 12: entities would recognise the tax expense arising at the time of a transaction in the same component of comprehensive income (i.e. continuing operations, discontinued operations or other comprehensive income) or equity in which it recognises the transaction. In respect of subsequent changes in tax balances (except as regards valuation allowances for deferred tax assets for which specific principles are proposed) the ED proposes a new approach, which would result in all subsequent changes in balances being recognised in profit or loss, within continuing operations;

- Deferred tax balances will be classified as current (or non-current) assets or liabilities, resulting in symmetry of treatment between the item giving rise to the deferred tax and the deferred tax itself; and

- New measurement and disclosure requirements for 'uncertain tax positions'. The ED proposes that current and deferred tax assets and liabilities should be measured using a probability weighted average amount of all possible outcomes, assuming that the tax authorities will review the amounts submitted and have full knowledge of all relevant information.

## ED Proposed amendments to INT FRS 114 FRS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* - Prepayments of a Minimum Funding Requirement

The ED proposes to modify INT FRS 114 *FRS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* so as to remedy an unintended consequence of the Interpretation whereby entities are in some circumstances not permitted to recognise as an asset prepayments of minimum funding contributions.

These requirements of INT FRS 114 unintentionally reduce the benefit that would otherwise arise from voluntary prepayment of minimum funding contributions.

The ED proposes to amend INT FRS 114 so that, if there is a minimum funding requirement for contributions relating to future service, the economic benefit available as a reduction in future contributions (and, therefore, the surplus that should be recognised as an asset) would be comprised of:

(a) The amount of any prepayment of the minimum funding requirement contributions (i.e. any amount of any minimum funding requirement contributions that the entity has paid before being required to do so that gives the entity the right to reduce future minimum funding requirement contributions); and

(b) The amount of any economic benefit available as a reduction in future contributions determined as the lower of (i) the surplus in the plan excluding any prepayment in (a); and (ii) the estimated future service cost in each period less the estimated minimum funding requirement contributions that would be required for future service in that period if there were no prepayment of those contributions as described in (a).

The ED proposes that the amendments would be applied from the beginning of the earliest comparative period presented in the financial statements in which the entity first applied INT FRS 114. Any initial adjustment arising from the application of the ED would be recognised as an adjustment to retained earnings at the beginning of that period.

## ED *Management Commentary*

The ED proposes a framework to assist management in preparing decision-useful management commentary to accompany financial statements prepared in accordance with FRS. When finalised, this framework would be included in a non-binding guidance document, rather than a mandatory Standard.

Under the proposals, if an entity prepares management commentary to supplement its financial statements, it should (a) not make it available without those financial statements, and (b) clearly distinguish management commentary from other information in the same financial report. An entity should also consider the needs of the primary user groups, reporting on what happened during the reporting period and why it happened, and potential future impact.

In the ED, the IASB identifies three key characteristics that distinguish decision-useful management commentary. Such decision-useful commentary:

- discusses and analyses the entity's performance, position and development through the eyes of management – disclosing information that is important for management in steering the entity;
- supplements and complements information contained in the financial statements – providing additional explanations of amounts presented in the financial statements and including information that is not presented in the financial statements; and

- has an orientation to the future – to communicate, from management's perspective, the direction the entity is taking. Management should include forwardlooking information if it is aware of any factors that could impact the entity's financial position or performance, and should discuss the extent to which forward-looking disclosures made in prior periods have been borne out.

## ED *Financial Instruments: Classification and Measurement*

The objective of this ED is to improve the decision-usefulness of financial statements for users by simplifying the classification and measurement requirements for financial instruments. The project will ultimately replace many financial instrument classification categories and associated impairment methods in FRS 39 Financial Instruments: Recognition and Measurement.

While this remains as an ED in Singapore, the IASB has issued IFRS 9 Financial Instruments: Classification and Measurement. The following summary is based on the Standard issued by the IASB.

## IFRS 9 *Financial Instruments*

On 12 November 2009, the IASB issued IFRS 9 *Financial Instruments.* This Standard introduces new requirements for the classification and measurement of financial assets and is effective from 1 January 2013 with early adoption permitted.

The exposure draft for this Standard included both financial assets and financial liabilities within its scope, however, due to concerns raised with the proposals for financial liabilities the scope was restricted to only financial assets. New requirements for classification and measurement of financial liabilities, derecognition of financial instruments, impairment and hedge accounting are expected to be added to IFRS 9 in 2010. As a result, IFRS 9 will eventually be a complete replacement for IAS 39 *Financial Instruments: Recognition and Measurement.*

An early adopter of IFRS 9 continues to apply IAS 39 for other accounting requirements for financial instruments within its scope that are not covered by IFRS 9 (e.g. classification and measurement of financial liabilities, recognition and derecognition of financial assets and financial liabilities, impairment of financial assets, hedge accounting, etc.).

In summary, IFRS 9 requires recognised financial assets that are currently in the scope of IAS 39 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. All other debt instruments must be measured at fair value through profit or loss (FVTPL). A fair value option is available (provided that certain specified conditions are met) as an alternative to amortised cost measurement.

*Business Model Test*

IFRS 9 includes guidance on how the business model test is met. For instance, the assessment of a business model is made at a level higher than individual instrument (e.g. portfolio or business unit level). Thus, a business model

test is not based on management's intent for individual instruments. In addition, IFRS 9 also includes guidance on reclassification requirements when an entity changes its business model to for managing financial assets.

*Contractual Cash Flow Characteristic Test*

As for contractual cash flow tests, the concept in IFRS 9 is that only instruments with contractual cash flows of principal and interest on principal (hereafter referred to as "principal and interest") may qualify for amortised cost measurement. IFRS 9 describes interest as consideration for the time value of money and the credit risk associated with the principal outstanding during a particular period of time. Therefore, an investment in a convertible loan note would not qualify because of the inclusion of the conversion option which is not deemed to represent payments of principal and interest.

The application guidance to IFRS 9 includes examples of contractual cash flows that are payments of principal and interest on the principal amount outstanding and those that are not payments of principal and interest on the principal amount outstanding.

*Fair Value Option*

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.

For example, an entity may hold a fixed rate loan receivable that it commercially hedges with an interest rate swap, with matching terms, that swaps the fixed rate to a floating rate. Assuming the conditions for amortised cost measurement are met, measuring the loan asset at amortised cost would create a measurement mismatch with the interest rate swap held at FVTPL. In this case the loan receivable could be designated at FVTPL under the fair value option to reduce the measurement mismatch that arises from measuring the loan at amortised cost.

### Equity instruments

All equity investments within the scope of IFRS 9 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 fair value through other comprehensive income (FVTOCI) with only dividend income recognised in profit or loss.

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 in accordance with IAS 18 Revenue. Designation as at FVTOCI means that the current requirements in IAS 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 IAS 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. However, IFRS 9 does contain guidance on when cost might be the best estimate of fair value of an unquoted equity investment that is difficult to value because of little or no timely or relevant information. It also gives examples of when cost will not be representative of fair value such as when there has been a significant change in the performance of the investee compared with budgets, plans or milestones.

### Derivatives

All derivatives within the scope of IFRS 9 are required to be measured at fair value. This includes derivatives that are settled by the delivery of unquoted equity instruments, however, in limited circumstances cost may be an appropriate estimate of fair value.

Derivatives embedded in a financial host that is within the scope of IFRS 9 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 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.

Because IFRS 9 only applies to assets within the scope of IAS 39, the embedded derivative concept is retained, at least for now, for all hybrid financial liabilities and asset host contracts that are outside the scope of IAS 39.

## ED *Fair Value Measurement*

The purpose of the ED is to replace all of the existing guidance on fair value measurement in FRS accounting literature with a single Standard – equivalent to the US standard, FAS 157 *Fair Value Measurements*. The ED defines fair value, and it explains how to determine fair value; however, it does not introduce any new or revised requirements regarding which items should be measured or disclosed at fair value.

The ED defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly [i.e. not forced] transaction between market participants at the measurement date". The proposed Standard would apply to all fair value measurements or disclosures in all FRSs, with one exception (the requirements of FRS 39.49 relating to the fair value of financial liabilities with a demand feature). Therefore, both financial instruments and non-financial items would fall within its scope.

The ED sets out the following elements to be determined by an entity in order to arrive at an appropriate measure of fair value:

- The particular asset or liability that is the subject of the measurement (consistently with its unit of account); for an asset, the valuation premise that is appropriate for the measurement (consistently with its highest and best use);
- The most advantageous market for the asset or liability; and
- The valuation technique(s) appropriate for the measurement – taking into consideration the availability of data with which to develop inputs that represent the assumptions that market participants would use in pricing the asset or liability, and the level of the fair value hierarchy within which the inputs are categorised.

### Disclosures

Many of the disclosures for financial instruments proposed in the ED are already required under FRS 107 *Financial Instruments: Disclosures* (as amended in April 2009). However, many of the proposed disclosures would be new to non-financial items within the scope of the ED.

Fair value measurement disclosures are based on a three-level fair value hierarchy based on inputs to the fair valuation. Level 1 inputs are directly and fully observable, Level 2 inputs are indirectly based on observable inputs, and Level 3 inputs are unobservable. An asset or liability is included in its entirety in one of the three levels based on the lowest level input that is significant to its valuation.

The ED proposes the following minimum disclosures for each class of assets or liabilities measured at fair value:

- The fair value measurement at the end of the reporting period;
- The level in the fair value hierarchy;

- Transfers between Level 1 and Level 2 for those assets and liabilities recognised at the end of the reporting period;
- The methods and inputs used in the fair value measurement, including any changes in valuation techniques;
- A reconciliation of the opening and closing fair value of Level 3 assets and liabilities, including total gains and losses in the period, purchases, sales, settlements and transfers into or out of Level 3. In addition, separate disclosure would be required of the gains and losses in profit or loss for Level 3 assets and liabilities held at the end of the reporting period; and
- The sensitivity of Level 3 fair valuations to changes in inputs to a reasonably possible alternative assumption.

Where assets and liabilities are not subsequently measured at fair value, but are instead just disclosed at fair value, fair value should be disclosed by the level of the fair value hierarchy for each class of assets and liabilities.

The ED also includes the specific disclosures contained in FRS 107 regarding the fair value of non-performance risk when subsequently fair valuing a liability.

Finally, where an asset is used together with other assets, and its highest and best use differs from its current use, the ED requires disclosure by class of asset of the fair value of the assets assuming their current use (i.e. the amount that would be their fair value if the current use were the highest and best use), the amount by which the fair value of the assets differs from their value in their current use (i.e. the incremental value of the asset group), and the reasons why the assets are being used in a manner that differs from their highest and best use.

### Transition requirements

The ED proposes prospective application as of the beginning of the annual period in which the final Standard is first applied, with an exemption from providing comparative information in the first period of application.

## ED *Rate-regulated Activities*

The objective of the proposals is to establish how assets and liabilities resulting from rate-regulated activities should be recognised and measured under FRS.  Rate regulation is a restriction on the setting of prices that can be charged to customers for services or products. A number of regulatory methodologies exist and, for each, application can vary by regulator, the entity being regulated and the particular circumstances.

An entity shall apply the standard to its operating activities that meet the following criteria:

(a) An authorised body (the regulator) establishes the price the entity must charge its customers for the goods or services the entity provides, and that price binds the customers; and

(b) The price established by regulation (the rate) is designed to recover the specific costs the entity incurs in providing the regulated goods or services and to earn a specified return (cost-of-service regulation). The specified return could be a minimum or range and need not be a fixed or guaranteed return.

If the proposals are adopted:

- An entity shall recognise:

(a) A regulatory asset for its right to recover specific previously incurred costs and to earn a specified return, or

(b) A regulatory liability for its obligation to refund previously collected amounts and to pay a specified return when it has the right to increase or the obligation to decrease rates in future periods as a result of the actual or expected actions of the regulator.

- On initial recognition and at the end of each subsequent reporting period, an entity shall measure a regulatory asset or regulatory liability at its expected present value. In the measurement of the expected present value of a regulatory asset or a regulatory liability, an entity shall consider an estimate of the future cash flows that will arise in a range of possible outcomes, an estimate of the probability of each outcome occurring, the time value of money, represented by the current market risk-free rate of interest and the price for bearing the uncertainty inherent in the regulatory asset or regulatory liability.

- An entity shall present in the statement of financial position current and non-current regulatory assets and regulatory liabilities, without offsetting, separately from other assets and liabilities.

- An entity shall disclose information that:

(a) Enables users of the financial statements to understand the nature and the financial effects of rate regulation on its activities; and

(b) Identifies and explains the amounts of regulatory assets and regulatory liabilities, and related income and expenses, recognised in its financial statements.

The ED requires an entity to apply it to regulatory assets and regulatory liabilities that exist at the beginning of the earliest comparative period presented. Any adjustments required will be reflected in the opening balance of retained earnings of that comparative period.

## ED Proposed amendment to FRS 32 *Financial Instruments: Presentation* - Classification of Rights Issues

This exposure draft contains a proposal to amend FRS 32 Financial Instruments: Presentation. The purpose of the amendment is to clarify the classification of instruments that give the holders the right to acquire an entity's own equity instruments at a fixed price (rights issue) when that price is stated in a currency other than the entity's functional currency.

The proposed amendment specifies that a rights issue offered pro rata to all of an entity's existing shareholders on the exercise of which the entity will receive a fixed amount of cash for a fixed number of the entity's own equity instruments is classified as an equity instrument regardless of the currency in which the exercise price is denominated.

The proposed amendment is intended to clarify the circumstances in which the currency the entity will receive on the issue of an instrument does not affect its classification as a liability or an equity instrument.

The proposed change would be required to be applied retrospectively with early adoption permitted.

## ED INT FRS *Extinguishing Financial Liabilities with Equity Instruments*

In the current environment, some entities are renegotiating the terms of financial liabilities with their creditors. In some circumstances, the creditor agrees to accept an entity's shares or other equity instruments to settle the financial liability fully or partially. Guidance was requested on how an entity should account for such transactions in accordance with FRS 39 *Financial Instruments: Recognition and Measurement* and FRS 32 *Financial Instruments: Presentation.*

This Draft Interpretation addresses the following issues:

(a) Are an entity's equity instruments 'consideration paid' in accordance with FRS 39 paragraph 41?

The ED proposes that the entity's equity instruments are part of any 'consideration paid' to extinguish the financial liability;

(b) How should an entity initially measure the equity instruments issued to extinguish a financial liability?

The ED proposes that the equity instruments are measured at either their fair value or the fair value of the financial liability extinguished, whichever is more reliably determinable;

(c) How should an entity account for any difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued?

The ED proposes that any difference between the carrying amount of the financial liability extinguished and the initial measurement amount of these equity instruments is included in the entity's profit or loss for the period.

The ED proposes that the Interpretation be applied from the beginning of the earliest comparative period presented in the financial statements.

## ED *Improvements to FRS – issued in October 2009*

This is the third set of amendments under the annual improvements process which is intended to deal with non-urgent but necessary amendments to Standards. These proposed amendments focus on areas of inconsistency in Standards or where clarification of wording is required. A summary of the more significant proposed amendments is set out in the table below.

| Standard | Topic | Amendment |
|---|---|---|
| FRS 103<br>*Business Combinations* | Measurement of non-controlling interests | Clarifies that the option to measure non-controlling interests either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets under FRS 103(2009) applies only to instruments that are currently entitled to a proportionate share of the acquiree's net assets. Other instruments that meet the definition of non-controlling interests should be measured at fair value or in accordance with applicable standards.<br><br>Proposed effective date: 1 July 2010. |
| | Un-replaced and voluntary replaced share-based payment awards | Introduces specific guidance clarifying that share-based payment awards of the acquiree that the acquirer chooses to replace (although not part of the business combination arrangements) or for which vesting is accelerated as a consequence of the business combination should be accounted for in the same way as awards that the acquirer is obliged to replace as part of the business combination arrangements.<br><br>Proposed effective date: 1 July 2010. |
| | Transitional requirements for contingent consideration from a business combination that occurred before the effective date of FRS 103(2009) | Clarifies that FRS 32 *Financial Instruments: Presentation*, FRS 39 *Financial Instruments: Recognition and measurement* and FRS 107 *Financial Instruments: Disclosures* do not apply to contingent consideration that arose from business combinations whose acquisition dates preceded the application of FRS 103(2009).<br><br>Proposed effective date: 1 July 2010 |
| FRS 105<br>*Non-current Assets Held for Sale and Discontinued Operations* | Application of FRS 105 to loss of significant influence over an associate or loss of joint control in a jointly controlled entity | Clarifies that an interest in an associate or a jointly controlled entity should be classified as held for sale under FRS 105 when an entity is committed to a sale plan involving a loss of significant influence or joint control.<br><br>Proposed effective date: 1 January 2010. |

| Standard | Topic | Amendment |
|---|---|---|
| FRS 1<br>*Presentation of Financial Statements* | Clarification of statement of changes in equity | States explicitly that an entity may present the components of changes in equity either in the statement of changes in equity or in the notes to the financial statements.<br><br>Proposed effective date: 1 January 2011. |
| FRS 27<br>*Consolidated and Separate Financial Statements* | Impairment of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements of the investor | Clarifies that in its separate financial statements the parent/investor/ joint venturer should apply the requirements of FRS 39 *Financial Instruments: Recognition and Measurement* (and not FRS 36 *Impairment of Assets*) to test its investments in subsidiaries, jointly controlled entities and associates for impairment, regardless of whether they are carried at cost or in accordance with FRS 39. |
| | Accounting for investments in subsidiaries, jointly controlled entities and associates in separate financial statements. | Clarifies that in its separate financial statements, where an entity has the option to account for investments in subsidiaries, jointly controlled entities and associates either at cost, cost is in accordance with FRS 39.<br><br>In addition, the second option is amended such that an entity may account for these investments at fair value through profit or loss. This proposed amendment appears to preclude accounting for these investments in other categories of financial assets under FRS 39 e.g. available-for-sale investments.<br><br>Proposed effective date: 1 January 2011 (prospective application). |
| FRS 21<br>*The Effects of Changes in Foreign Exchange Rates* | Transitional requirements for consequential amendments as a result of the revision of FRS 27 | For consequential amendments from FRS 27, which distinguishes treatment of translation reserves between partial disposals and disposals, it is clarified that the amendments are to be applied prospectively.<br><br>Proposed effective date: 1 July 2010. |
| FRS 28<br>*Investments in Associates* | Partial use of fair value for measurement of associates | Clarifies that different measurement bases can be applied in consolidated financial statements to portions of an investment in an associate when part of the investment is designated at initial recognition as at fair value through profit or loss in accordance with the scope exception in paragraph 1 of FRS 28. The remaining investment in associate that does not qualify under the scope exception shall still be accounted for under FRS 28.<br><br>Proposed effective date: 1 January 2011. |

| Standard | Topic | Amendment |
|---|---|---|
| FRS 34<br>*Intangible Assets* | Significant events and transactions | Although the existing FRS 34 does not require specific disclosures, it sets out disclosure principles to determine what information should be disclosed in an interim financial report.<br><br>FRS 34 is proposed to be amended to place greater emphasis on these principles and the inclusion of additional examples relating to more recent disclosure requirements i.e. fair value measurements would improve interim financial reporting.<br><br>For example –"selected explanatory notes' is proposed to be amended to "significant events and transactions". It also proposes that "information disclosed in relation to those events and transactions should update the equivalent information presented in the most recent annual report."<br><br>The proposals include the following as examples of disclosures of "significant events and transactions" that would require disclosure:<br><br>• Significant transfers between the 3 levels of hierarchy (per FRS 107) in measurement of fair value of financial instruments;<br><br>• And significant changes in the business or economic circumstances that affect the fair value of the entity's financial assets and financial liabilities.<br><br>Proposed effective date: 1 January 2011. |
| FRS 40<br>*Investment Property* | Change from fair value model to cost model | Where the existing FRS 40 requires investment property carried at fair value to be transferred to inventory when it will be developed with a view to sale, the proposed amendments remove the existing requirement to transfer it to inventory i.e. it remains as investment property.<br><br>The proposals instead require FRS 105 to be applied if "held-for-sale" criteria met.<br><br>Proposed effective date: 1 January 2011 (prospective application). |

# 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 standards and interpretations under IAS/IFRS, except for certain modifications to effective dates and transitional provisions, and differences in timing of adoption. Differences in effective dates related to periods before 2008 are no longer relevant for 2009 financial reporting and are not included here. Below, we identify the key differences between FRS and IAS/IFRS as at 12 November 2009:

| FRS | Content | IAS / IFRS | Comments |
|---|---|---|---|
| ED FRS for SMEs | *Small and Medium-sized Entities (SMEs)* | 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. It is for each jurisdiction to determine which entities are eligible to use this framework.<br><br>This Standard has not been adopted in Singapore yet. |
| FRS 16 | *Property, Plant and Equipment* | IAS 16 | FRS 16 exempts regular revaluation for assets on which any one-off revaluation is performed between 1 January 1984 and 31 December 1996 (both dates inclusive) or for assets that have been revalued prior to 1 January 1984, whereas IAS 16 does not give such an exemption. |
| FRS 17 | *Leases* | IAS 17 | FRS 17 removes the words in paragraphs 14 and 15 of IAS 17, which indicates that land normally has an indefinite economic life and, if title is not expected to pass to the lessee by the end of the lease term, the lessee does not receive substantially all of the risks and rewards incidental to ownership.<br><br>Note: Improvements to IFRS 2009 amends IAS 17 appear to result in consistency with FRS 17 in this respect. An entity shall apply those amendments for annual periods beginning on or after 1 January 2010. |

| FRS | Content | IAS / IFRS | Comments |
|---|---|---|---|
| FRS 27, 28 and 31 | *Consolidated Financial Statements and Accounting for Investments in Subsidiaries, Associates and Joint Ventures* | IAS 27, 28 and 31 | The revised FRS 27 exempts a parent from presenting consolidated financial statements if its holding company produces consolidated financial statements available for public use whereas under the revised IAS 27, such an exemption applies only if the holding company produces consolidated financial statements available for public use that comply with IFRS. |
| 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 INT FRS | *Members' Shares in Co-operative Entities and Similar Instruments* | IFRIC 2 | IFRIC 2 is effective for annual periods beginning on or after 1 January 2005.<br><br>This Interpretation has not been adopted in Singapore yet. |
| ED INT D21 | *Real Estate Sales* | IFRIC 15 | IFRIC 15 is effective for annual periods beginning on or after 1 January 2009.<br><br>This Interpretation has not been adopted in Singapore yet. |
| ED amendment to FRS 39 | *Financial Instruments: Classification and Measurement* | IFRS 9 | IFRS 9 introduces new requirements for classifying and measuring financial assets. The ASC is presently deliberating on the adoption of the standard in Singapore. |

# Section II: Other Financial Reporting Matters

# Update on auditing standards

### Update on auditing standards

The Institute of Certified Public Accountants of Singapore (ICPAS) has released a series of revised and redrafted Singapore Standards on Auditing (SSA) in the last 2 years or so, mirroring the International Standards on Auditing (ISA) issued by the International Auditing and Assurance Standards Board (IAASB) under its Clarity Project.

The Clarity Project is a comprehensive IAASB program aimed at enhancing the quality and consistency of global audit practice through applying a new drafting format to all existing and future ISAs, either as part of a substantive revision or through a limited redrafting. The drafting conventions adopted for this purpose involve a new three-part structure – objectives, requirements and application guidance – and simplified language to clarify intent and improve understandability. On 27 February, 2009, the Clarity Project was completed with a total of 36 newly updated and clarified ISAs and a clarified International Standard on Quality Control (ISQC), all effective for audits of financial statements for periods beginning on or after 15 December, 2009. To date, ICPAS has adopted 25 of the clarified ISAs and the ISQC with the same effective dates being applied, with the rest presently undergoing the due review process.

One of the most important clarified ISAs relates to group audits. ICPAS released the revised and redrafted SSA 600 *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* in April 2008. The scope of the revised SSA 600 is broader than the extant standard and covers all audits of group financial statements, while the extant standard covers only group audits where 'other auditors' are involved.

The key features of the revised SSA 600 are outlined below:

- The revised SSA 600 eliminates the option for divided responsibility in audits of group financial statements, and consequently requires more involvement of the Group Engagement Partner in the audit activities of the auditors for significant components of the group's operations, including acceptance and continuance, risk assessment, and responding to assessed risks. In this respect, the Group auditor may face practical challenges of scope limitation when auditing large complex groups operating across geographical regions.

- The revised SSA 600 focuses on the Group auditor's identification of "significant components" and the work performed thereon, either by the group engagement team or by component auditors, and the requirements on setting component materiality.

- One of the new concepts brought about by the revised SSA 600 is "component materiality", which is the materiality used by component auditors to perform an audit or a review for purposes of the group audit. It is explained that in order to 'reduce the risk that the aggregate of detected and undetected misstatements in the group financial statements exceeds the materiality level for the group financial statements as a whole, component materiality shall be lower than the materiality level for the group financial statements as a whole' .

For further information, please refer to www.icpas.org.sg

# Amendments to SGX Listing manual

SGX has implemented new securities listing rules and revises other rules to heighten market efficiency. In March 2009, SGX announced new listing rules and changes to securities listing rules that will take effect on 24 March, 2009. This follows a public consultation in July 2008 on revisions arising from one of the Exchange's more extensive rule reviews. In finalising the rules, SGX had incorporated feedback and suggestions from market participants to meet the varying market needs.

Some of the key new listing rules and requirements are as follows:-

## Diversity in Capital Market

### 1. Listing Rules for Life Science Companies

SGX is introducing new admission rules and continuing listing requirements for Life Science Companies ("LSC") without financial track record. Among other things, LSC on the Mainboard will be required to demonstrate adequate working capital for its present requirements and for at least 12 months after listing.

## Enhanced Efficiency of Fund Raising Exercises

### 2. Revised IPO Distribution Requirements

The IPO distribution provision is revised to require primary listings on the Mainboard to have at least 500 public shareholders. The same number of shareholders will apply to secondary listed companies where SGX and the primary home exchange have an established arrangement to facilitate the movement of shares. In the case of a secondary listing where such an arrangement is absent, the company shall be required to have at least either 500 shareholders in Singapore or 1,000 shareholders worldwide. These revisions will provide issuers with greater flexibility to target their investor groups.

### 3. Removal of Limit on Capital Structure

The limit on the number of new shares from the exercise/conversion of outstanding convertibles will be removed to allow issuers greater flexibility in determining their capital structure. Issuers will seek specific shareholders' approval if it exceeds the limit of their general mandate and in addition, disclose the recommendations of the Board of Directors on the issue of company warrants or convertible securities.

## Strengthening of Corporate Governance and Enhanced Transparency

### 4. Disclosure of Details Relating to Profit Guarantees or Profit Forecasts

The Exchange and market participants are of the view that increased transparency and accountability are beneficial to issuers and their shareholders in relation to the acquisition of assets or businesses where profit guarantees or profit forecasts are provided. Issuers are also required to make immediate disclosure when the guaranteed profit level has, or has not, been met including material variations to the terms of agreement. With heightened disclosure, investors are empowered to make informed decisions.

### 5. Improved transparency and enhanced disclosures of changes in capital

Issuers intending to issue shares, company warrants or other convertible securities for cash are required to promptly disclose the terms and purpose of the issue, including the following :-

(a) the identity of the placement agent;
(b) the amount of proceeds proposed to be raised from the issue; and
(c) the intended use of proceeds on a percentage allocation basis.

Where no placement agent has been appointed, the issuer will have to provide the identities of the placees and number of shares placed to each of them, how the placees are identified and the rationale for placing to them. In addition, the restrictions imposed by the issuer regarding the identities of and allocation to the placees, if any.

**6. Disclosure of Use of Proceeds**

Issuers shall immediately announce the use of proceeds from fund raising exercises as and when they are materially disbursed, and whether the use is in accordance with what was previously announced. Where there is any material deviation, the issuer must announce the reasons for such deviation. Issuers will also have to disclose such information in their annual reports.

**7. Fundamental Change of Principal Business Subject to the Exchange's Approval**

Where there is a material change in the scope and nature of an issuer's principal business, SGX reserves the right to subject such changes to the Exchange's approval if they affect the integrity of the market or it is in the interests of the public to do so.

**8. Remuneration of Directors**

Disclosures of remuneration of directors and key executives in the annual report of issuers must comply with the Code of Corporate Governance.

For further information, please refer to www.sgx.com

# 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.

Deloitte Touche Tohmatsu – www.deloitte.com - the website provides a global e-library and 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 Corporate Communications Department for further information:

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