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Changes to The Financial Reporting Framework in Singapore

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Acronyms

AFS	Available-for-sale
CA	Singapore Companies Act
CCDG	Council on Corporate Disclosure and Governance
ED	Exposure Draft
EPS	Earnings Per Share
FASB	US Financial Accounting Standards Board
FRS	Financial Reporting Standards
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICPAS	Institute of Certified Public Accountants of Singapore
IFRS	International Financial Reporting Standards
IFRIC	Interpretation of the International Financial Reporting Interpretations Committee
IG	Implementation Guidance
INT FRS	Interpretation of Financial Reporting Standards
LM	SGX Listing Manual
IRAS	Inland Revenue Authority of Singapore
MAS	Monetary Authority of Singapore
ACRA	Accounting and Corporate Regulatory Authority
SIC	Interpretation of the Standing Interpretations Committee of the IASB
US GAAP	United States Generally Accepted Accounting Principles

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Introduction

The Singapore accounting standards and financial reporting framework is undergoing another series of major changes that will significantly change the way companies account for and report on the results and state of affairs of their operations. This booklet, on pages 4-7, summarises the changes and provides an analysis of what has changed and how it is likely to impact your company.

The CCDG has adopted all the IASB projects including the Improvements Project, which resulted in a major revision to 14 standards for annual periods beginning on or after January 1, 2005. Subsequent to the adoption of the Improvements Project, CCDG also adopted FRS 101 *First-time Adoption of FRS*, FRS 102 *Share-based Payment*, FRS 103 *Business Combinations*, FRS 104 *Insurance Contracts*, FRS 105 *Non-current Assets Held for Sale and Discontinued Operations*, the revised FRS 39 relating to amendment on macro-hedging and INT FRS 101 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*. These are shown in detail on pages 18-40. As the CCDG adopts the IASB projects, the FRSs and INT FRSs are closely aligned to the international equivalents with minor refinements. These differences are shown on pages 41-42.

A list of all FRS and INT FRS applicable for financial/annual periods beginning on or after January 1, 2004 and for annual periods beginning on or after January 1, 2005 are shown on pages 11-15.

The Companies (Amendment) Act 2004 (CAA 2004) and Companies (Amendment) Regulations 2004 have brought significant changes to Singapore financial reporting requirements. Exempt private companies with revenue of $5 million (previously $2.5 million) or less in a financial year are exempt from audit requirements with respect to financial years beginning on or after June 1, 2004. Companies are also not required to prepare consolidated accounts if they are not required to do so under the Accounting Standards, and the requirement that consolidated accounts are not to be issued until the audited accounts of all the subsidiaries are received, is repealed. The CAA 2004 also provides directors with protection for reasonable reliance on information and advice from professionals and experts. These and other changes are discussed in detail on pages 9-10.

The Draft Companies (Amendment No. 2) Bill 2004 proposes a series of changes to the Companies Act. This includes the abolishment of par value (nominal value) of shares, allows for share buy-backs from capital or profit, the holding of repurchased shares as treasury shares, and capital reduction without court sanctions for both private and public companies. These and other changes are discussed in detail on page 10.

Further changes to the Companies Act are expected in 2005. The financial reporting standards will also continue to be revised and new standards will be issued as Singapore follows IFRS projects. The pending changes to the accounting standards are discussed in detail on pages 43-48.

This booklet highlights the significant and critical issues that require your action or consideration for your financial reporting. It does not contain every issue and does not purport to contain all issues relevant in each circumstance.

Executive Summary of Changes To Financial Reporting Requirements

Companies (Amendment) Act 2004 The amendments to the Companies Act in 2004 are effective from April 1, 2004 except for the requirement that registration numbers be shown on company documents, which is effective on October 1, 2004. Key changes are shown below. (See page 9 for details)	
Section 144	• Requires the registration number of a company to be shown on company documents.
Section 157C	• Directors are accorded protection for reasonable reliance on information and advice from professional and experts.
Section 201	• Companies need not prepare consolidated accounts if they are not required to do so under the Accounting Standards (FRS 27). • Clarifies the financial statements of a company that are subject to audit requirements. The balance sheet and profit and loss statement if only the company accounts are presented and the consolidated accounts and the balance sheet of the company if group accounts are presented.
Section 201A	• Repeals the requirement that the consolidated accounts are not to be issued until the audited accounts of all the subsidiaries are received.
Section 204	• Provides enhanced penalties for non-compliance with Section 201(1A), (3), (3A) and (15) related to the financial statements.
Section 387A and 387B	• Provides for the electronic distribution of statutory reports, notices of meetings and other documents to members, officers or auditors of the company.

Companies (Amendment) Regulations 2004 & Companies (Amendment No.3) Regulations 2004 These amendments were introduced throughout the year. Key changes are shown below. (See page 10 for details)	
Section 205C	• Changes the audit exemption threshold for private exempt companies from "below S$2.5 million in revenue" to "below S$5 million in revenue" with respect to financial years beginning on or after June 1, 2004.
Section 206	• Requires a public company to undertake a review of its auditor's fees, expenses and emoluments when non-audit fees are 50% or more of the audit fees and to make the outcome known to persons entitled to receive notice of general meetings. This is effective from April 1, 2004.

Companies (Accounting Standards)(Amendment No 3) Regulations 2003 and Companies (Accounting Standards)(Amendment No 1-4) 200 Key changes are shown below. (See pages 18-40 for details)	
Third Schedule	• Adoption of the Improvements Project (with refinements), which will be effective for annual periods beginning on or after January 1, 2005.
Third Schedule	• Adoption of FRS 101 *First-time Adoption of FRS*. This is effective for financial statements covering periods beginning on or after January 1, 2004.
Third Schedule	• Adoption of FRS 103 *Business Combinations*, the revised FRS 36 and FRS 38. These standards are effective for accounting for business combinations for annual periods beginning on or after July 1, 2004.
Third Schedule	• Adoption of INT FRS 101 *Changes in Existing Decommission, Restoration and Similar Liabilities*. This Interpretation is effective for annual periods beginning on or after September 1, 2004.
Third Schedule	• Adoption of FRS 102 *Share-based Payment*, FRS 104 *Insurance Contracts*, FRS 105 *Non-current Assets Held for Sale and Discontinued Operations* and revised FRS 39 relating to amendments on macro-hedging. • FRS 102 is effective for public companies for annual periods beginning on or after January 1, 2005 and for all other companies FRS 102 is effective from January 1, 2006. • FRS 104, FRS 105 and revised FRS 39 are effective for annual periods beginning on or after January 1, 2005.

Draft Companies (Amendment No.2) Bill 2004 The proposed changes to the Companies Act should be effective 2005. Key proposed changes are shown below. (See page 10 for details)	
Section 62A and 62B	• Par value or nominal value will be abolished and all amounts standing to share premium and capital redemption reserve will be "share capital".
Section 76, 76A, 76B and 76F	• Share buy-backs may be made from share capital or profits if the company is solvent.
Section 76H-K	• Repurchased shares may be held as treasury shares for later sale, transfer or cancellation. Changes in value have no profit or loss impact.
Section 78A-K	• Both public and private companies may carry out capital reductions without court sanction subject to certain requirements listed on page 12.
Section 215	• Inclusion of a new section on amalgamations to allow an alternative process other than court sanction.

Executive Summary of Changes To Financial Reporting Requirements

Improvements to Financial Reporting Standard The improved standards are effective for annual periods beginning on or after January 1, 2005. (See pages 18-31 for details)	
FRS 1	• Presentation of Financial Statements
FRS 2	• Inventories
FRS 7	• Cash Flow Statement
FRS 8	• Accounting Policies, Changes in Accounting Estimates and Errors
FRS 10	• Events after the Balance Sheet Date
FRS 15 (withdrawn)	• Information Reflecting the Effects of Changing Prices
FRS 16	• Property, Plant and Equipment (with refinements)
FRS 17	• Leases (with refinements)
FRS 21	• The Effects of Changes in Foreign Exchange Rates
FRS 24	• Related Party Disclosures
FRS 27	• Consolidated and Separate Financial Statements (with refinements)
FRS 28	• Investments in Associates (with refinements)
FRS 31	• Interests in Joint Ventures (with refinements)
FRS 32	• Financial Instruments: Disclosure and Presentation
FRS 33	• Earnings per Share
FRS 39	• Financial Instruments: Recognition and Measurement (Including amendments dealing with "Macro-Hedging")

New Financial Reporting Standard These standards are effective for annual periods beginning on or after January 1, 2005 except for FRS 101 which is effective for financial statements covering periods beginning on or after January 1, 2004, FRS 102 which is effective for public companies for annual periods beginning on or after January 1, 2005 and for all other companies from January 1, 2006 and FRS 103 and revised FRS 36 and FRS 38, which are effective for annual periods beginning on or after July 1, 2004. (See pages 32-39 for details)	
FRS 101	• First-time adoption of FRS
FRS 102	• Share-based Payment
FRS 103	• Business Combinations (with revisions to FRS 36 Impairment of Assets and FRS 38 Intangible Assets)
FRS 104	• Insurance Contracts
FRS 105	• Non-current Asset Held for Sale and Discontinued Operations

New Interpretation of Financial Reporting Standard This Interpretation is effective for annual periods beginning on or after September 1, 2004. (See page 40 for details)	
INT FRS 101	• Changes in Existing Decommissioning, Restoration and Similar Liabilities

Exposure Drafts Outstanding These drafts are expected to result in new or revised standards in 2005 or 2006. (See pages 43-48 for details)	
Issued in 2003	
ED/INT FRS	• Emission Rights
Issued in 2004	
ED/INT FRS	• Decommissioning, Restoration and Environmental Rehabilitation Funds
ED/INT FRS	• Determining Whether an Arrangement Contains a Lease
ED/FRS	• Exploration for and Evaluation of Mineral Resources
ED/INT FRS	• Applying FRS 29 Financial Reporting in Hyperinflationary Economies for the First Time
ED/FRS	• Proposed Amendments to FRS 39 Financial Instrument: Recognition and Measurement – The Fair Value Option
ED/INT FRS	• Multi-employer Plans
ED/FRS	• Proposed Amendments to FRS 103 Business Combinations – Combinations by Contract Alone or Involving Mutual Entities
ED/FRS	• Proposed Amendments to FRS 19 Actuarial Gains and Losses, Group Plans and Disclosures
ED/INT FRS	• Scope of INT FRS 12 Consolidation – Special Purpose Entities
ED/INT FRS	• Member's Shares in Co-operative Entities
ED/INT FRS	• Employee Benefit Plans with a Promised Return on Contributions or Notional Contributions
ED/FRS	• Amendments to FRS 39 Cash Flow Hedge Accounting of Forecast Intragroup Transactions • Amendments to FRS 39 and FRS 104 Financial Guarantee Contracts and Credit Insurance • Amendments to FRS 39 Transition and Initial Recognition of Financial Assets and Financial Liabilities
ED/FRS	• Financial Instruments: Disclosures

Chronology Of Significant Changes To The Companies Act

Gazette Reference	Title and Key Provisions	Effective Date
S260/2003	Companies (Amendment No.3) Regulations 2003	June 1, 2003
S549/2003	Companies (Accounting Standards)(Amendment No.3) Regulations 2003 • Adoption of FRS 101 *First-time Adoption of Financial Reporting Standards.*	Financial periods beginning on or after January 1, 2004
No. 5 of 2004	Companies (Amendment) Act 2004	April 1, 2004 except for the requirement that registration numbers be shown, which are effective on October 1, 2004
S134/2004	Companies (Amendment) Act (Commencement) Notification 2004 • Made all sections of the Companies (Amendment) Act 2004 effective except for section 144 which requires registration numbers to be shown on company documents.	April 1, 2004 except for Section 144, which is effective on October 1, 2004
S137/2004	Companies (Amendment) Regulations 2004 • Requirement for public companies to review auditor's remuneration in relation to the non-audit services.	April 1, 2004
S270/2004	Companies (Amendment No.2) Regulations 2004	April 1, 2004
S293/2004	Companies (Amendment No.3) Regulations 2004 • Exempt private companies with turnover of S$5 million or less is exempt from audit requirements.	Financial years beginning on or after June 1, 2004
S401/2004	Companies (Accounting Standards)(Amendment) Regulations 2004 • Adoption of FRS 103 *Business Combinations* and the revisions to FRS 36 *Impairment of Assets* and FRS 38 *Intangible Assets.*	Annual periods beginning on or after July, 1, 2004 for the accounting of business combinations
S412/2004	Companies (Accounting Standards No.2)(Amendment) Regulations 2004 • Adoption of the IASB Improvements Project (with refinements).	Annual periods beginning on or after January 1, 2005
S521/2004	Companies (Accounting Standards No.3)(Amendment) Regulations 2004 • Adoption of INT FRS 101 *Changes in Existing Decommissioning, Restoration and Similar Liabilities.*	Annual periods beginning on or after September 1, 2004
S561/2004	Companies (Accounting Standards No.4)(Amendment) Regulations 2004 • Adoption of the IASB Improvements Project (with refinements) - Revokes Companies (Accounting Standards No.2)(Amendment) Regulations 2004. • Adoption of FRS 102, *Share-based Payment*, FRS 104, *Insurance Contracts*, FRS 105, *Non-current Assets Held for Sale and Discontinued Operations* and Revised FRS 39 relating to amendments on macro-hedging.	Annual periods beginning on or after January 1, 2005 FRS 102 is effective for public companies for annual periods *beginning on or after* January 1, 2005 and for all other companies from January 1, 2006

Amendments To The Companies Act

Companies (Amendment) Act 2004

The Companies (Amendment) Act 2004 (CAA 2004) came into operation on April 1, 2004 except for Section 144, which is effective from October 1, 2004. The following is not a comprehensive summary of all the changes included in the Companies (Amendment) Act 2004 but only those with a financial reporting impact:

Section 144

- Requires the registration number of a company to appear in a legible form on all business letters, statements of account, invoices, official notices and publications of or purporting to be issued or signed by or on behalf of the company. Also dispenses with the need for a company to display its name outside its office.
  ACRA has issued Practice Direction 1 and an Addendum to it, which specifies that bills of exchange, promissory notes, endorsements, cheques, orders, receipts and letters of credit issued by or purporting to be issued or signed by or on behalf of the company only need to have the company's registered name appearing on them.

Section 157

- Provides that directors are accorded protection for reasonable reliance on information and advice from professionals and experts, provided that in so doing, the director acts in good faith, makes proper inquiry if the circumstances warrant, and has no knowledge that his reliance on such information or advice is unwarranted.

Section 201

- Provides that a company need not prepare consolidated financial statements if it is not required to do so under the Accounting Standards. Therefore, a waiver is no longer required for wholly- owned subsidiaries of foreign holding companies.

- Clarifies the financial statements of a company that are subject to audit requirements: the balance sheet and profit and loss statement if only the company accounts are presented and the balance sheet if group accounts are also presented. FRSs still require a full set of accounts to be presented.

Section 201A

- Repeals the requirement that the consolidated accounts are not to be issued until the audited accounts of all the subsidiaries are received.

Section 204

- Provides enhanced penalties for noncompliance with section 201(1A), (3), (3A) and (15) related to the financial statements being in accordance with the Accounting Standards, giving a true and fair view, being timely, and having been accompanied by a statement signed by two directors, as compared to non-compliance with other sections in the same Division. The penalty for these sections is now a fine not exceeding $50,000. Furthermore, if the offence is committed for a fraudulent purpose, the offender is liable to a fine not exceeding $100,000 or imprisonment not exceeding three years or both.

- For other sections within the Division, a director will remain liable to a fine not exceeding $10,000 or imprisonment not exceeding two years, but if the offence is committed for a fraudulent purpose, the offender is liable to a fine not exceeding $15,000 or imprisonment not exceeding three years or both.

Section 387A and 387B

- Introduces two new sections that permit the electronic distribution of statutory reports, notices of meetings and other documents to members, officers or auditors of the company under certain specified conditions. On such condition is that the member, officer or auditor must have agreed to the method of electronic transmission.

Companies (Amendment) Regulations 2004

Section 205C

- Changes the audit exemption threshold for private exempt companies from "below S$2.5 million in revenue" to "below S$5 million in revenue" in respect of financial years beginning on or after June 1, 2004. The earlier threshold of S$2.5 million was effective for financial years beginning on or after May 15, 2003.

Section 206

- Amended to require a public company to undertake a review of its auditor's fees, expenses and emoluments when non-audit fees are 50% or more of the audit fees and to make the outcome known to persons entitled to receive notice of general meetings. All companies are already subject to this provision if the holders of 5% or more of the issued share capital file request.

Draft Companies (Amendment No. 2) Bill 2004

Section 62A and 62B would be inserted and Section 67 to 69F would be abolished

- Par value or nominal value will be abolished. Immediately after the appointed date, any amount standing to the credit of a company's share premium account and capital redemption reserve becomes part of the company's share capital.

Section 76 would be amended

- Financial assistance to persons for the purpose of acquiring shares or units of shares in the company or its holding company would be allowed in the following circumstances:
  (a) Where less than 10% of the total paid-up capital or the reserves of the company or the holding company is involved;
  (b) Where it is approved by an unanimous resolution of all the directors;
  (c) The resolution sets out in full the grounds for the director's conclusion;
  (d) Where all the directors make a solvency statement in relation to the giving of the financial assistance;
  (e) A notice with the necessary information is being sent to each member within 10 business days of providing the financial assistance; and
  (f) A copy of the above notice and a copy of the solvency statement referred to above are sent to the Registrar not later that the next business day of sending the notice to members.

Section 76F would be amended

- Share buy-backs can only be made out of the company's capital or profits if the company is solvent.

Section 76H, I and J would be inserted

- Repurchased ordinary shares may be held as treasury shares, up to 10% of issued shares per class. The voting and other rights of the repurchased ordinary shares would be suspended as long as they are held in treasury. Companies should be permitted to use treasury shares to meet their obligations under employee share option schemes, transfer to third parties to fund acquisitions or to raise cash. The purchase, cancellation, sale or reissuance has no P&L impact under the accounting standards.

Section 78A-K would be inserted

- A private company may now reduce its share capital upon approval of shareholders' special resolution and declaration of solvency.
- For public companies, the alternative capital reduction process would require a declaration of solvency by the directors and publicity (notice within eight days beginning with the resolution date in one English and one Chinese newspaper circulating generally in Singapore and a notice of reduction to each of its creditors to whom is owed a sum that is above the prescribed sum and for whom it has a current address) requirements. The solvency statement or a copy of it must be available for inspection by the shareholders throughout the meeting at which the resolution is to be passed and available at the company's registered office for inspection free of charge by any creditor of the company throughout the six weeks beginning with the resolution date. The resolution is susceptible to creditor challenge in court during the six weeks beginning with the resolution date.

Section 215 would be amended

- Section 215 of the Companies Act to be amended to exclude any treasury shares for the purpose of computing the 90% of the total number of those shares acceptance threshold for arrangements, reconstructions and amalgamations.
- Inclusion of new section on amalgamations. It lists out the proposal requirements, the manner of approving such a proposal, the registration and notice of amalgamation.

List Of FRS And INT FRS Effective For 2004

All FRS are effective for financial statements covering periods beginning on or after January 1, 2003 except for the following: FRS 101, which is effective for financial statements covering periods beginning on or after January 1, 2004 and FRS 103 and the revised FRS 36 and FRS 38, which are effective for the accounting of business combinations for annual periods beginning on or after July 1, 2004. All INT FRS come into operation on February 1, 2003 except for INT FRS 101, which is effective for annual periods beginning on or after September 1, 2004.

FRS/ INT FRS	Title	Comments
Preface	Preface to FRS Preface to INT FRS	
Framework	Framework for the Preparation and Presentation of Financial Statements	
FRS 1 INT FRS 8 INT FRS 18 INT FRS 29	*Presentation of Financial Statements* *First-time Application of FRS as the Primary Basis of Accounting* *Consistency – Alternative Methods* *Disclosure – Service Concession Arrangements*	
FRS 2 INT FRS 1	*Inventories* *Consistency – Different Cost Formulas for Inventories*	
FRS 7	*Cash Flow Statements*	
FRS 8	*Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies*	
FRS 10	*Events after the Balance Sheet Date*	
FRS 11	*Construction Contracts*	
FRS 12 INT FRS 21 INT FRS 25	*Income Taxes* *Income Taxes – Recovery of Revalued Non-depreciable Assets* *Income Taxes – Changes in the Tax Status of an Enterprise of its Shareholders*	
FRS 14	*Segment Reporting*	
FRS 15	*Information Reflecting the Effects of Changing Prices*	
FRS 16 INT FRS 14 INT FRS 23 INT FRS 101	*Property, Plant and Equipment* *Property, Plant and Equipment – Compensation for the Impairment or Loss of Items* *Property, Plant and Equipment – Major Inspection or Overhaul Costs* *Changes in Existing Decommissioning, Restoration and Similar Liabilities*	
FRS 17 INT FRS 15 INT FRS 27	*Leases* *Operating Leases – Incentives* *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*	

FRS/ INT FRS	Title	Comments
FRS 18 INT FRS 31	*Revenue* *Revenue – Barter Transactions Involving Advertising Services*	
FRS 19	*Employee Benefits*	
FRS 20 INT FRS 10	*Accounting for Government Grants and Disclosure of Government Assistance* *Government Assistance – No Specific Relation to Operating Activities*	
FRS 21 INT FRS 7 INT FRS 11 INT FRS 19 INT FRS 30	*The Effects of Changes in Foreign Exchange Rates* *Introduction of the Euro* *Foreign Exchange – Capitalisation of Losses Resulting from Severe Currency Devaluations* *Reporting Currency – Measurement and Presentation of Financial Statements under FRS 21 and FRS 29* *Reporting Currency – Translation from Measurement Currency to Presentation Currency*	
FRS 22 INT FRS 9 INT FRS 22 INT FRS 28	*Business Combinations* *Business Combinations – Classification either as Acquisitions or Uniting of Interests* *Business Combinations – Subsequent Adjustment of Fair Values and Goodwill Initially Reported* *Business Combinations – "Date of Exchange" and Fair Value of Equity Instrument (FRS 22)*	These FRS and INT FRS are to be used for the accounting for business combinations for annual periods beginning on or after January 1, 2003. For business combinations beginning on or after July 1, 2004, FRS 103 should be used.
FRS 23 INT FRS 2	*Borrowing Costs* *Consistency – Capitalisation of Borrowing Costs*	
FRS 24	*Related Party Disclosures*	
FRS 25	*Accounting for Investments*	
FRS 26	*Accounting and Reporting by Retirement Benefit Plans*	
FRS 27 INT FRS 12 INT FRS 33	*Consolidated Financial Statements and Accounting for Investments in Subsidiaries* *Consolidation – Special Purpose Entities* *Consolidation and Equity Method – Potential Voting Rights and Allocation of Ownership Interests*	
FRS 28 INT FRS 3 INT FRS 20	*Accounting for Investments in Associates* *Elimination of Unrealised Profits and Losses on Transactions with Associates* *Equity Accounting Method – Recognition of Losses*	

FRS/ INT FRS	Title	Comments
INT FRS 33	*Consolidation and Equity Method – Potential Voting Rights and Allocation of Ownership Interests*	
FRS 29	*Financial Reporting in Hyperinflationary Economies*	
FRS 31 INT FRS 13	*Financial Reporting of Interests in Joint Ventures* *Jointly Controlled Entities – Non-monetary Contributions by Venturers*	
FRS 32 INT FRS 5 INT FRS 16 INT FRS 17	*Financial Instruments: Disclosure and Presentation* *Classification of Financial Instruments – Contingent Settlement Provisions* *Share Capital – Reacquired Own Equity Instruments (Treasury Shares)* *Equity – Costs of Equity Transaction*	
FRS 33 INT FRS 24	*Earnings Per Share* *Earnings Per Share – Financial Instruments and Other Contracts that May Be Settled in Shares*	
FRS 34	*Interim Financial Reporting*	
FRS 35	*Discontinuing Operations*	
FRS 36 FRS 36	*Impairment of Assets* *Impairment of Assets (Revised)*	The revised FRS 36 should only be used for the accounting for business combinations for annual periods beginning on or after July 1, 2004.
FRS 37	*Provisions, Contingent Liabilities and Contingent Assets*	
FRS 38 FRS 38 INT FRS 6 INT FRS 32	*Intangible Assets* *Intangible Assets (Revised)* *Costs of Modifying Existing Software* *Intangible Assets – Web Site Costs*	The revised FRS 36 should only be used for the accounting for business combinations for annual periods beginning on or after July 1, 2004.
FRS 41	*Agriculture*	
FRS 101	*First-time Adoption of International Financial Reporting Standards*	For financial statements covering periods beginning on or after January 1, 2004.
FRS 103	*Business Combinations*	This standard is to be used with FRS 36 and FRS 38 for the accounting for business combinations for annual periods beginning on or after July 1, 2004.

List Of FRS And INT FRS Effective For 2005

The revised FRSs and consequential amendments to the existing FRSs and INT FRS are effective for annual periods beginning on or after January 1, 2005 except for the following: FRS 101, which is effective for financial statement covering periods beginning on or after January 1, 2004; FRS 102, which is effective for public companies for annual periods beginning on or after January 1, 2005 and for all other companies from January 1, 2006; FRS 103 and the revised FRS 36 and FRS 38, which are effective for annual periods beginning on or after July 1, 2004; and INT FRS 101, which is effective for annual periods beginning on or after September 1, 2004.

FRS/ INT FRS	Title	Supersedes	Transitional Provisions
Preface	Preface to FRS Preface to INT FRS		
Framework	Framework for the Preparation and Presentation of Financial Statements		
FRS 1 INT FRS 29	*Presentation of Financial Statements (Revised)* *Disclosure – Service Concession Arrangements*		
FRS 2	*Inventories (Revised)*	INT FRS 1	
FRS 7	*Cash Flow Statements*		
FRS 8	*Accounting Policies, Changes in Accounting Estimates and Errors (Revised)*	INT FRS 2, 18	
FRS 10	*Events after the Balance Sheet Date (Revised)*		
FRS 11	*Construction Contracts*		
FRS 12 INT FRS 21 INT FRS 25	*Income Taxes* *Income Taxes – Recovery of Revalued Non-depreciable Assets* *Income Taxes – Changes in the Tax Status of an Enterprise of its Shareholders*		
FRS 14	*Segment Reporting*		
FRS 16 INT FRS 101	*Property, Plant and Equipment (Revised)* *Changes in Existing Decommissioning, Restoration and Similar Liabilities*	INT FRS 6, 14, 23	Note 1
FRS 17 INT FRS 15 INT FRS 27	*Leases (Revised)* *Operating Leases – Incentives* *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*		Note 2
FRS 18 INT FRS 31	*Revenue* *Revenue – Barter Transactions Involving Advertising Services*		
FRS 19	*Employee Benefits*		
FRS 20 INT FRS 10	*Accounting for Government Grants and Disclosure of Government Assistance* *Government Assistance – No Specific Relation to Operating Activities*		

FRS/ INT FRS	Title	Supersedes	Transitional Provisions
FRS 21 INT FRS 7	*The Effects of Changes in Foreign Exchange Rates (Revised)* *Introduction of the Euro*	INT FRS 11, 19, 30	Note 3
FRS 23	*Borrowing Costs*		
FRS 24	*Related Party Disclosures (Revised)*		
FRS 25	*Accounting for Investments*		
FRS 26	*Accounting and Reporting by Retirement Benefit Plans*		
FRS 27 INT FRS 12	*Consolidated and Separate Financial Statements (Revised)* *Consolidation – Special Purpose Entities*	INT FRS 33	
FRS 28	*Accounting for Investments in Associates (Revised)*	INT FRS 3, 20, 33	
FRS 29	*Financial Reporting in Hyperinflationary Economies*		
FRS 31 INT FRS 13	*Financial Reporting of Interests in Joint Ventures (Revised)* *Jointly Controlled Entities – Non-monetary Contributions by Venturers*		
FRS 32	*Financial Instruments: Disclosure and Presentation (Revised)*		
FRS 33	*Earnings Per Share (Revised)*	INT FRS 24	
FRS 34	*Interim Financial Reporting*		
FRS 36	*Impairment of Assets (Revised)*		
FRS 37	*Provisions, Contingent Liabilities and Contingent Assets*		
FRS 38 INT FRS 32	*Intangible Assets (Revised)* *Intangible Assets – Web Site Costs*		
FRS 39	*Financial Instruments: Recognition and Measurement (Revised)*		
FRS 41	*Agriculture*		
FRS 101	*First-time Adoption of International Financial Reporting Standards*	INT FRS 8	
FRS 102	*Share-based Payment*		
FRS 103	*Business Combinations*	FRS 22 INT FRS 9, 22, 28	Note 4
FRS 104	*Insurance Contracts*		
FRS 105	*Non-current Assets Held for Sale and Discontinued Operations*	FRS 35	

Transitional Provisions For FRS And INT FRS

The adoption of FRS and INT FRS may result in some accounting polices being changed. For example, treatment of goodwill previously taken to equity, changing functional currency or the recognition of financial instruments. Companies will be required to account for such an adoption based on the specific transitional provisions available in the FRS or INT FRS or if there are no applicable transitional provisions, in accordance with FRS 8 *Accounting Policies, Changes in Estimates and Errors*.

Specific Transitional Provisions

Note 1

- FRS 16 paragraphs 24-26 requires the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transactions to be applied prospectively only to future transactions.

Note 2

- FRS 17 states that an entity that has previously applied FRS 17 (revised 2000) shall apply the amendments made by this Standard retrospectively for all leases or, if FRS 17 was not applied retrospectively, for all leases entered into since it first applied that Standard.

  Subject to the abovementioned, retrospective application of this Standard is encouraged but not required. If the Standard is not applied retrospectively, the balance of any pre-existing finance lease is deemed to have been properly determined by the lessor and shall be accounted for thereafter in accordance with the provisions of this Standard.

Note 3

- Any goodwill arising on the acquisitions of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation after the beginning of the financial reporting period in which this Standards is first applied shall be prospectively treated as assets and liabilities of the foreign operations. Thus, they shall be expressed in the functional currency of the foreign operation and shall be translated at the closing rate in accordance to the Standard. Retrospective application is permitted.

  For an acquisition of a foreign operation treated prospectively but which occurred before the date on which this Standard is first applied, the entity shall not restate prior years and accordingly may, when appropriate, treat goodwill and fair value adjustments arising on that acquisition as assets and liabilities of the entity rather than as assets and liabilities of the foreign operation. Therefore, those goodwill and fair value adjustments either are already expressed in the entity's functional currency or are non-monetary foreign currency items, which are reported using the exchange rate at the date of the acquisition.

  All other changes resulting from the application of this standard shall be accounted for in accordance with the requirements of FRS 8.

Note 4

- FRS 103 shall also apply to the accounting for (a) goodwill arising from a business combination for annual periods beginning on or after July 1, 2004 or any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination for annual periods beginning on or after July 1, 2004.

Change in accounting policy

A change in accounting policy, which is made on the adoption of a FRS or INT FRS, should be accounted for in accordance with the specific transitional provisions, if any, in that FRS or INT FRS. In the absence of any transitional provisions, the change in accounting policy should be applied as follows:

- **Benchmark treatment -** retrospectively unless the amount of any resulting adjustment that relates to prior periods is not reasonably determinable. Any resulting adjustment should be reported as an adjustment to the opening balance of retained earnings. Comparative information should be restated unless it is impracticable to do so.

- **Allowed alternative treatment** - retrospectively unless the amount resulting to prior periods is not reasonably determinable. Any resulting adjustment should be included in the determination of the net profit or loss for the current period. Comparative information should be presented as reported in the financial statements of the prior period. This option will be removed with the adoption of the revised FRS 8 effective for annual periods beginning on or after January 1, 2005. As a result, comparative information for prior periods is presented as if new accounting policy had always been applied and prior period errors had never occurred.

For both the benchmark treatment and the allowed alternative treatment, the change in accounting policy should be applied **prospectively** when the amount of the adjustment to the opening balance of retained earnings required cannot be reasonably determined.

When a change in accounting policy has a material effect on the current period or any prior period presented, or may have a material effect in subsequent periods, an entity should disclose the following:

a. the reasons for the change;
b. the amount of the adjustment recognised in net profit or loss in the current period;
c. the amount of the adjustment included in each period for which pro-forma information is presented and the amount of the adjustment relating to prior periods or those included in the financial statements. If it is impracticable to present pro forma information, this fact should be disclosed.

Summary Of Improvements To Financial Reporting Standards

The CCDG announced in April 8, 2004, the adoption of the International Accounting Standards Improvement Project as at December 2003 as Financial Reporting Standards with some refinements. The only exception is that the improved IAS 40 on Investment Property has yet to be adopted in Singapore. The CCDG will be considering whether to adopt this standard at a later date. These revised standards and the consequential amendments to the existing FRSs and INT FRSs are effective for annual periods beginning on or after January 1, 2005.

The key changes arising from the adoption of the Improvements Projects are summarised below:

FRS 1, *Presentation of Financial Statements*

- The liquidity presentation of assets and liabilities is only permitted if it provides information that is more reliable and relevant than a current/non-current presentation.
- Specifies that a financial liability that is due within twelve months after the balance sheet date must be classified as a current liability even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the balance sheet date and before the financial statements are authorised for issue.
- States that a long-term financial liability that is payable on demand because the entity breached a condition of its loan agreement must be classified as current at the balance sheet date even if, after the balance sheet date, and before the financial statements are authorised for issue, the lender has agreed not to demand payment as a consequence of the breach.
- Requires disclosure of judgments made by management in applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements are required.
- Requires disclosure of key assumptions concerning the future that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are required. Many of these assumptions are already required by the standards on impairment, financial instrument, employee benefits, and under the new standard on share-based payments.
- Removes the requirement to disclose the number of employees of an entity.
- Prohibits the presentation of income and expense items as "extraordinary".
- Requires separate disclosure of amounts attributable to equity holders of the parent and to minority interest on the face of the profit and loss statement and on the face of the statement of changes in equity.

FRS 2, *Inventories*

- Clarifies that the scope exemption for producers of agricultural and forest products, agricultural produce after harvest and minerals and mineral products is not limited to the early stages of extraction of mineral ores. The measurement of these inventories are outside the scope of this standard to the extent that they are measured at net realisable value in accordance with well-established industry practices.
- Clarifies that the measurement of inventories of commodity broker-traders is outside the scope of this standard to the extent that they are measured at fair value less costs to sell.
- For inventories purchased with deferred settlement terms, the difference between the purchase price for normal credit terms and the amount paid is recognised as interest expense over the period of financing.
- Provides that the amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, must be recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.
- New disclosure required for the amount of any write-downs of inventories recognised as an expense in the period.

FRS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*

- Revised the previous hierarchy of guidance to which management refers and whose applicability it considers when selecting accounting policies in the absence of Standards and Interpretations that specifically apply. The revised hierarchy to be applied is as follows in descending order:
  (i) the requirements and guidance in Standards and Interpretations dealing with similar and related issues;

(ii) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Framework; and
(iii) most recent pronouncements of other standard-setting bodies that use a similar conceptual framework.

- FRS 8 eliminates the concept of a fundamental error. All error corrections are now treated the same with restatement of prior period financial statements. Previously, only fundamental errors were adjusted to prior periods.
- Removes the allowed alternative treatment to include in profit or loss for the current period, the cumulative effect of a voluntary change in accounting policy or correction of a prior period error. As a result, comparative information for prior periods is presented as if new accounting policy had always been applied and prior period errors had never occurred.
- Retains the "impracticability" criterion for exemption from changing comparative information when changes in accounting policies are applied retrospectively and prior period errors are corrected. FRS 8 now includes a definition of "impracticable" and guidance on its interpretation.
- Disclosure is now required, rather than just encouraged, of the effect of the adoption of a new standard issued but not yet effective. In addition, disclosure is required of known or reasonably estimable information relevant to assessing the possible impact that application of the new FRS or INT FRS will have on the entity's financial statements in the period of initial application.

FRS 10, *Events after the Balance Sheet Date*

- Clarifies that if an entity declares dividends to holders of equity instruments after the balance sheet date, it should not recognise those dividends as a liability at the balance sheet date. But such dividends are to be disclosed in the notes to the financial statements in accordance with FRS 1. This is different from the current practice where companies have the options to either record on the face of the balance sheet as a separate component of equity (dividend reserve) or disclose in the notes to the financial statements.

FRS 15, *Information Reflecting the Effects of Changing Prices*

- This Standard has been withdrawn.

FRS 16, *Property, Plant and Equipment* (with refinement)

- States that measurement at initial recognition includes the costs of the asset's dismantlement, removal or restoration, the obligation for which an entity incurs as a consequence of installing the item. For example, costs involved in demolishing a building. The previous FRS 16 included within its scope only such costs incurred as a consequence of installing the item.
- Provides that an asset acquired in an exchange transaction should be valued at fair value unless the exchange transaction lacks commercial substance. Under the previous FRS 16, the acquired asset was measured at the carrying amount of the asset given up if the assets were "similar".
- Requires an entity to determine the depreciation charge separately for each significant part of an item of property plant and equipment. For example, the engines of a ship or aircraft would be depreciated as separate assets from the main body of the vessel or aircraft. An entity is also required to derecognise the carrying amount of a part of an item of property, plant and equipment if that part has been replaced and the entity has included the cost of the replacement in the carrying amount of the item. This was unclear in the previous FRS 16.
- Property, plant and equipment is required to be depreciated when it is available for use and should continue to be depreciated until it is derecognised, even if it is idle. Depreciation is recognised as long as the asset's residual value does not exceed its carrying amount. The residual value of an item should be measured as the amount the entity estimates it would receive currently if the asset were already of the age and in the condition expected at the end of its useful life. Effects of inflation should be excluded.
- Requires an entity to derecognise the carrying amount of an item of property, plant and equipment that it disposes of on the date the criteria for the sale of goods in FRS 18, *Revenue* would be met. Gains on disposal of property, plant, and equipment should be included in profit or loss when the item is derecognised, but should not be classified as revenue.
- Refinement: To include a 'grandfathering' clause for one-off revaluations. Revaluations before January 1, 1984 or between January 1, 1984 and December 31, 1996 (both dates inclusive) do not need to revalue its assets in accordance with paragraph 31 (revaluation model) of this Standard.

FRS 17, *Leases* (with refinement)

- States that an entity should normally consider the land and building elements separately when classifying a lease. The minimum lease payments are allocated between the land and buildings elements in proportion to the relative fair values of the leasehold interests.
- It also distinguishes between the inception of the lease, which is when leases are classified, and at the commencement of the lease term, which is when, recognition takes place. For example, if a ship is built under a lease, it is classified when the agreement is signed, but is recognised at its fair value when delivered for use.
- Requires lessors to include initial direct costs incurred in negotiating a lease in the initial measurement of finance lease receivables. They are therefore spread over the lease term on the same basis as the lease income. The option in the previous FRS 17 for such costs to be charged as an expense as incurred has been removed. This treatment does not apply to manufacturer or dealer lessors where such cost recognition is as an expense when the selling profit is recognised. Any initial direct costs of the lessee in a finance lease are added to the amount recognised as an asset.
- Refinement: To retain the current departure for leasehold land by removing the text in paragraph 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".

FRS 21, *The Effects of Changes in Foreign Exchange Rates*

- Supersedes INT FRS 19, Reporting Currency – Measurement and Presentation of Financial Statements under FRS 21 and FRS 29.
- Replaces the notion "reporting currency" with two notions: Functional Currency (currency of the primary economic environment in which the entity operates and is determined based on an assessment of facts and circumstances) and Presentation Currency (the currency in which the entity presents its financial statements). Each entity must determine its functional currency, and the results and financial position should be measured in the functional currency of the entity. The group would determine their functional currency and that would be their presentation currency.
- An entity must consider the following factors in determining its functional currency:
  - (i) the currency that mainly influences sales prices for goods and services (this will often be the currency in which sales prices for its goods and services are denominated and settled);
  - (ii) the currency of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services;
  - (iii) the currency that mainly influences labour, material and other costs of providing goods or services (this will often be the currency in which such costs are denominated and settled);
  - (iv) the currency in which funds from financing activities are generated.
  - (v) the currency in which receipts from operating activities are usually retained.
  - (vi) whether the activities of the foreign operation are carried out as an extension of the reporting entity (for example, a sales office), rather than being carried out with a significant degree of autonomy, such as a subsidiary that accumulates cash and other monetary items, incurs expenses, generates income and arranges borrowings, all substantially in its local currency.
  - (vii) whether transactions with the reporting entity are a high or a low proportion of the foreign operation's activities.
  - (viii) whether cash flows from the activities of the foreign operation directly affect the cash flows of the reporting entity and are readily available for remittance to it.
  - (ix) whether cash flows from the activities of the foreign operation are sufficient to service existing and normally expected debt obligations without funds being made available by the reporting entity.

  When the above indicators are mixed and the functional currency is not obvious, management uses its judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. As part of this approach, management gives priority to the first three indicators before considering the other indicators, which are designed to provide additional supporting evidence to determine an entity's functional currency.
- Revises the method of translating an entity's financial statements from its functional currency to its presentation currency by requiring the use of the closing rate for all assets and liabilities and the actual

or average rate for all items of income and expense. Treatment for equity items is no longer prescribed, but practice is to apply historical rates to balances such as share capital, share premium, revaluation reserves and retained earnings, and closing rates to balances such as minority interests.

- States that exchange differences arising on monetary items treated as part of a reporting entity's net investment in a foreign operation are recognised in the profit and loss statement at the company and investee level, but are recognised in equity at the group level until disposal, at which time they are taken to profit or loss. Adjustments as a result of this change must be done retrospectively through retained earnings.
- Goodwill and fair value adjustments are considered to be part of the foreign operation they relate to and are carried in foreign operation's functional currency and translated using the closing rate.
- Requires a change in functional currency to be applied prospectively and once determined, the functional currency may only be changed if there is a change in circumstances.

FRS 24, *Related Party Disclosures*

- Requires disclosure of the compensation of key management personnel.
- State-controlled entities that are profit-oriented are no longer exempted from disclosing transactions with other state-controlled entities.
- Expanding on the definition of "related party" by adding parties with joint control over the entity; joint ventures in which the entity is a venturer; and post-employment benefit plans for the benefit of employees of the entity, or of any entity that is a related party of that entity.
- Additional disclosure requirements: on the amounts of transactions and outstanding balances with respect to related parties (disclosure of proportions of transactions and outstanding balances is no longer sufficient); and the name of the entity's parent and, if different, the ultimate controlling party.

FRS 27, 28, 31, *Consolidated Financial Statements and Accounting for Investments in Subsidiaries, Associates and Joint Ventures* (with refinement)

- The revised standard stipulates, for clarification, that the requirement to consolidate investments in subsidiaries applies to venture capital organisations, mutual funds, unit trusts and similar entities. These are however scoped out of FRS 28 and FRS 31, which states that these investments which are classified as held for trading under FRS 39 must be accounted for at fair value through profit and loss.
- Extends the exemption from preparing consolidated financial statements to include a parent that is not wholly owned but receives approval from shareholders. Additional criteria for exemption are included to require that the parent's equity and debt securities are not publicly traded, or are not in the process of issuing equity or debt securities in the public securities market. The holding company need not produce consolidated financial statements that comply with FRS, which is a refinement from the IAS 27 equivalent.
- The standard clarifies that severe long-term restrictions on transfer of funds do not justify not consolidating a subsidiary or equity accounting an associate or proportionate consolidating a joint venture. Control, significant influence or joint control respectively must be lost for exclusion to incur.
- Specify that uniform accounting policies should be used for subsidiaries, associates and joint ventures. The previous "not practicable" exemption is removed.
- Requires minority interests to be presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity. The previous FRS 27 precluded presentation of such interests as liabilities but did not require presentation within equity.
- Clarification is provided that goodwill relating to an associate is included in the carrying amount of the investment.
- The difference between the reporting date of the investor and that of the associate must be no greater than three months. The Companies Act includes this requirement for subsidiaries, but not associates.

FRS 32, *Financial Instruments: Disclosure and Presentation*

- Revisions to require financial instruments such as debt and preference shares convertible into a fixed value of shares to be classified as liabilities and not equity even though they will be settled in shares. For example, debt that is convertible into shares based on the market price of the shares is a liability whereas debt convertible into a fixed number of shares is equity.
- "Split accounting" for compound financial instruments (i.e., instruments containing both debt and

equity) applies to issuer of compound financial instruments. The value of the equity component is the residual of the fair values of the whole instrument less that of the debt component. Holder of compound financial instruments will apply FRS 39 and the equity component will be considered an embedded derivative that is not closely related. Therefore, unless the instrument is classified as fair value through profit or loss, the embedded derivative will need to be separated and carried at fair value with movements to profit or loss unless it is designated as a hedging instrument for which the hedge accounting is applied.

- States that transaction costs of an equity transaction are accounted for as a deduction from equity, net of related income tax benefit to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided. This supersedes INT FRS 17 *Equity, Costs of an Equity Transaction*, which required recognition in profit or loss for certain costs and for certain issuances of shares, such as share splits.
- To qualify for presenting financial assets and liabilities on a net basis, an entity must currently have a legally enforceable right to set off the recognised amount and intends to settle on a net basis, or to realise the assets and settle the liability simultaneously.

FRS 33, *Earnings Per Share*

- Additional guidance and examples are provided on complex matters such as the effects of contingently issuable shares; potential ordinary shares of subsidiaries, joint ventures or associates; participating equity instruments; written put options; purchased put and call options; and mandatorily convertible instruments.
- States that dilutive potential ordinary shares shall be determined independently for each period presented. The number of dilutive potential ordinary shares included in the year-to-date period is not a weighted average of the dilutive potential ordinary shares included in each interim computation.
- New requirements for an entity to disclose in addition to basic and diluted EPS, amounts per share using a reported component of the profit and loss statement other than one required by the standard. For example, pro forma information excluding non-recurring items or discontinuing operations. Basic and diluted EPS relating to such a component should be disclosed with equal prominence and presented in the notes to the financial statements.

FRS 39, *Financial Instruments: Recognition and Measurement*

CCDG adopted the revised FRS 32 and FRS 39 in July 2004 with modified transitional provisions for those entities that have not previously adopted FRS 39. A second revision to FRS 39 on macro-hedging was made in September 2004 and supersedes FRS 39 issued in July 2004. The revised FRS 32 and FRS 39 will be effective for annual periods beginning on or after January 1, 2005. Earlier application of the revised standards together, but not individually, is permitted. First-time adoption of FRS 39 will be prospective except for those that have adopted FRS 39 prior to the revisions.

Classification of Financial Assets

FRS 39 requires financial assets to be classified as one of the following categories, which are used to determine how a particular financial asset is recognised and measured in the financial statements:

- **Financial assets at fair value through profit or loss**
  This category has two subcategories. The first category includes all derivatives not designated as hedging instruments and financial assets acquired or held for the purpose of selling in the short term or for which there is a recent pattern of short-term profit taking. Such financial instruments are considered "held-for-trading"). The second category includes any financial asset or financial liability that upon initial recognition are designated by the entity as one measured at fair value through profit or loss.

- **Held-to-maturity investments**

  These are non-derivative financial assets with fixed or determinable payments that an entity intends and is able to hold to maturity and that do not meet the definition of loans and receivables and are not designated on initial recognition as assets at fair value through profit or loss or as available-for-sale. Held-to-maturity investments are measured at amortised cost.

  If an entity sells a held-to-maturity investment other than in insignificant amounts or as a consequence of a non-recurring, isolated event beyond its control that could not be reasonably anticipated, all of its other held-to-maturity investments must be reclassified as available-for-sale for the current and next two financial reporting years.

- **Loans and receivables**

  These are non-derivative financial assets with fixed or determinable payments, originated or acquired, that are not quoted in an active market, not held for trading, and not designated on initial recognition as assets at fair value through profit or loss or as available-for-sale. Loans and receivables for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, should be classified as available-for-sale. Loans and receivables are measured at amortised cost.

- **Available-for-sale financial assets ("AFS")**

  These are any non-derivative financial assets designated on initial recognition as available-for-sale. AFS assets are measured at fair value in the balance sheet. Fair value changes on AFS assets are recognised directly in equity, through the statement of changes in equity, except for interest income on AFS debt assets (which is recognised in profit or loss on an effective yield basis), impairment losses, and foreign exchange gains or losses on monetary AFS financial assets. For non-monetary AFS items (for example, equity instruments), the foreign exchange gain or loss is recognised in equity together with other fair value changes. The cumulative gain or loss that was recognised in equity is recognised in profit or loss when an available-for-sale financial asset is derecognised. Impairment is taken first against any related amount in equity and then to profit or loss. Any subsequent reversal of impairment is taken to equity for equity instrument classified as AFS. Reversal of impairment is taken to profit or loss for an AFS debt instrument if the reversal is the result of an event occuring after the impairment loss.

Reclassifications

Under the revised FRS 39, no item may be reclassified between categories, except in the case of held-to-maturity assets that become tainted, they will be reclassified to available-for-sale until such time as the tainting period has passed and they will then be reclassified to held-to-maturity.

This creates a practical issue in that the circumstances existing upon initial classification may change with time, and the standard would require the asset to remain under a classification that is no longer relevant. For example, if an instrument initially designated as available-for-sale becomes part of a trading portfolio. Under such circumstances, it would appear that the instrument would need to be disposed of and repurchased in order to allow for the reclassification of the instrument into the appropriate category, which would be at fair value through profit or loss.

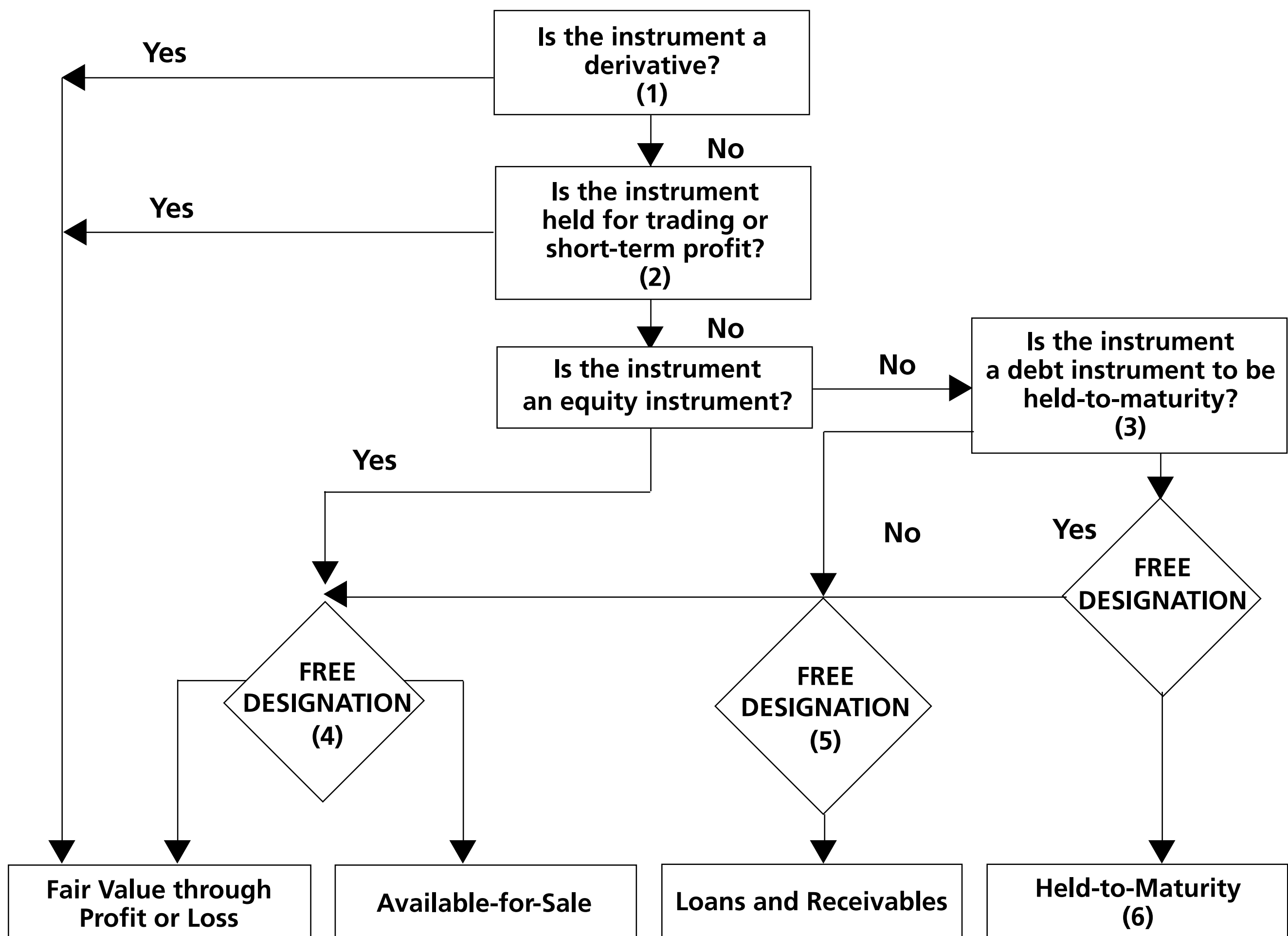
The table below summarises the measurement requirement for each category of financial asset:

Category	Description	Measurement	Changes in carrying amount	Impairment
Loans and receivables ("L&R")	Unquoted loan assets or receivables, whether originated or acquired, where there is no intent to sell the asset in the short term	Amortised cost	Profit or loss Note 1	Yes
Held-to-maturity ("HTM")	Debt instruments that do not meet the definition of loans and receivables that are to be held-to-maturity may be designated as HTM	Amortised cost	Profit or loss Note 1	Yes
Fair value through profit or loss ("FVPL") assets	All derivatives (except for those eligible for hedge accounting), all assets intended to be actively traded.	FV through profit or loss Note 2	Profit or loss	NA
Available-for-sale ("AFS")	Any asset not required to be FVPL may be designated AFS	FV to equity Note 2	Equity	Yes Note 3

Notes:

1. Changes in cummulative amortisation using effective interest method of any difference between initial amount and maturity amount and allowances for impairment/uncollectibility will flow to profit or loss.
2. Record at cost if fair value cannot be reliably measured. This exception is limited to unquoted equity instruments and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments.
3. Impairment is taken first against any related amount in equity and then to profit or loss. Any subsequent reversal of impairment is taken to equity for equity instrument classified as AFS. Reversal of impairment is taken to profit or loss for an AFS debt instrument if the reversal is the result of an event occurring after the impairment loss.

The flowchart below demonstrates the classification of a financial instrument:



Notes:

1. A derivative is defined as a financial instrument whose value changes in response to the change in a specific "underlying" that requires (i) no initial net investment or (ii) an initial net investment that is smaller that would be required for other types of contracts that would be expected to have the similar response to changes in market factors and that is settled at a future date. A derivative designated as a hedging instrument is subject to the hedge accounting requirements in FRS 39.
2. A financial instrument that is held for trading or for short-term profit is one which is acquired or incurred principally for the purpose of selling or repurchasing it in the near term, or is a part of a portfolio for which there is evidence of a recent actual pattern of short-term profit-taking or is a derivative.
3. HTM debt instruments are non-derivative financial assets with fixed or determinable payments held to a fixed maturity.
4. Unquoted equity instruments whose fair value cannot be reliably measured, and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, shall be measured at cost.
5. Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, shall be classified as AFS. The loans and receivables classification is only available for debt instruments which are not quoted in an active market.
6. An entity shall not classify any financial assets as held to maturity if the entity has, during the current financial year or during the two preceding financial years, sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity (more than insignificant in relation to the total amount of held-to-maturity investments) other than sales or reclassifications that:
   (i) are so close to maturity or the financial asset's call date (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
   (ii) occur after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or
   (iii) are attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.

Classification of Financial Liabilities

FRS 39 recognises two classes of financial liabilities:

- Financial liabilities at fair value through profit or loss which are either:
  - a financial liability classified as held for trading; or
  - a financial liability that is designated by the entity as a liability at fair value through profit or loss upon initial recognition.
- Other financial liabilities, which are measured at amortised cost using the effective interest method.

Transaction Costs

When a financial asset or financial liability is recognised initially, an entity measures it at fair value plus, in the case of a financial asset or financial liability not measured at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. FRS 39 provides a hierarchy to be used in determining the fair value for a financial instrument:

- Quoted market prices in an active market are the best evidence of fair value and should be used, where they exist, to measure the financial instrument.
- If a market for a financial instrument is not active, an entity establishes fair value by using a valuation technique that makes maximum use of market inputs and includes recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis, and option pricing models. An acceptable valuation technique incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments.
- If there is no active market for an equity instrument and the range of reasonable fair values is significant and these estimates cannot be made reliably, then an entity must measure the equity instrument at cost less impairment.

Amortised cost is calculated using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or liability.

Recognition and Derecognition

Initial recognition

FRS 39 requires recognition of a financial asset or a financial liability when, and only when, the entity becomes a party to the contractual provisions of the instrument, therefore most transactions are recorded as of the trade date. Regular way (those assets traded on an exchange) transactions are recognised and derecognised using either trade date or settlement date accounting. The method used is to be applied consistently by classification (note that for this purpose, assets held-for-trading form a different category from assets designated at fair value through profit or loss).

When a financial asset or financial liability is recogonised initially, an entity measures it at a fair value plus, in the case of a financial asset or financial liability not at fair value through profit and loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

For settlement date accounting, any change in fair value between trade date and settlement date is accounted for in accordance with the classification of the financial asset. Therefore, a change in value is not recognised for financial assets carried at cost or amortised cost; it is recognised in profit or loss for financial assets classified as fair value through profit or loss; and it is recognised in equity for financial assets classified as available-for-sale.

Derecognition of a financial asset

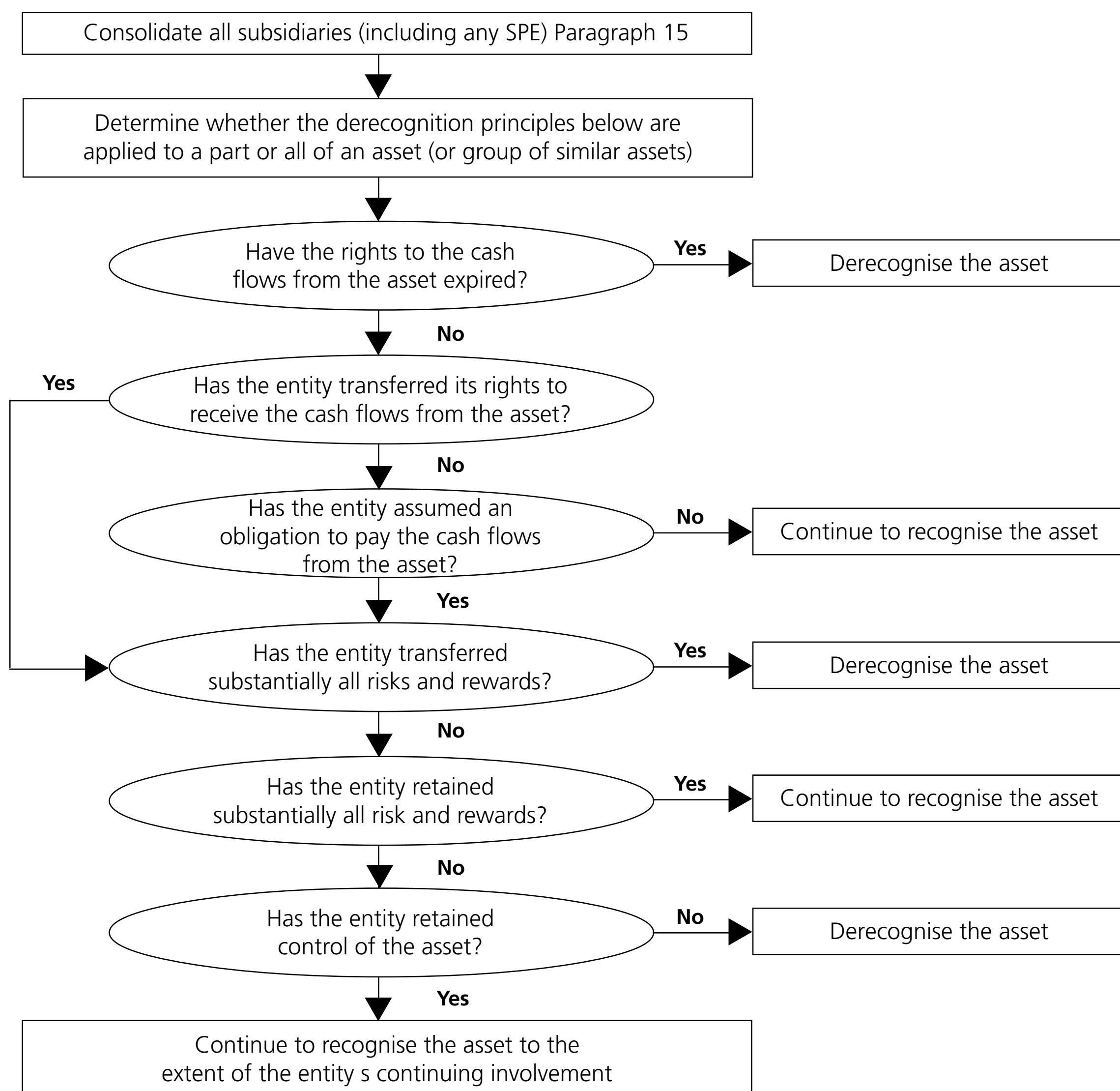
Under the existing FRS 39, several concepts govern when a financial asset should be derecognised. The revised standard clarifies that the evaluation of the transfer of risks and rewards of ownership precedes the evaluation of the transfer of control for all derecognition transactions.

The standard requires an entity to either transfer the contractual rights to receive the cash flows, or if they retain them, their involvement is limited to being that of a collection agent.

If an entity has transferred a financial asset, it assesses whether it has transferred substantially all of the risks and rewards of ownership. If an entity has retained substantially all of such risks and rewards, it continues to recognise the asset. If it has transferred substantially all of such risks and rewards, it derecognises the asset in full. What constitutes "substantially all" is unclear.

If an entity has neither transferred nor retained substantially all the risks and rewards of ownership of the transferred asset, it assesses whether it has retained control over the transferred asset. If it has retained control, the entity continues to recognise the transferred asset to the extent of its continuing involvement in the transferred asset. If it has not retained control, the entity derecognises the transferred asset.

The flowchart below summarises the requirements:



Derecognition of a financial liability

A financial liability should be removed from the balance sheet when, and only when, it is extinguished. That is when the obligation specified in the contract is either discharged, cancelled, or expired, not merely when it is transferred. For example, if a debt is transferred to a third party, but the transferor is still legally liable for payment in case of default, the liability should not be derecognised.

Where there has been an exchange between an existing borrower and lender of debt instruments with substantially different terms, or there has been a substantial modification of the terms of an existing financial liability, this transaction is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. A gain or loss from extinguishment of the original financial liability is recognised in the profit and loss statement.

Derivatives

FRS 39 defines a derivative as a financial instrument or other contract within the scope of the standard:

- whose value changes in response to an "underlying", such as a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable provided in the case of a non-financial variable that the variable is not specific to a party to the contract;
- that requires no initial investment, or one that is smaller than would be required for a contract with similar response to changes in market factors; and
- that is settled at a future date.

Derivatives are recognised at fair value on the balance sheet with changes in fair value recognised in the profit and loss statement unless the derivative is a hedging instrument in a cash flow or net investment hedge.

Common examples of derivatives include: foreign exchange forward and future contracts, commodity futures contracts held for trading or net settlement, equity options and warrants, indexed futures or options, interest rate and currency swaps, and interest rate caps and collars.

Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract, such that the cash flows associated with that feature behave in a similar fashion to a stand-alone derivative. In the same way that derivatives must be accounted for at fair value on the balance sheet with changes recognised in the profit and loss statement, so must some embedded derivatives. FRS 39 requires that an embedded derivative be separated from its host contract and accounted for as a derivative when:

- the economic risks and characteristics of the embedded derivative are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the entire instrument is not measured at fair value with changes in fair value recognised in the profit and loss statement.

If an embedded derivative is separated, the host contract is accounted for under the appropriate standard (for instance, under FRS 39 if the host is a financial instrument). Appendix A to FRS 39 provides examples of embedded derivatives that are closely related to their hosts, and of those that are not. Examples of some common embedded derivatives include:

Closely Related	Not Closely Related
• A dual currency bond where principal is paid in a foreign currency, whereas interest is paid in the entity's functional currency.	• Equity conversion option embedded in a convertible debt instrument being held (FRS 32 applies to issuer)
• An embedded interest rate cap or floor in a debt instrument provided the cap is at or above the market rate, and the floor is at or below the market rate (i.e. "out-of-the-money") when the instrument is issued and are not leveraged.	• Equity-indexed interest or principal payments embedded in a debt instrument, such as a fixed deposit

- An embedded derivative that is an interest rate or interest rate index that can change the amount of interest that would otherwise be paid or received on an interest-bearing host debt instrument
- A call, put, surrender or prepayment option embedded in a host debt instrument unless the option's exercise price is approximately equal to the debt instrument's amortised cost on each exercise date

Hedge Accounting

FRS 39 permits hedge accounting under certain circumstances provided that the hedging relationship is:

- formally designated and documented, including the entity's risk management objective and strategy for undertaking the hedge, identification of the hedging instrument, the hedged item, the nature of the risk being hedged, and how the entity will assess the hedging instrument's effectiveness; and
- expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk as designated and documented, and effectiveness can be reliably measured.

Hedging instruments

All derivative contracts with an external counterparty may be designated as hedging instruments except for some written options. An external non-derivative financial asset or liability may not be designated as a hedging instrument except as a hedge of foreign currency risk.

A proportion of the hedging instrument may be designated as the hedging instrument, but not part of the life of the derivative. Generally, specific cash flows inherent in a derivative cannot be designated in a hedge relationship while other cash flows are excluded. However, the intrinsic value and the time value of an option contract may be separated, with only the intrinsic value being designated. Similarly, the interest element and the spot price of a forward can also be separated, with the spot price being the designated risk.

Hedged items

A hedged item can be:

- a single recognised asset or liability, an unrecognised firm commitment, highly probable transaction, or a net investment in a foreign operation;
- a group of assets, liabilities, firm commitments, highly probable forecast transactions, or net investments in foreign operations with similar risk characteristics;
- a held-to-maturity investment for foreign currency or credit risk (but not for interest risk or prepayment risk);
- a portion of the cash flows or fair value of a financial asset or financial liability; or
- a non-financial item for foreign currency risk only or the risk of changes in fair value of the entire item.

A hedge of the foreign currency risk of a firm commitment may be accounted for as a fair value hedge or as a cash flow hedge.

Hedge Effectiveness

A hedge is regarded as highly effective if, at inception and, at a minimum, at each reporting date, the changes in the fair value or cash flows of the hedged item attributable to the hedged risk are expected to be almost fully offset by the changes in the fair value or cash flows of the hedging instrument and where actual results are within a range of 80% to 125%. All hedge ineffectiveness is recognised immediately in the profit and loss statement.

Categories of hedges

- **A fair value hedge** is a hedge of the exposure to changes in fair value of a recognised asset or liability or a previously unrecognised firm commitment to buy or sell an asset at a fixed price or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. The gain or loss from the change in fair value of the hedging instrument is recognised immediately in profit or loss. At the same time the carrying amount of the hedged item is adjusted for the corresponding gain or loss with respect to the hedged risk, which is also recognised immediately in net profit or loss.
- **A cash flow hedge** is a hedge of the exposure to variability in cash flows that (i) is attributable to a particular risk associated with a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction and (ii) could affect profit or loss.
  The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge

is recognised directly in equity and recycled to the profit and loss statement when the cash flow hedge transaction affects profit or loss.

If the hedged cash flows result in the recognition of a non-financial asset or liability, the entity can choose to adjust the basis of the asset or liability for the amount deferred in equity. This option has the status of an accounting policy and must be applied consistently to all such hedges.

- **A hedge of a net investment in a foreign operation** as defined in FRS 21 is accounted for as a cash flow hedge.

Interaction between FRS 39 and FRS 21

FRS 39 includes requirements about the measurement of financial assets and financial liabilities and the recognition of gains and losses on remeasurement in profit or loss. FRS 21 includes rules about the reporting of foreign currency items and the recognition of exchange differences in profit or loss. In what order are FRS 21 and FRS 39 applied?

Balance sheet

Generally, the measurement of a financial asset or financial liability at fair value, cost or amortised cost is first determined in the foreign currency in which the item is denominated in accordance with FRS 39. Then, the foreign currency amount is translated into the functional currency using the closing rate or a historical rate in accordance with FRS 21. For example, if a monetary financial asset (such as a debt instrument) is carried at amortised cost under FRS 39, amortised cost is calculated in the currency of denomination of that financial asset. Then, the foreign currency amount is recognised using the closing rate in the entity's financial statements. That applies regardless of whether a monetary item is measured at cost, amortised cost or fair value in the foreign currency.

A non-monetary financial asset (such as an investment in an equity instrument) is translated using the closing rate if it is carried at fair value in the foreign currency and at a historical rate if it is not carried at fair value under FRS 39 because its fair value cannot be reliably measured.

As an exception, if the non-monetary financial asset or financial liability is designated as a hedged item in a fair value hedge of the exposure to changes in foreign currency rates under FRS 39, the hedged item is remeasured for changes in foreign currency rates even if it would otherwise have been recognised using a historical rate under FRS 21, i.e., the foreign currency amount is recognised using the closing rate.

Profit and loss statement

The recognition of a change in the carrying amount of a financial asset or financial liability in profit or loss depends on a number of factors, including whether it is an exchange difference or other change in carrying amount, whether it arises on a monetary item (for example, most debt instruments) or non-monetary item (such as most equity investments), whether the associated asset or liability is designated as a cash flow hedge of an exposure to changes in foreign currency rates, and whether it results from translating the financial statements of a foreign operation.

Any exchange difference arising on recognising a monetary item at a rate different from that at which it was initially recognised during the period, or recognised in previous financial statements, is recognised in profit or loss in accordance with FRS 21, unless the monetary item is designated as a cash flow hedge of a highly probable forecast transaction in foreign currency, in which case the requirements for recognition of gains and losses on cash flow hedges in FRS 39 apply. Differences arising from recognising a monetary item at a foreign currency amount different from that at which it was previously recognised are accounted for in a similar manner, since all changes in the carrying amount relating to foreign currency movements should be treated consistently. All other changes in the balance sheet measurement of a monetary item are recognised in accordance with FRS 39. For example, although an entity recognises gains and losses on available-for-sale monetary financial assets in equity, the entity nevertheless recognises the changes in the carrying amount relating to changes in foreign exchange rates in profit or loss.

Any changes in the carrying amount of a non-monetary item are recognised in profit or loss or in equity in accordance with FRS 39. For example, for available-for-sale non-monetary financial assets the entire change in the carrying amount, including the effect of changes in foreign currency rates, is reported in equity. If the

non-monetary item is designated as a cash flow hedge of an unrecognised firm commitment or a highly probable forecast transaction in foreign currency, the requirements for recognition of gains and losses on cash flow hedges in FRS 39 apply.

When some portion of the change in carrying amount is recognised in equity and some portion is recognised in profit or loss, an entity cannot offset those two components for the purposes of determining gains or losses that should be recognised in profit or loss or in equity. For example, if the amortised cost of a foreign currency bond classified as available-for-sale has increased as a result of foreign exchange gain (resulting in a gain in profit or loss) but its fair value has decreased in the functional currency (resulting in a loss in equity), the entity cannot offset the foreign exchange gain recorded in profit or loss against the decrease in fair value recorded as a loss in equity.

Effective date

The revised FRS 32 and 39 must be applied for annual periods beginning on or after January 1, 2005. Earlier application is permitted only if the entity also early applies FRS 32 (revised). If the entity early adopts the two revised standards, that fact should be disclosed.

Transition provisions

If an entity has **already adopted the initial FRS 39,** retrospective application of the revised FRS 39 is required and comparatives are restated unless impracticable to do so. Retrospective application of derecognition rules is permitted only if the information to apply the revised rules were obtained at the time of initially accounting for the past transactions. Change in accounting treatment for gains or losses relating to cash flow hedges as a result of adopting the revised FRS 39 need only be applied prospectively from the beginning of the financial year in which the revised standard is adopted.

For **first-time adopters of FRS 39**, retrospective application is limited to derecognition rules where the information to apply the revised rules were obtained at the time of initially accounting for the past transactions. Previously unrecognised derivatives brought onto the balance sheet and cumulative adjustments to financial assets and liabilities as a result of adopting FRS 39 for the first time are adjusted one-off to the beginning retained earnings in the first year of adoption. Restatement of prior year's financial statements is not required. Retrospective designation of hedging relationship entered prior to the year of adoption is also not allowed. The designation and documentation of a hedge relationship must be completed on or before the date of transition to FRSs if the hedge relationship is to qualify for hedge accounting from that date.

Summary Of New Financial Reporting Standards Issued By CCDG In 2004

FRS 101, *First-time Adoption of FRS*

This standard was issued in 2003 and is effective for annual periods beginning on or after January 1, 2004. On December 5, 2003, the CCDG issued Practice Direction 2, indicating that for companies previously using Singapore Statements of Accounting Standards (SASs), the switch to Singapore Financial Reporting Standards does not represent a change in accounting standards and therefore is not a first-time adoption of the standards. As a result, this standard is not applicable to the vast majority of Singapore companies who reported under SAS.

FRS 101 states that a first-time adopter is an entity that, for the first time, makes an explicit and unreserved statement that its general-purpose financial statements comply with FRS. An entity can also be a first-time adopter if, in the preceding year, its published financial statements asserted:

- In the preceding year, prepared FRS financial statements for internal management use, as long as those FRS financial statements were not given to owners or external parties such as investors or creditors.
- Compliance with some but not all FRS.
- Included a reconciliation of selected figures from previous GAAP to FRS. (Previous GAAP means the GAAP that an entity followed immediately before adopting to FRS.)

However, an entity is not a first-time adopter if, in the preceding year, its published financial statements asserted:

- Compliance with FRS but the auditor's report contained a qualification with respect to conformity with FRS.
- Compliance with both previous GAAP and FRS.

FRS 102, *Share-based Payment*

The CCDG has adopted FRS 102 *Share-based Payment*, which is based upon IFRS 2 issued by the IASB in February 2004. FRS 102 is effective for annual periods beginning on or after January 1, 2005 for public companies and January 1, 2006 for private companies.

The concept of share-based payment is broader than employee share options. A share-based payment is a transaction in which the entity receives or acquires goods or services either as consideration for its equity instruments or by incurring liabilities for amounts based on the price of the entity's shares or other equity instruments of the entity.

FRS 102 does not apply to share-based payment transactions other than for the acquisition of goods and services. Share dividends, the purchase of treasury shares, and the issuance of additional shares are therefore outside its scope. Examples of instruments within the scope of FRS 102 include share appreciation rights, employee share purchase plans, employee share ownership plans, share option plans, and plans where the issuance of shares (or rights to shares) may depend on market or non-market related conditions.

There are two exceptions to this general rule. First, the issuance of shares in a business combination should be accounted for under the standard on Business Combinations. Second, FRS 102 does not address share-based payments for commodity-based contracts that may be settled in shares or rights to shares if the purpose of the receipt or delivery of the commodity is not for the entity's expected purchase, sale or usage requirements. In other words, FRS 102 does not apply to financial instruments that may be settled in share-based instruments if they are not used to obtain goods or services, but are held as investments.

FRS 102 applies to all entities, not just public entities, and includes subsidiaries using their parent's or fellow subsidiary's equity instruments as consideration for goods or services. It also applies to awards of shares by shareholders to employees or non-employees in consideration for goods and services.

Initial and Subsequent Measurement

The initial and subsequent measurement of the share-based payment is dependent upon the settlement terms of the transaction.

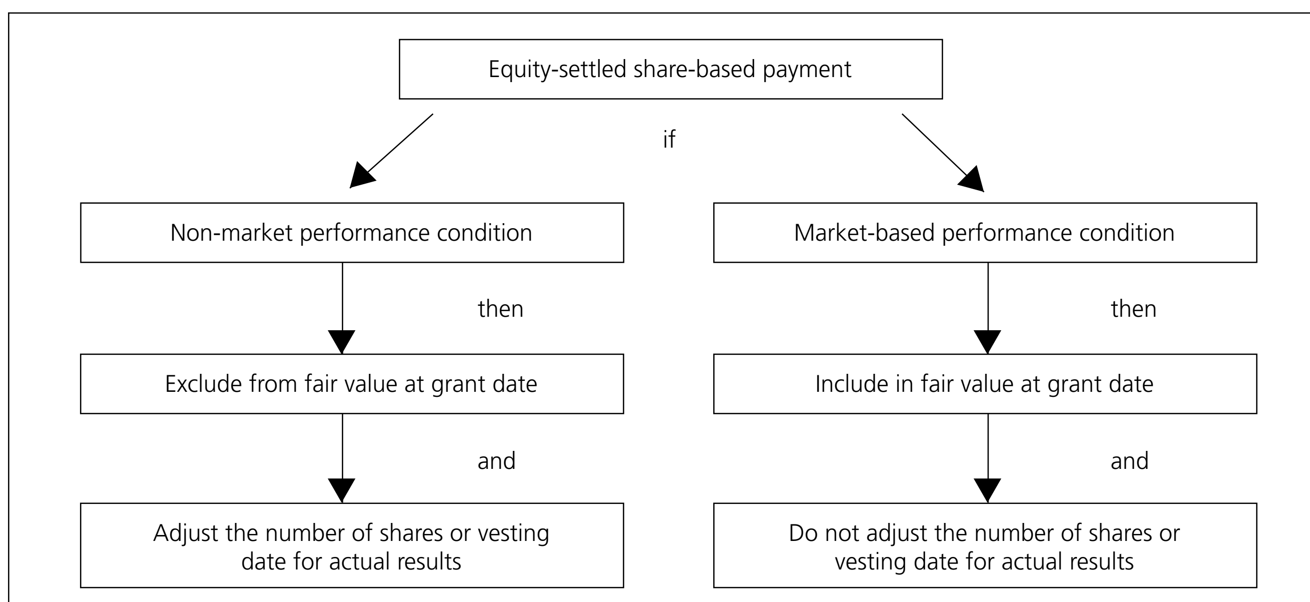
1. **Equity-settled transactions,** in which the entity receives goods or services as consideration for equity instruments (or rights to equity instruments) of the entity (including shares or share options).
2. **Cash-settled transactions,** in which the entity acquires goods or services by incurring liabilities to the supplier of those goods or services for amounts that are based on the price (or value) of the entity's shares or other equity instruments.
3. **Share-based payment transactions with cash alternatives,** in which the entity receives or acquires goods or services and either the entity or the supplier of those goods or services may choose whether the entity settles the transaction in cash, in amounts that are based on the price (or value) of the entity's shares or other equity instruments, or by issuing equity instruments.

Equity-settled share-based payment

An entity measures the fair value of the goods or services received, and the corresponding increase in equity, either directly, at the fair value of the goods or services received, or indirectly, by reference to the fair value of the equity instruments granted, whichever fair value is more readily determinable. For transactions with non-employees, there is a rebuttable presumption that the fair value of the goods or services received is more readily determinable. For transactions with employees, the entity is required to use the fair value of the equity instruments granted. If the fair value of the goods or services received is measured directly, it is measured at the date the entity obtains the goods or receives the services. If the fair value of the goods or services received is measured by using the fair value of the equity instruments granted, it is measured at grant date.

Furthermore, each share-based payment transaction must be analysed to assess whether it includes market and/or non-market-based performance conditions, as this will also affect the measurement of the transaction. If a share-based transaction has a market-based performance condition, (e.g., vesting based on achieving a specific share price of the entity's equity instruments), the condition is taken into account when estimating the fair value of the equity instrument granted at grant date. Therefore, if all non-market vesting conditions are met, the total fair value of the equity instrument at grant date would have been expensed regardless of whether the instruments vest.

On the other hand, share-based payments with no performance features or non-market based performance features (e.g., vesting based on achieving a specific growth in revenue or profits) are accounted for under a "true-up" model. The total amount expensed will equal the multiple of the total number of vested instruments and each instrument's fair value determined at the date of grant. At each reporting date, the amount to be expensed should be adjusted to reflect the entity's best estimate of the number of instruments that will vest.



If fair value of the equity instrument cannot be reliably measured, FRS 102 permits the use of intrinsic value (that is, fair value of the shares less exercise price) in those "rare cases" where the fair value cannot be reliably determined. The change in intrinsic value would be taken to profit or loss until final settlement (option is exercised or extinguished). This does not suggest that all private or newly listed entities' shares are not measurable and intrinsic value is allowed.

For transactions with employees, an expense is recognised for services received and consumed during each accounting period by amortising over the vesting period the fair value of the instruments granted, adjusted for expected forfeitures.

Note that the estimate of forfeitures is adjusted, but not the fair value of the instruments, which is measured only at the grant date. The end result is that at the vesting date, the amount charged to profit or loss during the vesting period should reflect only those options that vested. This treatment is consistent with US GAAP and is a change in estimate under FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* ("FRS 8").

The cancellation or settlement of equity instruments is accounted for as an acceleration of the vesting period and therefore any amount unrecognised should be recognised immediately. Any payments made with the cancellation or settlement (up to the fair value of the equity instruments) should be accounted for as the repurchase of an equity interest. Any payment in excess of the fair value of the equity instruments granted is recognised as an expense.

It is common for share option schemes to require continued employment in order for the option to be exercised. In other words, options may be cancelled at the employer's discretion if employment is terminated by either party. As a result, it is common for options to be issued without a vesting date, but with an exercise period. In the absence of a vesting date, the beginning of the exercise period would serve as the end of the vesting period as it is at that date that the employee is entitled to the benefit of the granted option. Therefore, if the option were exercisable on issuance, the entire amount would be expensed with a corresponding credit to an equity reserve.

If an option that is exercisable expires or is forfeited after vesting, there is no adjustment to profit or loss, but any corresponding amount held in an equity reserve could be transferred to retained earnings. If the option is exercised, the corresponding equity reserve and the exercise price are the consideration paid for the shares.

Cash-settled share-based payment

The entity shall initially measure the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the entity would re-measure the fair value of the liability at each reporting date, with changes in fair value recognised in profit and loss statement, unless the goods or services acquired are recognised as assets.

Share-based payment transactions with cash alternatives

Certain contracts provide either the issuer or the holder with the choice of settling the transaction with either cash or equity instruments. FRS 102 states that both the liability (right to demand cash or other assets) and equity (obligation to transfer equity instruments rather than cash) components should be measured and recognised individually.

The entity is required to account for that transaction as a cash-settled transaction if it has incurred a liability to settle in cash or other assets. If no such liability has been incurred, it is accounted for as an equity-settled transaction. If the transaction contains both a liability and equity component or components, it will be accounted for as a compound instrument where the equity component is measured as the difference between the fair value of the debt component and the fair value of the goods or services received.

If the issuer has the choice of settlement, the transaction should be accounted for as an equity-settled transaction, unless the entity has a present obligation to settle in cash. If the transaction is accounted for as an equity-settled share-based payment, the following adjustments may be required upon settlement:

- if the entity elects to settle in cash, the cash payment is accounted for as the repurchase of equity interests (a deduction from equity).
- If the entity elects to settle in cash and this amount is greater than the fair value of the equity instruments, an additional expense for the excess value given (determined at the settlement date) is recognised.
- If the entity elects to settle in equity instruments and the fair value of these equity instruments at the settlement date is greater than the cash alternative, an additional expense for the excess value given (determined at the settlement date) is recognised.

Note that the accounting requirements that stem from the classification as an equity-settled or cash-settled share-based payment differ from the requirements for the classification of a financial instrument as an equity instrument or a financial liability under FRS 32.

Valuation models for share options

FRS 102 requires the use of an option-pricing model to estimate the fair value of a share option where an observable market price does not exist. For instance, entities may be required to estimate:

- the fair value of non-traded shares and options or other rights on non-traded shares;
- the effect of market-based performance features on the fair value of the share-based payment at the grant date; or
- the fair value of goods or services received from non-employees where an active market may not exist for those goods and services.

While no specific model is prescribed, the standard does mention the two most popular models, Black-Scholes and binomial. Variables such as non-transferability and vesting conditions, including service conditions and performance conditions, are not factored into these models, which were designed to value market traded options, so adjustment would be required.

Effective dates and transitional provisions

FRS 102 is effective for annual periods beginning on or after January 1, 2005 for public companies. For all other companies, FRS 102 is effective for annual periods beginning on or after January 1, 2006. The provisions of FRS 102 shall apply to all share-based payments granted on or after November 22, 2002 that are not yet vested at the entity's effective date of FRS 102 and all share-based payment transactions made before November 22, 2002, which were subsequently modified. The comparative information presented shall be restated for all grants of equity instruments to which the requirements of FRS 102 are applied. The adjustment to reflect this change is presented in the opening balance of retained earnings for the earliest period presented in accordance with FRS 8.

FRS 103, *Business Combinations*

The CCDG approved FRS 103 *Business Combinations* and revised versions of FRS 36 *Impairment of Assets* and FRS 38 *Intangible Assets* on July 1, 2004. These standards have largely aligned the international standards related to business combinations with US GAAP by requiring all business combinations to be accounted for using the purchase method and any new or existing goodwill to be impairment tested annually, but no longer amortised. Additional changes are significant.

Pooling of interest method eliminated

Previously business combinations were accounted for using the purchase method if the combination was an acquisition and the pooling of interest method if the combination was a uniting of interests. FRS 103 has eliminated the pooling of interest method which combined historical costs for the two enterprises, and now requires all business combinations to be accounted for using the purchase method which requires the goodwill to be created for the excess of the fair value of consideration given over the fair value of the net assets acquired.

Cost of a business combination

The cost of a business combination is the fair values, at the date of exchange, of the assets given, the liabilities incurred or assumed, and the equity instruments issued by the acquirer, in exchange for control of the acquiree; plus any costs directly attributable to the business combination.

The acquisition date is the date on which the acquirer effectively obtains control of the acquiree. The quoted price at the date of exchange for a quoted equity instrument is its fair value except in rare circumstances. If the shares are not quoted, the guidance shown in FRS 39 should be used in establishing a fair value.

Liabilities assumed in the transaction are included in the cost, but not foreseeable losses, so a restructuring provision is no longer allowed unless previously recognised by the acquiree. Any costs directly attributable to the combination, such as professional fees paid to accountants, legal advisers, valuers and other consultants to effect the combination are also included. General administrative costs, such as the cost of maintaining an acquisitions department, and other costs that cannot be directly attributed to the transaction are recognised as an expense when incurred.

The costs of arranging and issuing financial liabilities are not included. Such costs are included in the initial measurement of the liability. Similarly, the costs of issuing equity instruments are not included in the cost of a business combination, but reduce the proceeds from the equity issue.

Adjustments to the cost of a business combination contingent on future events

When a business combination agreement provides for an adjustment to the cost of the combination contingent on future events, the acquirer must include the amount of that adjustment in the cost of the combination at the acquisition date if the adjustment is probable and can be measured reliably.

The adjustment might, for example, be contingent on a specified level of profit being maintained or achieved in future periods, or on the market price of the instruments issued being maintained. It is usually possible to estimate the amount of any such adjustment at the time of the combination, even though some uncertainty exists. If the future events do not occur, or become probable and can be measured reliably, or the estimate needs to be revised, the cost of the business combination is adjusted accordingly.

In some circumstances, the acquirer may be required to make a subsequent payment to the seller as compensation. For example, when the acquirer guarantees the value of the consideration by way of a cash payment or issuance of additional equity or debt instruments. In such cases, no increase in the cost of the business combination is recognised, as the fair value of the consideration has not increased, but simply been maintained. For equity instruments, the fair value of the additional payment is offset by an equal reduction in equity. For debt instruments, the additional payment is regarded as a reduction in the premium or an increase in the discount on the initial issue.

Measuring fair value of net identifiable assets, liabilities and contingent liabilities

The requirements related to measuring identifiable assets and liabilities has been moved to an appendix which is an integral part of FRS 103, so it remains mandatory.

There are a number of key changes. First, FRS 22 allowed minority interest to be measured at historical cost or fair value. FRS 103 requires minority interest to be measured at fair value.

Second, the contingent liabilities of the acquiree must be recognised at fair value if reliably measurable. The criteria for a provision in FRS 37 does not apply. Subsequently, they will be carried at the higher of this amount subject to any amortisation (e.g., a warranty provision whereby a certain amount would be realised each period) and the amount that would be determined under FRS 37. This avoids a situation whereby a liability would be recognised and then immediately derecognised, as it does not meet the FRS 37 definition of a provision.

Finally, post-combination restructuring costs are not accrued as liabilities of the acquiree at the time of the acquisition, only those previously recognised by the acquiree.

Reverse takeovers

Reverse takeovers are combinations where the acquirer issue shares in such quantity that the shareholders of the acquiree gain control of the acquirer. It is common for companies seeking to obtain a listing. The listed issuer technically acquires the private company, but the shareholders of the private company gain

control of the listed issuer. While the existing FRS 22 *Business Combinations* requires the transaction to be accounted for based on the substance of the transaction, it was unclear how that was exactly to be accomplished. FRS 103 provided extensive guidance on how to account for a reverse takeover accounting.

Goodwill and negative goodwill created under FRS 103

Goodwill is the residual of the consideration given over the acquirer's share of the fair value of the net identifiable assets acquired. Negative goodwill is no longer recognised if the fair value of net identifiable assets exceed the consideration given as the amount is immediately taken to profit or loss.

The rules related to adjustments to goodwill have changed. Previously adjustments were allowed during the first financial year following the combination. Now, if the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally by the end of the period of the acquistion, the acquirer shall account for the combination using those provisional values. The acquirer will recognise any adjustments to those provisional values within twelve months of the acquisition date. Corrections of errors will result in adjustments to goodwill in accordance with the retrospective treatment required by FRS 8, but changes in fair value related to discovery of additional information or a change in estimate will be applied prospectively and not impact the goodwill computation.

Existing goodwill and negative goodwill

Goodwill previously taken to equity must not be taken to profit or loss on disposal or impairment. Existing goodwill and other indefinite life intangible assets may not be amortised, but must be tested for impairment at least annually. Existing negative goodwill must be taken to retained earnings in the period of adoption.

Step acquisitions

A business combination may involve more than one exchange transaction, for example when it occurs in stages by successive share purchases. Each transaction is treated separately by the acquirer, using the cost of the transaction and fair value information at the date of each transaction, to determine the amount of any goodwill associated with the transaction. This results in a step-by-step comparison of the cost of the individual investments with the acquirer's interest in the fair values of the acquiree's identifiable assets, liabilities and contingent liabilities at each step.

As the acquiree's identifiable assets, liabilities and contingent liabilities are notionally restated to their fair values at the date of each exchange transaction to determine the amount of any goodwill associated with each transaction; they must then be recognised by the acquirer at their fair values at the acquisition date when control is acquired, and any adjustment to those fair values relating to previously held interests of the acquirer is treated as a revaluation under FRS 16. Increases are taken to surplus and decreases to profit or loss, unless they are reversals related to that asset.

Revised Standards FRS 36 *Impairment of Assets* and FRS 38 *Intangible Assets*

The amendments to FRS 36 relate to adoption of FRS 103 and are not a comprehensive revision of FRS 36. The key change is that impairment losses related to goodwill will no longer be reversible.

FRS 38 is revised to require indefinite life assets, both identifiable (for example: trademarks and brand names) and goodwill, which is an unidentifiable asset, must not be amortised, but instead tested for impairment at least annually.

Entities under common control

A business combination involving entities or businesses under common control is one in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. These transactions remain outside the scope of this standard. The accounting for these transactions, which are normally termed reorganisations or restructurings, and are normally accounted for using historical cost will be dealt with in phase two of the IASB business combination project.

Effective dates and transitional provisions

FRS 103 is effective for the accounting for business combinations for annual periods beginning on or after July 1, 2004. The revised FRS 36 and FRS 38 will also be applied to those transactions. For goodwill, negative goodwill, and other intangible assets previously recognised, FRS 103 and revised FRS 36 and FRS 38 will be effective for the entity's first annual period beginning on or after July 1, 2004. Early adoption of these standards is encouraged, but all three standards must be adopted together and may only be adopted in a annual period for which the accounts have not been issued. These standards will usually be applied prospectively.

A company may apply them retrospectively for goodwill (negative goodwill) and business combinations occurring prior to July 1, 2004, but they must apply all three standards prospectively from that date, and must have obtained the valuations necessary at that time to apply the standards.

FRS 104, *Insurance Contracts*

FRS 104 is an interim standard to address the accounting issues surrounding insurance contracts, and further changes are expected over the next few years. This new standard applies to virtually all insurance contracts (including reinsurance contracts) that an entity issues and to reinsurance contracts that it holds. It does not apply to other assets and liabilities of an insurer, such as financial assets and financial liabilities within the scope of FRS 39. Furthermore, it does not address accounting by policy-holders.

Entities are required to apply FRS 104 for annual periods beginning on or after January 1, 2005, but earlier application is encouraged. An insurer need not apply some aspects of this FRS to comparative information that relates to annual periods beginning before January 1, 2005.

FRS 105, *Non-current Assets Held for Sale and Discontinued Operations*

CCDG issued the new standard FRS 105 *Non-current Assets Held for Sale and Discontinued Operations*, to replace FRS 35 *Discontinuing Operations*. The requirements in this new standard relating to assets held for sale and the timing on the classification of discontinued operations are substantially the same as the equivalent requirements under US GAAP.

Held-for-sale classification and measurement

To be classified as held-for-sale the following conditions must be met for an asset (or 'disposal group') to be classified as held for sale:

- management is committed to a plan to sell;
- the asset is available for immediate sale;
- an active programme to locate a buyer is initiated;
- the sale is highly probable, within 12 months of classification as held-for-sale (subject to limited exceptions);
- the asset is being actively marketed for sale at a sales price reasonable in relation to its fair value; and
- actions required to complete the plan indicate that it is unlikely that plan will be significantly changed or withdrawn.

The assets need to be disposed of through sale. Therefore, operations that are expected to be wound down or abandoned would not meet the definition (but may be classified as discontinued once abandoned).

The standard also introduces the concept of 'disposal group' and defines it as a group of assets, possibly with some associated liabilities, which an entity intends to dispose of in a single transaction. The measurement basis required for non-current assets classified as held for sale is applied to the group as a whole, and any resulting impairment loss reduces the carrying amount of the non-current assets in the disposal group in the order of allocation required by FRS 36.

Assets and disposal groups that are classified as held-for-sale should be measured in accordance with the following:

- At the time of classification as held-for-sale:
  Immediately before the initial classification of the asset as held-for-sale, the carrying amount of the asset will be measured in accordance with applicable FRSs.

- After classification as held-for-sale:
  Non-current assets or disposal groups that are classified as held-for-sale are measured at the lower of carrying amount and fair value less costs to sell.
- Impairment:
  An impairment loss is recognised in the profit or loss for any initial and subsequent write-down of the asset or disposal group to fair value less costs to sell.
- Assets carried at fair value prior to initial classification:
  For such assets, the requirement to deduct costs to sell from fair value will result in an immediate charge to profit or loss.
- Subsequent increases in fair value:
  A gain for any subsequent increase in fair value less costs to sell of an asset can be recognised in the profit or loss to the extent that it is not in excess of the cumulative impairment loss that has been recognised in accordance with FRS 105 or previously in accordance with FRS 36.

In addition, non-current assets or disposal groups that are classified as held-for-sale shall not be depreciated.

Assets classified as held-for-sale, and the assets and liabilities included within a disposal group classified as held-for-sale, must be presented separately on the face of the balance sheet. Prior period information is not reclassified. FRS 105 also requires disclosures describing the nature of assets held and the facts and circumstances surrounding the sale.

Discontinued operations

A discontinued operation is a component of an entity that either has been disposed of or is classified as held- for-sale, and represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

The sum of the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the measurement to fair value less cost to sell or fair value adjustments on the disposal of the assets (or disposal group) should be presented as a single amount on the face of the profit and loss statement. Detailed disclosure of revenue, expenses, pre-tax profit or loss, and related income taxes is required either in the notes or on the face of the profit and loss statement in a section distinct from continuing operations. Such detailed disclosures must cover both the current and all prior periods presented in the financial statements.

FRS 105 requires the net cash flows attributable to the operating, investing, and financing activities of a discontinued operation to be separately presented on the face of the cash flow statement or disclosed in the notes. It also prohibits the retroactive classification as a discontinued operation, when the discontinued criteria are met after the balance sheet date.

In addition to the profit and loss statement and cash flow statement presentations noted above, FRS 105 requires adjustments made in the current period to amounts disclosed as a discontinued operation in prior periods must be separately disclosed and if an entity ceases to classify a component as held-for-sale, the results of that component previously presented in discontinued operations must be reclassified and included in profit or loss from continuing operations for all periods presented.

Effective dates and transitional provisions

FRS 105 shall be applied prospectively for annual periods beginning on or after January 1, 2005. Earlier application is permitted provided the valuations and other information needed to apply the FRS were obtained at the time those criteria were originally met.

Summary Of New Interpretation Issued By CCDG In 2004

INT FRS 101 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*
This Interpretation contains guidance on accounting for changes in decommissioning, restoration and similar liabilities that have previously been recognised both as part of the cost of an item of property, plant and equipment under FRS 16 and as a provision (liability) under FRS 37. An example is a liability that was recognised by the operator of a nuclear power plant for costs that it expects to incur in the future when the plant is shut down (decommissioned).

The interpretation addresses subsequent changes to the amount of the liability that may arise from (a) a revision in the timing or amount of the estimated decommissioning or restoration costs or from (b) a change in the current market-based discount rate should be:

- added to or deducted from the cost of the related asset to the extent the change relates to the portion of the asset that will be depreciated in future periods; and
- reported as profit or loss to the extent that the change relates to the portion of the asset that is depreciated in the current period or was depreciated in prior periods.

An increase to the amount of the liability that reflects the passage of time (also referred to as the unwinding of the discount) should be recognised in profit or loss as a finance cost as it occurs. The allowed alternative treatment of capitalisation under FRS 23 is not permitted.

Summary Of Differences Between FRS And IAS/IFRS

In April 2004, the CCDG announced the adoption of the International Accounting Standards Improvement Project as at December 2003 as Financial Reporting Standards with refinements. While these standards are similar to IAS/IFRS, there are some differences. Examples of these include differences such as FRS does not include IAS 40 while it retains FRS 25 and differences in implementation dates and transitional provisions.

Below we identify the differences between FRS and IAS/IFRS as at September 30, 2004:

FRS	Content	IAS /IFRS	Comments
FRS 2	Inventories	IAS 2	Both Standards are consistent, except for the following: • FRS 2 does not allow the LIFO method of inventory costing but IAS 2 allows it. • FRS 2 explicitly mentioned that it is not applicable for biological assets related to agriculture activity but IAS 2 is silent about it. These differences are eliminated with the adoption of FRS 2 (revised) for financial year beginning on or after January 1, 2005.
FRS 16	Property, Plant and Equipment	IAS 16	FRS 16 exempts regular revaluation for assets on which any one-off revaluation is performed between January 1, 1984 and December 31, 1996 (both dates inclusive) or for assets that have been revalued prior to January 1, 1984, whereas IAS 16 is silent on the above. This difference has been retained upon the adoption of the FRS 16 (revised).
FRS 17	Leases	IAS 17	FRS 17 removes the words in paragraph 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 incident to ownership. This difference has been retained upon the adoption of the FRS 17 (revised).
FRS 25	Accounting for Investments	-	IAS 25 has been superseded by IAS 39 and IAS 40.
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, 28 and 31 modified the situation where a parent need not present consolidated financial statements by removing the requirement that the holding company must produce consolidated financial statements available for public use that comply with IFRS.

FRS	Content	IAS /IFRS	Comments
FRS 39	Financial Instruments: Recognition and Measurement	IAS 39	FRS 39 is effective for financial years beginning on or after January 1, 2005 as compared to IAS 39, which is effective for financial years beginning on or after January 1, 2001. The revised IAS 39 and FRS 39 are both effective for financial years beginning on or after January 1, 2005, but the transitional provisions differ in Singapore as the standard was not previously required to be adopted.
-	Investment Property	IAS 40	The equivalent of IAS 40 is still an exposure draft (ED/ FRS 40) in Singapore. SAS 25 requires property let to or occupied by another entity within the group to be reclassified as a fixed asset both at the company and group level, whereas IAS 40 allows property let to another entity within the group to be shown as investment property at the company, but not at the group level.
-	Disclosures in the Financial Statements of Banks and Similar Financial Institutions	IAS 30	There is no equivalent FRS but MAS requires similar disclosure requirements for financial institutions.
FRS 102	Share-based Payment	IFRS 2	IFRS 2 is effective for all entities for annual periods beginning on or after January 1, 2005. In Singapore, private companies have until 2006. Also, the date for transitional provisions is November 7, 2002 under IFRS and November 22, 2002 under FRS in Singapore.
FRS 103 Revised FRS 36 and FRS 38	Business Combinations	IFRS 3 Revised IAS 36 and IAS 38	IFRS 3 is effective for transactions on or after March 31, 2004. In Singapore, the effective date is for annual periods beginning on or after July 1, 2004. The revised Standard IAS 36 *Impairment of Assets* and IAS 38 *Intangible Assets* is applicable: a) on acquisition to goodwill and intangible assets acquired in business combinations for which the agreement date is on or after March 31, 2004. b) to all other/intangible assets, for annual periods beginning on or after March 31, 2004. These revised standards in Singapore are effective for annual periods beginning on or after July 1, 2004, with prospective treatment from July 1, 2004 for existing goodwill.

Summary Of Exposure Drafts Issued By CCDG In 2003

ED INT FRS *Emission Rights*

The draft Interpretation focuses on the accounting to be adopted by participants in a 'cap and trade' scheme, although its requirements also apply to other schemes that share one or more of the features of a cap and trade scheme.

The main proposals are:

- Rights (allowances) to emit pollutant are intangible assets that should be recognised in the financial statements in accordance with FRS 38, Intangible Assets.
- When allowances are allocated to a participant by government (or government agency) for less than their fair value, the difference between the amount paid (if any) and their fair value is a government grant that is recognised as deferred income in the balance sheet and subsequently recognised as income on a systematic basis over the compliance period.
- As a participant emits pollutant, it recognises a provision for its obligation to deliver allowances or pay a penalty in accordance with FRS 37, Provisions, Contingent Liabilities and Contingent Assets. This provision is normally measured at the market value of the allowances needed to settle it.
- Even though this is a grant of a non-monetary asset, the Interpretation would prohibit measuring the grant at a nominal amount, which is an alternative allowed by FRS 20.

Summary Of Exposure Drafts Issued By CCDG In 2004

ED INT FRS *Decommissioning, Restoration and Environmental Rehabilitation Funds*

This draft Interpretation deals with how to account for decommissioning, restoration and environmental rehabilitation funds, which are referred to as 'decommissioning funds' or 'funds'. The purpose of these funds is to segregate assets to fund some or all of the costs of decommissioning of plant (such as a nuclear plant) or certain equipment (such as cars), or in undertaking environmental rehabilitation (such as rectifying pollution of water or restoring mined land), together referred to as 'decommissioning'. These funds may be voluntary or required by regulation or law.

The main proposals in the draft Interpretation are:

- If an entity recognises a decommissioning obligation under FRSs and contributes to a fund to segregate assets to pay for the obligation, it should apply FRS 27, *Consolidated and Separate Financial Statements*, INT FRS 12, *Consolidation—Special Purpose Entities*, FRS 31, *Interests in Joint Ventures*, and FRS 28, *Investments in Associates*, to determine whether decommissioning funds should be consolidated, proportionately consolidated or accounted for under the equity method.
- When a fund is not consolidated, proportionately consolidated or accounted for under the equity method, and that fund does not relieve the contributor of its obligation to pay decommissioning costs, the contributor should recognise an asset (for rights to reimbursement from the fund) in addition to the liability for the decommissioning obligation.
- A right to reimbursement should be measured at the lower of (i) the amount of the decommissioning obligation recognised and (ii) the contributor's share of the fair value of the net assets of the fund adjusted for actual or expected factors that affect the entity's ability to access these assets. Changes in the carrying amount of this right (other than contributions to and payments from the funds) should be recognised in profit or loss.

The proposal include an amendment to FRS 39, *Financial Instruments: Recognition and Measurement*, so as to exclude from its scope rights to reimbursement for expenditure required to settle a liability recognised as a provision. Such rights will be accounted for in accordance with FRS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

ED INT FRS *Determining Whether an Arrangement Contains a Lease*

This draft Interpretation contains guidance on determining whether arrangements that do not take the legal form of a lease should, nonetheless, be accounted for in accordance with FRS 17 *Leases*. Examples of such arrangements include:

- Outsourcing arrangements;
- Telecommunication contracts that provide rights to capacity;
- Take-or-pay and similar contracts, in which purchasers must make specified payments regardless of whether they take delivery of the contracted products or services; and
- Service concession arrangements, in which one entity provides the use of an item of infrastructure to another entity.

Such arrangements would hence need to be looked at more carefully (with respect to the following three criteria) to ascertain if they are required to be accounted for in accordance with FRS 17. The following three criteria, if met, would render such an arrangement to be, or contains, a lease:

- the arrangement depends upon a specific item which is identified implicitly by the contractual provisions of the arrangement.
- the arrangement conveys a right to use the item for an agreed period of time such that the purchaser is able to exclude others from using the item.
- payments under the arrangement are made for the time that the item is made available for use rather than for actual use of the item.

ED FRS *Exploration for and Evaluation of Mineral Resources*

The exposure draft proposes to exempt companies engaged in exploring for and evaluating mineral resources from certain requirements of FRSs and the FRS Framework. Those companies would be permitted to continue using, under FRS, the accounting policies for recognising and measuring assets arising from mineral exploration and evaluation activities that were used in their most recent annual financial statements. A company that elects to use its previous accounting policies should then change those policies if, and only if, the change makes the financial statements more relevant and reliable. In addition, the exposure draft proposes indicators to be considered when identifying whether exploration and evaluation assets might be impaired. It also proposes a "cash generating unit for exploration and evaluation assets" under FRS 36, Impairment of Assets.

ED INT FRS *Applying FRS 29 Financial Reporting in Hyperinflationary Economies for the First Time*

The main proposal in the draft Interpretation is that, in the first year an entity identifies the existence of hyperinflation, the entity must start applying FRS 29 as if it had always applied the Standard. Therefore, an entity recreates an opening balance sheet at the beginning of the earliest annual accounting period presented in the restated financial statements for the first year it applies FRS 29.

It also explains that if detailed records of the acquisition dates of items of property, plant, and equipment are not available or estimable, an entity uses an independent professional assessment of the fair values of the items as the basis for restating them.

ED Proposed Amendments to FRS 39 *Financial Instruments: Recognition and Measurement – The Fair Value Option*

This exposure draft proposes to limit the option in FRS 39 *Financial Instruments: Recognition and Measurement* to measure individual financial assets and financial assets at fair value, with value changes through profit and loss.

It proposes to limit the option's availability by:

- Limiting the types of financial assets and financial liabilities to which the option may be applied to the following five specified categories:
  - (i) The item is a financial asset or financial liability that contains one or more embedded derivatives, whether or not the embedded derivatives are required to be separated.
  - (ii) The item is a financial liability whose cash flows are contractually linked to the performance of assets that are measured at fair value. This condition is met only if the contract specifies the assets to whose performance the cash flows on the liability are linked.
  - (iii) The exposure to changes in the fair value of the financial asset or financial liability (or portfolio of financial assets or financial liabilities) is substantially offset by the exposure to the changes in the fair value of another financial asset or financial liability (or portfolio of financial assets or financial liabilities), including a derivative (or portfolio of derivatives).
  - (iv) The item is a financial asset other than one that meets the definition of loans and receivables.
  - (v) The item is one that this or another standard allows or requires to be designated to be measured at fair value through profit or loss, for example FRS 28 and FRS 31 with regard to investments in venture capital funds, unit trusts and mutual funds.

  In the case of (ii) and (iii), the designation of a financial asset or financial liability as one which is measured at fair value through profit or loss requires the identification of the offsetting exposure. In these two cases, if either the financial asset or the financial liability is to be designated as one which is measured at fair value through profit or loss, the identified related financial liability or financial asset shall also be measured at fair value through profit or loss, either by designation or, when the definition is met, by classification as held for trading.
- Requiring that the option may be applied only to financial assets and financial liabilities whose fair value is verifiable.

ED INT FRS *Multi-employer Plans*

This draft Interpretation proposes guidance in addition to FRS 19 *Employee Benefits* on:

- when a plan meets the definition of a multi-employer plan,
- how defined benefit accounting should be applied to such plans and,
- what to do when the necessary information might not be available.

It proposes a requirement that, if possible, a multi-employer plan is to be measured on the basis of assumptions appropriate for the plan as a whole, rather than for a specific participating entity. The plan is then allocated, if possible, across the participants so that a participating entity recognises an asset or liability that reflects the extent to which the surplus or deficit in the plan will affect its future contributions.

This INT FRS will require an entity to "make every practicable effort to apply defined benefit accounting to multi-employer plans in which it participates."

ED Proposed Amendments to FRS 103 *Business Combinations – Combinations by Contract Alone or Involving Mutual Entities*

The proposed amendments would add to the scope FRS 103:

- Combinations in which separate entities are brought together to form a reporting entity by contract alone without the obtaining of an ownership interest; and
- Business combinations involving mutual entities.

Both were excluded from FRS 103 when it was issued. Including these transactions in FRS 103 would mean that an acquirer must be identified and the acquirer must account for the combination using the purchase method. The exposure draft would not change the FRS 103 scope exclusion for combinations involving entities under common control. If finalised, the proposal would be applied to business combinations agreed to on or after July 1, 2004.

ED Proposed Amendments to FRS 19 *Actuarial Gains and Losses, Group Plans and Disclosures*

The amendments in the exposure draft would introduce an option for an entity to recognise actuarial gains and losses in full as they arise, outside profit or loss, in a statement of changes in equity that shows total recognised gains and losses (sometimes called comprehensive income). This proposal is similar to the requirements of the UK standard, FRS 17 *Retirement Benefits*. FRS 19 would also continue to permit recognition of actuarial gains and losses in profit or loss, either in the period in which they occur or spread over the service lives of the employees. The exposure draft also would:

- Extend the application of multi-employer plan accounting to entities within a consolidated group that meet certain criteria.
- Add disclosures to (a) provide information about trends in the assets and liabilities in a defined benefit plan and the assumptions underlying the components of the defined benefit cost and (b) bring the disclosures in FRS 19 closer to those required by the US GAAP.

ED INT FRS Scope of INT FRS 12 *Consolidation – Special Purpose Entities*

This draft Intepretation proposes to remove the scope exclusion in INT FRS 12 for equity compensation plans. Hence, an entity that controls an employee benefit trust (or similar entity) set up for the purposes of a share-based payment arrangement would be required to consolidate that trust.

Post-employment benefit plans would continue to be excluded from INT FRS 12; however, this draft proposes to amend that scope exclusion to include other long-term employee benefit plans, to ensure consistency with the requirements of FRS 19 *Employee Benefits*. At present, INT FRS 12 does not exclude other long-term employee benefit plans from its scope. However, FRS 19 requires those plans to be accounted for in a manner similar to that for post-employment benefit plans.

ED INT FRS *Member's Shares in Co-operative Entities*

This draft Intepretation addresses how the principles in FRS 32 for classifying financial instruments as liabilities or equity apply to instruments issued by co-operatives and other entities that give the holder the right to request redemption. It proposes that if members' shares would be classified as equity in the absence of the members' right to request redemption, then such shares are equity if either of the following conditions is met:

- The entity has an unconditional right to refuse redemption of the members' shares.
- Local law, regulation, or the entity's governing charter unconditionally prohibits the redemption of members' shares.

However, if neither of those conditions is met, the shares are reported as financial liabilities. The draft further proposes that members' shares classified as financial liabilities that are redeemable on demand should be measured at the maximum amount that might become payable under the redemption provisions of the entity's governing charter or applicable law.

ED INT FRS *Employee Benefit Plans with a Promised Return on Contributions or Notional Contributions*

This draft Intepretation proposes guidance on how FRS 19 *Employee Benefits* should be applied to employee benefit plans with a promised return on actual or notional contributions. Examples of such plans are:

- a plan in which a contribution is made each year based on the employee's current salary and the employee receives a benefit (a lump sum or an annuity) equal to the contributions plus the higher of
  (i) the actual return generated on the contributions and
  (ii) a minimum fixed return on the contributions over the period to when the benefit is paid; and
- a plan in which the promised benefit is a notional contribution each year plus a return on the notional contribution that is the higher of
  (i) the return based on specified assets, for example the return on quoted bonds, and
  (ii) a fixed return, for example 4%. The plan may or may not hold assets.

The draft argues that such plans are defined benefit plans and proposes guidance on the treatment of the following benefits:

(a) a guarantee of a fixed return,
(b) a benefit that depends on future asset returns, and
(c) a combination of (a) and (b).

This draft proposes that the liability for a benefit of a guarantee of a fixed return should be determined by projecting forward the contributions at the guaranteed fixed return to estimate the amount that will ultimately be paid. That amount should be discounted back to a present value using the high-quality corporate bond rate required by FRS 19. In contrast, for benefits that depend on future asset returns, the draft Intepretation proposes that an estimate of the amount that will ultimately be paid should not be made. Instead, the liability should be determined by the value of the assets at the balance sheet date. Lastly, it proposes that the liability for a benefit that combines a guaranteed fixed return and the returns on future assets should be the higher of the liabilities for each separate element.

ED Amendments to FRS 39 *Cash Flow Hedge Accounting of Forecast Intragroup Transactions*

The exposure draft addresses whether forecast intragroup transactions can be considered hedged items in cash flow hedges. Under FRS 39 prior to the December 2003 revisions, forecast intragroup transactions could be designated as a hedged item if the criteria in IGC 137-14 were met. That approach was consistent with US GAAP. However, FRS 39 as revised in December 2003 removed IGC 137-14 without including its guidance in the standard. The Exposure Draft confirms that the forecast intragroup transactions **cannot** be considered hedged items. However, the ED provides guidance that in the consolidated accounts, a highly probable forecasted external transaction designated in the functional currency of the entity entering into the transaction can be designated as the hedged item provided that it gives rise to an exposure that will have an effect on consolidated profit or loss. In order to have an effect on profit or loss the transaction must be designated in a currency other than the group's presentation currency.

ED Amendments to FRS 39 and FRS 104 *Financial Guarantee Contracts and Credit Insurance*

The exposure draft proposes that the issuer of a financial guarantee contract should measure the contract initially at fair value. If the financial guarantee contract was issued in a stand-alone arm's length transaction to an unrelated party, its fair value at inception is likely to equal the premium received. The ED also addresses the subsequent measurement of those guarantees:

- A financial guarantee that meets the FRS 104 definition of an insurance contract (guarantee against failure of a specific debtor to pay) would initially be measured at fair value and subsequently at the higher of (a) the amount initially recognised minus amortisation under FRS 18 and (b) FRS 37.
- A guarantee arising on derecognition would be accounted for under FRS 39's derecognition requirements, even if it is like an insurance contract.
- A guarantee that is indexed based on a credit index or other variable would be treated as a derivative under FRS 39 (mark to market through profit or loss).

ED Amendments to FRS 39 *Transition and Initial Recognition of Financial Assets and Financial Liabilities*

The exposure draft proposes an amendment that would apply when entities first adopt FRS 39. It would give an entity a choice of applying the "day one gain and loss" recognition requirements either prospectively to transactions entered into after 25 October 2002 or retrospectively under FRS 39.104. "Day one gains and losses" arise when the transaction price differs from fair values calculated by using, for example, a valuation model. These gains and losses can only be recognised in certain circumstances – when variables in the valuation model include only data from observable markets. This change would allow entities conform their treatment under FRS 39 to U.S. GAAP.

ED FRS *Financial Instruments: Disclosures*

This exposure draft that would add certain new disclosures about financial instruments to those currently required by FRS 32, would replace the disclosures now required by IAS 30, and would put all of those financial instruments disclosures together in a new standard. FRS 32 would then deal only with financial instruments presentation matters.

This ED would require disclosures in the following areas, among others:

- Disclosure of the significance of financial instruments for an entity's financial position and performance (this would incorporate many of the requirements previously in FRS 32).
- Qualitative and quantitative disclosures about exposure to risks arising from financial instruments. The qualitative disclosures describe management's objectives, policies, and processes for managing those risks. The quantitative disclosures provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel. Together, these disclosures provide an overview of the entity's use of financial instruments and the exposures to risks they create.
- Disclosures about credit risk, including credit enhancements and the fair value of and other information about collateral received.
- Disclosures about interest rate risk, which would include both cash flow interest rate risk and fair value interest rate risk. Sensitivity analysis for interest rate and foreign exchange rate risks would be required.
- Disclosures about market risk, including information about asset quality and the liquidity of the markets in which a financial asset might be disposed.
- Disclosures about other risks, sometimes called residual value risks, that underlie financial instruments and that are not captured by the other disclosures.
- Details about an entity's own equity; qualitative information about the entity's objectives, policies, and processes for managing capital; whether during the period it complied with any capital targets set by management and any externally imposed capital requirements; and if it has not complied, the consequences of such non-compliance.

This proposal would delete the current IAS 30 disclosures about contingencies, commitments, and general banking risks.

Resources:
IASPlus – www.iasplus.com - provides Deloitte IFRS e-Learning modules, newsletters, IAS/IFRS model financial statements and disclosure checklist and a wealth of information on IAS/IFRS projects and issues, with a section for country specific updates.

Deloitte Touche Tohmatsu – www.deloitte.com - the firm's global website provides a global e-library and links to our websites of our offices around the world.

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