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Changes to the financial reporting framework in Singapore.

November 2008

Acronyms

ASC	Accounting Standards Council
CA	Singapore Companies Act
ED	Exposure Draft
FASB	US Financial Accounting Standards Board
FRS	Singapore Financial Reporting Standards
IASB	International Accounting Standards Board
ICPAS	Institute of Certified Public Accountants of Singapore
IFRIC	International Financial Reporting Interpretations, or International Financial Reporting Interpretations Committee, as appropriate
IFRS	International Financial Reporting Standards
INT FRS	Interpretation of Singapore Financial Reporting Standards
LM	SGX Listing Manual
RAP	Statements of Recommended Accounting Practice issued by ICPAS
SIC	Interpretation of the Standing Interpretations Committee of the IASB
SGX	Singapore Exchange Limited
US GAAP	United States Generally Accepted Accounting Principles

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Contents

Introduction

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

In this edition, we continue to provide a summary of the new/revised FRS and INT FRS issued since the last edition in October 2007, including an updated comparison of FRS against IFRS.

Section I: Financial Reporting Standards

New/revised FRS issued in 2007

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

FRS 108 (New) *Operating Segments*

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

Key changes

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

Disclosures required by FRS 108

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

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

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

- Some entity-wide disclosures that are required even when an entity has only one reportable segment, including information about each product and service or groups of products and services;

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

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

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

- Identification of cash generating units for goodwill impairment testing under FRS 36 may be affected by the new definition of operating segments under FRS 108.

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

FRS 23 (Revised) *Borrowing Costs*

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

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

Revised/amended FRS issued in 2008

Revised/amended FRS	
FRS 1 (Revised)	*Presentation of Financial Statements* (effective for annual periods beginning on or after 1 January 2009)
FRS 1 (Amended)	*Presentation of Financial Statements* (Puttable Financial Instruments and Obligations Arising on Liquidation) (effective for annual periods beginning on or after 1 January 2009)
FRS 32 (Amended)	*Financial Instruments: Presentation* (Puttable Financial Instruments and Obligations Arising on Liquidation) (effective for annual periods beginning on or after 1 January 2009)
FRS 102 (Amended)	*Share-based Payment* (Vesting Conditions and Cancellations) (effective for annual periods beginning on or after 1 January 2009)
FRS 101 and FRS 27 (Amended)	Amendments to FRS 101 *First-time Adoption of Financial Reporting Standards* and FRS 27 *Consolidated and Separate Financial Statements* – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
General amendments	Improvements to FRSs
Amendments to FRS 39 & FRS 107	Amendments to FRS 39 *Financial Instruments: Recognition and Measurement* and FRS 107 *Financial Instruments: Disclosures* – Reclassification of Financial Assets

FRS 1 (Revised) *Presentation of Financial Statements*

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

New titles for the financial statements

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

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

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

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

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

Statement of comprehensive income

The requirements regarding the presentation of income and expenses have been revised but entities retain a choice as to the format adopted. The revised Standard requires that all items of income and expense (including those accounted for directly in equity) be presented either:
a) In a single statement (a 'statement of comprehensive income'); or
b) In two statements (a separate 'income statement' and 'statement of comprehensive income').

Where option (a) is selected, an entity will effectively combine the current content of the income statement and the statement of recognised income and expense. Under the two-statement approach, other comprehensive income will continue to comprise those items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other FRSs. These items (non-owner changes in equity) include:

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

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

Statement of changes in equity

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

Disclosure of income tax and reclassification adjustments in other comprehensive income

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

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

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

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

Reclassification adjustments

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

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

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

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

Purpose of the amendments

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

The current requirements often lead to counter-intuitive results. For example, the total amount payable may equal the market value of the whole entity, which may well be in excess of the accounting net assets of the entity. In another scenario, where liquidation is certain or is at the option of the holder, instruments that represent the last residual interest in the entity may be recognised as financial liabilities even when the instruments have characteristics similar to equity. The objective of the February 2008 amendments is to provide a "short-term, limited scope amendment" designed to avoid these outcomes.

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

Puttable financial instruments

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

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

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

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

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

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

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

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

Instruments issued by subsidiaries

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

Examples of impact of amendments

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

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

Derivatives over instruments in the scope of the amendment

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

Reclassifications

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

Disclosures

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

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

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

Effective date and transitional provisions

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

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

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

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

Vesting conditions

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

The amendments:

- Clarify that vesting conditions are those conditions that determine whether the entity receives the services that result in the counterparty's entitlement;

- Restrict the definition of vesting conditions to include only service conditions and performance conditions; and

- Amend the definition of performance conditions to require the completion of a service period in addition to specified performance targets.

- All features of a share-based payment arrangement other than service conditions and performance conditions will be considered to be non-vesting conditions. FRS 102 (as revised) specifies that, when estimating the fair value of equity instruments granted, an entity shall take into account:

- All non-vesting conditions (i.e. all conditions other than service and performance conditions); and

- Vesting conditions that are market conditions (i.e. conditions that are related to the market price of the entity's equity instruments – for example, attaining a specified share price).

Failure to meet a non-vesting condition and cancellations

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

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

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

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

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

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

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

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

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

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

Measurement of investments in subsidiaries

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

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

- Fair value (determined in accordance with FRS 39) at the entity's date of transition to FRSs in its separate financial statements; or
- The previous GAAP carrying amount of the investment at that date.

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

Disclosures required where deemed cost is used

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

- The aggregate deemed cost of those investments for which deemed cost is their previous GAAP carrying amount;
- The aggregate deemed cost of those investmens for which deemed cost is fair value; and
- The aggregate adjustments to the carrying amounts reported under previous GAAP.

Recognition of dividends from subsidiaries, jointly controlled entities and associates

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

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

An indicator of impairment

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

- The carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets; or
- The dividend exceeds the total comprehensive income of the subsidiary, jointly controlled entity or associate in the period in which the dividend is declared.

Reorganisations by establishing a new parent

FRS 27 has also been amended to deal with circumstances where a parent reorganises the structure of its group by establishing a new entity as its parent. In such reorganisations, the new parent obtains control of the original parent by issuing equity instruments in exchange for equity instruments of the original parent. Under the new rules, in a reorganisation that meets specified criteria, the new parent measures the cost of its investment in the previous parent at the carrying amount of its share of the equity items shown in the separate financial statements of the original parent at the date of the reorganisation.

Improvements to FRSs

IASB's annual improvements process is intended to deal with non-urgent, minor amendments to Standards. These amendments focus on areas of inconsistency in Standards or where clarification of wording is required. The improvements are effective from 1 January 2009.

Detail of amendments

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

Standard	Subject of amendment	New requirements
FRS 105	Plan to sell a controlling interest in a subsidiary	Clarification that assets and liabilities of a subsidiary should be classified as held for sale if the parent is committed to a sale plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest after the sale.
FRS 107	Presentation of finance costs	Resolution of the potential conflict between FRS 1 *Presentation of Financial Statements* (revised 2008) and FRS 107 *Financial Instruments: Disclosures* by amending the Implementation Guidance accompanying FRS 107. Reaffirmation that presentation of net finance costs in the statement of comprehensive income is not permitted unless the finance cost and finance revenue amounts included in the net total are disclosed.
FRS 1 (revised 2008)	Current/non-current classification of derivatives	Amendment to examples in paragraphs 68 and 71 of FRS 1 (revised 2008) to clarify that financial instruments that are classified as held for trading in accordance with FRS 39 are not always required to be presented as current assets/current liabilities.
FRS 8	Status of implementation guidance	Amendment to clarify that application of the Implementation Guidance issued with FRSs is not mandatory.
FRS 10	Dividends declared after the end of the reporting period	Clarification of the explanation as to why a dividend declared after the reporting period does not result in the recognition of a liability.
FRS 16	Recoverable amount	Replacement of the term 'net selling price' with 'fair value less cost to sell' in the definition of recoverable amount for consistency with the terminology used in FRS 105 *Non-current Assets Held for Sale and Discontinued Operations* and FRS 36 *Impairment of Assets*.
FRS 18	Costs of originating a loan	Removal of inconsistency between FRS 39 and the guidance in FRS 18 relating to the definition of costs incurred in originating a financial asset that should be deferred and recognised as an adjustment to the effective interest rate. FRS 18 is amended to refer to transaction costs as defined in FRS 39.

Standard	Subject of amendment	New requirements
FRS 19	Curtailments and negative past service cost	Clarification that when a plan amendment reduces the benefits for future service, the reduction relating to future service is a curtailment and any reduction relating to past service is negative past service cost. In addition, a reference to materiality is deleted in paragraph 111 of the Standard.
	Plan administration costs	Amendment of the definition of return on plan assets to require the deduction of plan administration costs only to the extent that such costs have not been reflected in the measurement of the defined benefit obligation.
	Replacement of term 'fall due'	Amendment of the definition of short-term employee benefits and other long-term employee benefits to replace the term 'fall due' with the notion of 'employee entitlement', as the timing of the employee's entitlement to a benefit is a critical factor in classifying the benefit.
	Guidance on contingent liabilities	Removal of the reference to 'recognition' in relation to contingent liabilities as it is inconsistent with FRS 37 which states that an entity shall not recognise a contingent liability.
FRS 20	Consistency of terminology with other FRSs	Amendments to confirm terminology used in FRS 20 to the equivalent defined or more widely-used terms.
	Government loans with a below-market rate of interest	Amendment to require that the benefit of a loan received from a government with a below-market rate of interest should be quantified by the imputation of interest in accordance with FRS 39.
FRS 23	Components of borrowing costs	Paragraphs 6(a)-(c) of FRS 23 *Borrowing Costs* are to be replaced with a reference to interest expense calculated in accordance with the effective interest method as defined in FRS 39 to improve consistency between FRSs. The reference to 'ancillary costs' is also deleted as there is no definition of this term in FRSs.
FRS 28	Required disclosures when investments in associates are accounted for at fair value through profit or loss	Clarification of disclosures required in respect of investments in associates accounted for at fair value in accordance with FRS 39.
	Impairment of investments in associates	Clarification that an investment in an associate is treated as a single asset for impairment testing. Therefore, an impairment loss recorded by an investor after applying the equity method is not allocated against any goodwill included in the equity-accounted investment balance. Such an impairment charge should be reversed in a subsequent period to the extent that the recoverable amount of the associate increases.
FRS 29	Consistency of terminology with other FRSs	Amendment to conform terminology used in FRS 29 *Financial Reporting in Hyperinflationary Economies* to reflect the equivalent defined or more widely-used terms.

Standard	Subject of amendment	New requirements
FRS 31	Required disclosures when interests in jointly controlled entities are accounted for at fair value through profit or loss	Clarification of disclosures required in respect of interests in jointly controlled entities accounted for at fair value in accordance with FRS 39.
FRS 34	Earnings per share disclosures in interim financial reports	Clarification that the presentation of basic and diluted earnings per share is required in interim financial reports only when the entity is within the scope of FRS 33 *Earnings per Share*.
FRS 36	Disclosure of estimates used to determine recoverable amount	Amendment to expand the disclosures when discounted cash flows are used to estimate fair value less costs to sell.
FRS 38	Advertising and promotional activities	The amendments clarify the circumstances in which an entity can recognise a prepayment asset for advertising or promotional expenditure. Recognition of an asset would be permitted up to the point at which the entity has access to the goods purchased or up to the point of receipt of services.
	Unit of production method of amortisation	Removal of wording perceived as prohibiting the use of the unit of production method if it results in a lower amount of accumulated amortisation than under the straight-line method. Proposal to make clear that entities may use the unit of production method in these circumstances when the resultant amortisation charge reflects the expected pattern of consumption of the expected future economic benefits embodied in an intangible asset.
FRS 39	Reclassifying instruments into and out of the classification of at fair value through profit or loss	FRS 39 prohibits the reclassification of financial instruments into or out of the fair value through profit or loss (FVTPL) category after initial recognition. Amendments clarify that when a derivative that was previously designated as a hedge no longer qualifies as such, or when a derivative becomes a designated and effective hedging instrument, these circumstances are not considered to be reclassifications into or out of FVTPL for the purpose of the prohibition.
	Designating and documenting hedges at the segment level	Removal of references to the designation of hedging instruments at the segment level.
	Applicable effective interest rate on cessation of fair value hedge accounting	Clarification that the revised effective interest rate calculated on cessation of fair value hedge accounting in accordance with paragraph 92 of the Standard should be used for the re-measurement of the hedged item when paragraph AG8 of the Standard is applicable.

Standard	Subject of amendment	New requirements
FRS 40	Property under construction or development for future use as investment property	Amendment to bring property under construction or development for future use as an investment property within the scope of FRS 40. Such property currently falls within the scope of FRS 16.
	Consistency of terminology with FRS 8	Amendment to the requirements relating to measurement after recognition to ensure consistency with the text of FRS 8.
	Investment property held under lease	Clarification as to how an investment property under lease should be recorded. Previous wording was considered misleading.
FRS 41	Point-of-sale costs	Replacement of the terms 'point-of-sale costs' and 'estimated point-of-sale costs' in FRS 41 *Agriculture* with 'costs to sell' to ensure consistency with FRS 105 and FRS 36.
	Discount rate for fair value calculations	Currently, FRS 41 requires that the discount rate used to determine fair value should be a pre-tax rate. The amendment requires a current market-determined rate to be used, but permits this to be a pre-tax or post-tax rate according to the valuation methodology used to determine fair value.
	Additional biological transformation	Removal of prohibition on taking 'additional biological transformation' into consideration when calculating the fair value of biological assets using discounted cash flows.
	Examples of agricultural produce and products	Removal of 'logs' as an example of agricultural produce (and replacement by 'felled trees'), since logs have been processed.

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

On 13 October 2008, the IASB published amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*.

The amendments are a response to calls from constituents, particularly within the European Union, to create a 'level playing field' with US GAAP regarding the ability to reclassify financial assets. The changes to IAS 39 permit an entity to reclassify non-derivative financial assets out of the 'fair value through profit or loss' (FVTPL) and 'available-for-sale' (AFS) categories in limited circumstances. Such reclassifications will trigger additional disclosure requirements.

The effective date of the amendments is 1 July 2008 (i.e. before the date of issue).

The ASC issued the amendments on 30 October 2008 with a similar effective date.

Scope of the amendments

The amendments will only permit reclassification of certain non-derivative financial assets recognised in accordance with FAS 39. Financial liabilities, derivatives and financial assets that are designated as at FVTPL on initial recognition under the 'fair value option' cannot be reclassified. The amendments therefore only permit reclassification of debt and equity financial assets subject to meeting specified criteria.

The amendments do not permit reclassification into FVTPL.

Reclassification out of FVTPL and AFS

A financial asset within the scope of these amendments can only be reclassified out of FVTPL or AFS if specified criteria are met. The criteria vary depending on whether the asset would have met the definition of 'loans and receivables' (L&R) had it not been classified as at FVTPL or AFS at initial recognition.

A debt instrument that would have met the definition of L&R (if it had not been required to be classified as held for trading at initial recognition) may be reclassified to L&R if the entity has the intention and ability to hold the asset for the foreseeable future or until maturity.

A debt instrument classified as AFS that would have met the definition of L&R (if it had not been designated as AFS) may be reclassified to the L&R category if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

Any other debt instrument, or any equity instrument, may be reclassified from FVTPL to AFS, or from FVTPL to HTM (in the case of debt instruments only), if the financial asset is no longer held for the purpose of selling in the near term – but only in 'rare' circumstances. In its press release the IASB acknowledged that market conditions in the third quarter of 2008 are a possible example of a 'rare' circumstance.

It should be noted that the amendments do not refer to the reclassification of AFS debt instruments to HTM because FRS 39 already permitted such reclassifications (see FRS 39.54). These reclassifications are not within the scope of the current amendments, and therefore they do not trigger the additional disclosures required by FRS 107.12A referred to below.

Measurement at the reclassification date

All reclassifications must be made at the fair value of the financial asset at the date of reclassification. Any previously recognised gains or losses cannot be reversed. The fair value at the date of reclassification becomes the new cost or amortised cost of the financial asset, as applicable.

Measurement after the reclassification date

The existing requirements in FRS 39 for measuring financial assets at cost or amortised cost apply after the reclassification date (with one exception – see below). Therefore, for financial assets measured at amortised cost, a new effective interest rate will be determined at the date of reclassification. In the case of reclassifications of a fixed rate debt instrument to L&R and HTM, this effective interest rate will be used as the discount rate for future impairment calculations.

For reclassifications out of AFS, FRS 39.54 requires the amounts previously recognised in other comprehensive income (OCI) to be reclassified to profit or loss either through the effective interest rate (if the instrument has a maturity) or at disposal (if the instrument has no maturity – i.e. it is perpetual). Amounts deferred in equity may also need to be reclassified to profit or loss if there is an impairment.

The one exception to the existing measurement requirements is for reclassified debt instruments. If, after reclassification, an entity increases its estimate of recoverability of future cash flows, the carrying amount is not adjusted upwards as is currently required by FRS 39.AG8 for changes in estimates of cash flows. Instead, a new effective interest rate is determined and is applied from that date forward. Hence, the increase in the recoverability of cash flows is recognised over the expected life of the financial asset.

Disclosures

To make transparent to users any reclassifications under the new requirements, FRS 107 is also amended. Although the requirements for reclassifications in accordance with FRS 39.51-54 remain unchanged (FRS 107.12), the following additional disclosures are required for reclassifications within the scope of the current amendments (new paragraph FRS 107.12A):

- the amount reclassified into and out of each category;
- for each reporting period until derecognition, the carrying amounts and fair values of all financial assets reclassified in the current or previous reporting periods;
- if the financial asset has been reclassified based on the 'rare circumstances' exception, details of those circumstances – including the factors that indicated that the situation was rare;
- the fair value gain or loss recognised in profit or loss or OCI for the reporting period in which reclassification occurs and in the previous period;
- in the period of reclassification and in subsequent periods until the financial asset is derecognised, the gain or loss that would have been recognised in profit or loss or OCI had the financial asset not been reclassified, and the actual gain, loss, income and expense recognised in profit or loss; and
- the effective interest rate and estimated cash flows the entity expects to recover as at the date of reclassification of the financial asset.

Effective date and transition

These amendments are effective from 1 July 2008. Entities are not permitted to reclassify financial assets in accordance with the amendments before 1 July 2008. Any reclassification of a financial asset made in periods beginning on or after 1 November 2008 will take effect only from the date when the reclassification is made. Any reclassification of a financial asset in accordance with the amendments should not be applied retrospectively to reporting periods ended before the effective date.

INT FRS issued in 2007

INT FRS	
INT FRS 112	*Service Concession Arrangements* (effective for annual periods beginning on or after 1 January 2008)

INT FRS 112 *Service Concession Arrangements*

INT FRS 112 addresses the accounting by private sector operators involved in the provision of public sector infrastructure assets and services, such as schools and roads (i.e., "public-to-private" arrangements, which are also known by a variety of other titles, including "service concession", "build-operate-transfer", or "rehabilitate-operate-transfer" arrangements.)

The types of service concession arrangements within the scope of INT FRS 112 are those in which:

- The grantor (public sector) controls the use of the infrastructure; and
- The grantor (public sector) controls (through ownership, beneficial entitlement or otherwise) any significant residual interest in the infrastructure at the end of the term of the arrangement.

The interpretation does not address the accounting for the government (grantor) side of such arrangements.

The operator in a service concession arrangement within the scope of INT FRS 112 does not recognise the infrastructure asset as their own property, plant and equipment. Instead, the operator will recognise:

- A financial asset in accordance with FRS 39 (where the operator has an unconditional right to receive a specified amount of cash or other financial asset over the life of the arrangement); or
- An intangible asset subject to amortisation in accordance with FRS 38 (where the operator's future cash flows are not specified – e.g., where they vary according to usage of the infrastructure asset); or
- Both a financial asset and an intangible asset where the operator's return is provided partially by a financial asset and partially by an intangible asset.

The operator of a service concession arrangement recognises and measures revenue in accordance with FRS 11 and FRS 18 for the services it performs.

Borrowing costs may be capitalised in accordance with FRS 23 if the operator recognises an intangible asset under the Interpretation.

Any obligation to maintain or restore the infrastructure under the terms of the arrangement is recognised and measured based on FRS 37.

Disclosure requirements are contained in INT FRS 29 *Service Concession Arrangements: Disclosures*, including:

- How the service arrangement has been classified; and
- The amount of revenue and profits or losses recognised in the period on exchanging construction services for a financial asset or an intangible asset.

INT FRS 104 *Determining Whether an Arrangement Contains a Lease* has been amended such that if the scope criteria of both pronouncements are met, INT FRS 112 will prevail.

Adoption of INT FRS 112 shall be applied retrospectively in accordance with the general principles of FRS 8. However, if retrospective application is impracticable for any particular service concession arrangement, the operator must:

- Recognise the financial assets and intangible assets that existed at the start of the earliest financial reporting period presented;
- Use the previous carrying amounts of those financial and intangible assets (however they were previously classified) as their carrying amounts as at that date; and
- Test the resulting financial and intangible assets for impairment at that date, unless that is not practicable, in which case the assets should be tested for impairment as at the start of the current period.

INT FRS issued in 2008

INT FRS	
INT FRS 113	*Customer Loyalty Programmes* (effective for annual periods beginning on or after 1 July 2008)
INT FRS 114	FRS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for annual periods beginning on or after 1 January 2008)
INT FRS 116	*Hedges of a Net Investment in a Foreign Operation* (effective for annual periods beginning on or after 1 October 2008)

INT FRS 113 Customer Loyalty Programmes

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

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

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

Background

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

Scope

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

- Entities grant to their customers as part of an FRS 18 sales transaction (a sale of goods, rendering of services or use by the customer of entity assets); and
- Subject to meeting any further qualifying conditions, the customers can redeem in future for free or discounted goods or services.

Deferred revenue or a provision for future costs?

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

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

The Interpretation noted that:

- Award credits granted to a customer as a result of a sales transaction are a separately identifiable element of the transaction itself and represent rights granted to the customer, for which the customer implicitly paid;
- Loyalty awards are not delivered to the customer at the same time as the other goods or services and it is therefore necessary to divide the initial sale into components and apply the recognition criteria separately to each component in order to reflect the substance of the transaction; and
- Award credits can be distinguished from marketing expenses because they are granted to the customer as an integral part of the sales transaction. Marketing expenses, in contrast, are incurred independently of the sales transactions they are designed to secure.

Accounting treatment

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

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

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

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

- Measures its revenue as the net amount retained on its own account, i.e. the difference between the consideration allocated to the award credits and the amount payable to the third party for supplying the awards; and
- Recognises this net amount as revenue when the third party is obliged to supply the awards and entitled to receive consideration for doing so. (These events may occur as soon as the award credits are granted. Alternatively, if the customer can choose to claim awards from either the entity or a third party, these events may occur only when the customer chooses to claim awards from the third party.)

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

Measuring the fair value of award credits

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

INT FRS 114 FRS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

INT FRS 114 addresses three issues:

- When refunds or reductions in future contributions should be regarded as 'available' in the context of paragraph 58 of FRS 19 *Employee Benefits*;
- How a minimum funding requirement might affect the availability of reductions in future contributions; and
- When a minimum funding requirement might give rise to a liability.

The consensus reached by the IFRIC on each of these issues is summarised below.

Background

Paragraph 58 of FRS 19 (the so-called 'asset-ceiling test') limits the measurement of a defined benefit asset to the total of any cumulative unrecognised net actuarial losses and past service cost, and the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

In many countries, entities are required to provide a minimum amount or level of contributions to post-employment benefit plans over a given period to improve the security of the post-employment benefit promise made to the members of such plans. The effect of such 'minimum funding requirements' on the recognition of a defined benefit asset has been unclear, and consequently there has been diversity in the treatment.

Scope

INT FRS 114 applies to all post-employment defined benefits and other long-term employee defined benefits. Minimum funding requirements are defined as "any requirement to fund a post-employment or other long-term defined benefit plan" and would therefore include both statutory and contractual requirements.

The consensus

An economic benefit, in the form of a refund or reduction in future contributions, is 'available' if the entity has an unconditional right to realise the benefit at some point during the life of the plan or when the plan is settled, even if the benefit is not realisable immediately at the balance sheet date. An unconditional right would not exist when the availability of the refund or the reduction in future contribution for the purpose of FRS 19.58 would be contingent upon factors beyond the entity's control (e.g. approval by third parties such as plan trustees). To the extent that such a right is conditional, no asset in respect of refunds or reductions in contributions can be recognised.

The economic benefit available in the form of refunds or reductions should be measured, in accordance with the terms of the plan and statutory requirements, at the maximum amount available. The maximum amount available is not affected by the entity's intentions (e.g. an entity may in the future choose to improve benefits rather obtain a refund or reduce contributions, in which case the improvement in benefits is accounted for when the plan is amended).

Economic benefits available as a refund

A refund is available to an entity only where the entity has an unconditional right to a refund:

- During the life of the plan, without assuming that the plan liabilities must be settled in order to obtain the refund (e.g. in some jurisdictions, the entity may have a right to a refund during the life of the plan, irrespective of whether the plan liabilities are settled); or

- Assuming the gradual settlement of the plan liabilities over time until all members have left the plan; or

- Assuming the full settlement of the plan liabilities in a single event (i.e. as a plan wind-up).

The entity should measure the economic benefit available as the amount of the surplus at the balance sheet date (i.e. the fair value of the plan assets less the present value of the defined benefit obligation) that it has a right to receive as a refund, less any associated costs (e.g. taxes).

If the refund is determined as the full amount or a proportion of the surplus, rather than a fixed amount, the amount is calculated without further adjustment for the time value of money, even if the refund is realisable only at a future date, as both the defined benefit obligation and the fair value of plan assets are already measured on a present value basis.

Economic benefits available as a reduction in contributions

In the absence of a minimum funding requirement, the Interpretation requires entities to determine economic benefits available as a reduction in future contributions as the lower of:

- The surplus in the plan; and

- The present value of the future service cost to the entity (i.e. excluding costs borne by employees) over the shorter of the expected life of the plan and the expected life of the entity.

The benefit should be determined using assumptions consistent with those used to determine the defined benefit obligation (including the discount rate) and based on conditions that exist at the balance sheet date.

This means, an entity should assume:

- No change to the benefits provided by a plan in the future until the plan is amended; and

- A stable workforce unless it is demonstrably committed at the balance sheet date to make a reduction in the number of employees covered by the plan.

The impact of a minimum funding requirement

Should a minimum funding requirement exist, the Interpretation distinguishes between contributions that are required to cover:

(a) An existing shortfall for past service on the minimum funding basis; and

(b) The future accrual of benefits.

Under (a) the minimum contribution requirement relates to services already received by an entity. To the extent that the contributions payable will not be available for a refund or reduction in future contributions, an entity recognises a liability when the obligation to provide such contributions arises. The liability recognised will either reduce the defined benefit asset or increase the defined benefit liability so that no gain or loss is expected to result from applying paragraph 58 of FRS 19 when the contributions are paid.

Under (b), an entity should determine the economic benefit available as a reduction in future contributions as the present value of:

(a) The estimated future service cost in each year less; and

(b) The estimated minimum funding contributions required in respect of the future accrual of benefits in that year.

This calculation should take into account the effect of any existing surplus on the minimum funding requirement basis. Expected changes in the terms and conditions of the minimum funding requirement should only be incorporated to the extent these are either substantively enacted or contractually agreed at the balance sheet date. To the extent that minimum funding contributions required in respect of the future accrual of benefits exceed service costs calculated under FRS 19 in any given year, the present value of that excess reduces the amount of the asset available as a reduction in future contributions. However, that asset can never be less than zero.

The Interpretation contains illustrative examples that outline the accounting treatments under a number of different scenarios.

INT FRS 114 is applicable for annual periods beginning on or after 1 January 2008. Earlier application is encouraged. The Interpretation is to be applied from the beginning of the first period presented in the financial statements for annual periods beginning on or after the effective date. Any initial adjustment arising should be recognised in retained earnings at the beginning of that period.

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

The Interpretation provides guidance on net investment hedging, including:

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

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

Background

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

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

Scope

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

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

Consensus

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

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

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

The IFRIC has also come to the following conclusions.

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

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

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

Where within the group can the hedging instrument be held?

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

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

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

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

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

Where the step-by-step approach to consolidation is used, there is a potential mismatch between the amount reclassified to profit or loss under FRS 21.48 and amount reclassified under FRS 39.102. In these circumstances, INT FRS 116 allows (but does not require) the entity to adjust the amount deferred in OCI for the hedged item to the amount that would have resulted had the entity applied the direct method of consolidation. The entity should apply this accounting policy consistently for all its net investments.

Effective date and transition

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

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

Application guidance

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

Exposure drafts

Exposure Drafts
ED Proposed Amendments to FRS 103 *Business Combinations*
ED 9 *Joint Arrangements*
ED Proposed Amendments to FRS 39 *Financial Instruments: Exposures Qualifying for Hedge Accounting*
ED Proposed Amendments to FRS 102 *Share-based Payment* and INT FRS 111 *FRS 102—Group and Treasury Share Transactions*
ED D23 *Distributions of Non-cash Assets to Owners*
ED D24 *Customer Contributions*
ED of *An Improved Conceptual Framework for Financial Reporting*
ED Proposed Amendments to FRS 33 *Simplifying Earnings per Share*
ED Proposed Improvements to FRS

ED Proposed Amendments to FRS 103 *Business Combinations*

The principal proposals are:

- The acquirer would measure the business acquired at its total fair value and, consequently, recognise the goodwill attributable to any non-controlling interests (i.e., minority interests) rather than just the portion attributable to the acquirer. This would result in 100 per cent of the acquiree's goodwill being recognised in the consolidated financial statements, even where less than 100 per cent of the subsidiary is held. The current FRS 103 requires a business combination to be measured and recognised on the basis of the accumulated cost of the combination for the acquirer.

- Payments to third parties for consulting, legal, audit, and similar services associated with an acquisition would be recognised generally as expenses when incurred rather than capitalised as part of the business combination, as they represent payments of services rather than assets of the acquiring entity. The current FRS 103 allows direct costs of the business combination to be included in the cost of certain acquired assets.

- Fair value of consideration paid would include the acquisition date fair value of any contingent consideration payable. The contingent consideration would be classified as either equity of debt in accordance with FRS 32, and adjustments to provisional fair values made in the measurement period (at most one year from date of acquisition). Subsequent to initial recognition, contingent consideration classified as equity would not be remeasured. Changes in fair value of contingent consideration classified as a liability that did not qualify as measurement-period adjustments would be accounted for in accordance with both FRS 39 and FRS 37. In the current FRS 103, such changes in estimate are treated as adjustments to goodwill.

- Acquisitions of additional non-controlling equity interests after the business combination will no longer be accounted for using the acquisition method. Instead, they will be accounted for as transactions with owners. No assets and liabilities would be remeasured at fair value, and no additional goodwill would be recognised.

Note that the IASB has already issued a revised standard after considering comments relating to the IFRS equivalent of this ED. Note that some of the proposed changes in that ED issued by the IASB (which are similar to the proposed changes in this FRS version of the ED) were not adopted in the revised IFRS. It is expected that any revised standard issued by the ASC will mirror the equivalent revised IFRS issued by IASB.

Summary of major changes

Five headline changes brought about by the revised IFRS 3 Business Combinations and the revised IAS 27 Consolidated and Separate Financial Statements, are set out in the following table, and explained below.

Acquisition costs	Expensed in profit or loss
Contingent consideration	Adjustments to liability recognised in profit or loss
Partial acquisitions	Choice of measurement basis for non-controlling interests
Step acquisitions	Previous/residual holdings remeasured to fair value
Transactions with non-controlling interests	Recognised in equity – no goodwill or profit/loss

- **Acquisition costs** All acquisition-related costs (e.g. finder's fees, advisory, legal, accounting, valuation and other professional or consulting fees) are to be recognised as period expenses and generally written-off rather than added to goodwill (as previously). Costs incurred to issue debt or equity securities will continue to be recognised in accordance with the Standards on financial instruments. This change reflects the Board's move to focus on what is given to the vendor as consideration, rather than on what is spent to achieve the acquisition.

- **Contingent consideration** Consideration for an acquisition, including any contingent consideration arrangements, is recognised and measured at fair value at the acquisition date. Subsequent changes in those fair values can only affect the measurement of goodwill where they occur during the 'measurement period' and are as a result of additional information becoming available about facts and circumstances that existed at the acquisition date. All other changes (e.g. due to the acquiree meeting an earnings target, reaching a specific share price, or meeting a milestone on a research and development project) are dealt with in accordance with relevant IFRSs. This will usually mean that changes in the fair value of consideration are recognised in profit or loss (e.g. where the contingent consideration is classified as debt under IAS 32 Financial Instruments: Presentation). This change is a further application of the IASB's move to focus on what is given to the vendor as consideration in the business combination. The consequence is separation of, and separate accounting for, aspects of the transaction that are not part of the business combination.

- **Partial acquisitions** A partial acquisition refers to the acquisition of a controlling interest, but with a proportion of acquiree equity interests held by other investors referred to as 'noncontrolling interests' (formerly 'minority interests'). A choice is available, on an acquisition-by-acquisition basis, to measure such non-controlling interests either at their proportionate interest in the net identifiable assets of the acquiree (which is the previous IFRS 3 requirement) or at fair value (which is a new option and is mandatory under US GAAP). The choice of method has a consequential effect on the balancing amount recognised as goodwill.

- **Step acquisitions** A step acquisition refers to obtaining a controlling interest through two or more separate transactions. The IASB has developed the principle that a change in control is a significant economic event. Accordingly, changes to IFRS 3 and IAS 27 work together with the effect that a business combination occurs, and acquisition accounting is applied, only at the date that control is achieved. Consequently, goodwill is identified and net assets remeasured to fair value only in respect of the transaction that achieved control, and not in respect of any earlier or subsequent acquisitions of equity interests. In measuring goodwill, any previously held interests in the acquiree are first remeasured to fair value, with any gain recognised in profit or loss (including the reclassification to profit or loss of any gains previously recognised in other comprehensive income if this would be required on disposal). Similarly, on disposal of a controlling interest, any residual interest is remeasured to fair value and reflected in any profit or loss on disposal.

- **Transactions with non-controlling interests** Once control has been achieved and acquisition accounting applied, any subsequent transactions in subsidiary equity interests between the parent and non-controlling interests (both acquisitions and disposals that do not result in a loss of control) are accounted for as equity transactions. Consequently, additional goodwill does not arise on any increase in parent interest, there is no remeasurement of net assets to fair value, and no gain or loss is recognised on any decrease in parent interest.

ED 9 *Joint Arrangements*

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

- To shift the focus in accounting for joint arrangements away from the legal form of the arrangements and onto the contractual rights and obligations agreed by the parties; and

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

General principles

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

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

Adopting a ‘substance over form’ approach

The ED effectively adopts a ‘substance over form’ approach to the accounting for joint venture arrangements, focusing on the rights and obligations contractually agreed by the parties.

The ED proposes that:

- A party to a joint arrangement should recognise its contractual rights and obligations (and the related income and expenses) in accordance with applicable FRSs; and

- A party should recognise an interest in a joint venture (i.e. an interest in a share of the outcome generated by the activities of a group of assets and liabilities subject to joint control) using the equity method. Proportionate consolidation would not be permitted.

Types of joint arrangements

The table below summarises the three forms of joint arrangements contemplated by ED 9.

Type	Characteristics	Ownership of assets	Summary of accounting required
Joint operation	Involves the use of the assets and other resources of the parties, often to manufacture and sell a joint product.	Each party generally owns its own assets that it uses to create the joint product.	Recognise controlled assets and incurred liabilities, expenses incurred and share of revenues and expenses from the sale of goods or services by the joint arrangement.
Joint asset	Each party takes a share of the output from the asset and bears an agreed share of the costs incurred to operate the asset.	Each party has rights, and often has joint ownership of the assets used to generate the output.	Recognise share of joint assets, classified according to the nature of the asset, liabilities incurred (including those jointly incurred), revenue from the sale of share of output and expenses incurred.
Joint venture	Joint arrangement that is jointly controlled by the venturers. Each venturer is entitled to a share of the outcome of the activities of the joint venture.	Venturers do not have rights to individual assets or obligations for expenses of the venture.	Recognise the interest in the joint venture using the equity method unless an exemption applies (held for sale, exemption from equity accounting).

One arrangement can result in more than one category

The ED effectively requires an entity to take a holistic view of its joint arrangements. It also means that one arrangement can have multiple aspects and those aspects may be separately accounted for in some cases. For instance, where joint arrangements are conducted through an entity, all associated agreements will need to be considered when assessing how to account for the arrangement – this could include leases granted or other rights afforded to one or more of the venturers, or guarantees provided effectively making venturers liable for liabilities. These contractual rights and obligations considered in the context of the overall arrangement may bring some assets and liabilities directly onto the balance sheet of the venturers.

Example

This example is based on Illustrative Example 3 in ED 9. Three companies (venturers) jointly buy a 15-floor office building, with each floor having a separate legal title, allowing each floor to be sold separately. Each venturer has ownership of five floors and can use one floor for whatever purpose it chooses. Ownership of the other four floors held by each venturer are transferred to a separate company and then rented to third parties. The venturers jointly control the company and are not liable for any costs of the company.

Under the proposals in ED 9, the venturers must recognise two separate items:

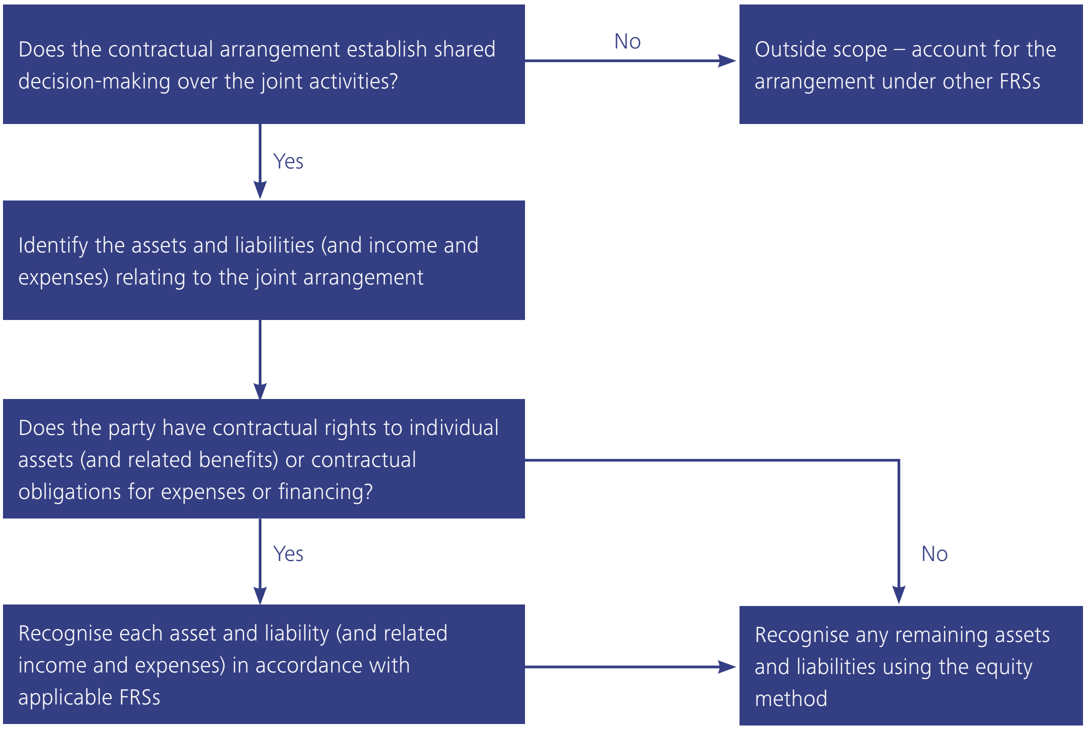
- A direct interest in the floor, accounted for under applicable FRSs; and
- An interest in the company, equity accounted.

The same outcome would result if all 15 floors of the building were legally owned by the company, but with one floor leased to each venturer for the expected life of the building. This is because the rights afforded to each venturer through the lease produces an equivalent outcome in substance to direct ownership of the leased floor.

Under both scenarios, the joint venture company itself would not recognise the rights to use the floor which rest with the individual venturers.

Summary flowchart

The following flowchart (from the Application Guidance included in ED 9) illustrates how a party to a joint arrangement recognises its interests in the arrangement.



Expanded disclosure requirements

ED 9 proposes a number of enhanced disclosure requirements around joint arrangements, particularly in relation to joint ventures (which must be equity accounted under the ED).

Consequential amendments are also proposed to FRS 28 *Investments in Associates* and FRS 27 *Consolidated and Separate Financial Statements* to align disclosure requirements between the various Standards.

ED Proposed Amendments to FRS 39 *Financial Instruments: Exposures Qualifying for Hedge Accounting*

The proposed amendments clarify how the existing principles underlying hedge accounting should be applied in below given situations:

(a) Inflation in a financial hedged item, and

(b) Hedging one sided risk with options.

Identifying inflation as a hedged risk or portion

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

Hedging on sided risk with options

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

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

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

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

ED Proposed Amendments to FRS 102 *Share-based Payment* and INT FRS 111 *FRS 102 – Group and Treasury Share Transactions*

The exposure draft of proposed amendments respond to requests for guidance on how a group entity that receives goods or services from its suppliers (including employees) should account for the following arrangements:

- Arrangement 1—the entity's suppliers will receive cash payments that are linked to the price of the equity instruments of the entity
- Arrangement 2—the entity's suppliers will receive cash payments that are linked to the price of the equity instruments of the entity's parent.

Under either arrangement, where the entity's parent has an obligation to make the required cash payments to the entity's suppliers such that the entity itself does not have any obligation to make payments, the proposed amendment to FRS 102 clarifies that FRS 102 applies to arrangements described above even if the entity that receives goods or services from its suppliers has no obligation to make the required share-based cash payments. The proposed amendment to INT FRS 111 specifies that the entity should measure the goods or services in accordance with the requirements for cash-settled share-based payment transactions.

ED D23 D*istributions of Non-cash Assets to Owners*

The key impact of the proposals in D23 would be on entities whose accounting policy has been to recognise distributions of non-cash assets to owners at amounts other than fair value (e.g. at the carrying amount of the asset distributed). Those entities would be required to measure the distribution at fair value and to recognise a gain when the fair value of the asset to be distributed is higher than its carrying amount. The proposed accounting would also result in a larger debit to retained earnings on the initial recognition of the dividend payable, and a larger liability.

Background

An entity may distribute assets other than cash as dividends to its owners acting in their capacity as owners. FRSs do not currently address how such non-cash distributions to owners should be measured.

The ED addresses the following issues:

- How an entity should measure an obligation to distribute non-cash assets to its owners (the dividend payable); and
- When an entity settles the dividend payable, how it should account for any difference between the carrying amount of the assets distributed and the provision for the dividend payable.

Scope

The ED applies to:

- Distributions of non-cash assets, and
- Distributions that give owners a choice of receiving either non-cash assets or a cash alternative, for which all owners of the same class of equity instruments are treated equally.

The ED does not apply to a distribution of an asset that is ultimately controlled by the same parent entity before and after the distribution (i.e. a non-cash distribution within the same group).

Measurement of the dividend payable

The ED proposes that when an entity has an obligation to distribute assets to its owners, it should measure the liability for the dividend payable in accordance with FRS 37 *Provisions, Contingent Liabilities and Contingent Assets*. FRS 37 requires an entity to measure a liability at the best estimate of the expenditure required to settle or transfer the present obligation.

The ED states that to apply the requirements in FRS 37 to the measurement of the dividend payable, an entity should consider the fair value of the assets to be distributed. If an entity gives its owners a choice of receiving either a non-cash asset or a cash alternative, the entity should estimate the dividend payable by considering both the fair value of each alternative and the associated probability of owners selecting each alternative.

Accounting for any difference

The ED proposes that when an entity settles the dividend payable, it should recognise the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable as a gain or loss in profit or loss.

Example

An entity wishes to distribute to its owners land with a carrying amount of CU20 million (determined under FRS 16's cost model). The fair value of the land is CU30 million. At the date it enters into an obligation to make the distribution, the entity recognises a liability for CU30 million and debits equity with the same amount, as follows:

	CUm	CUm
DR Equity (retained earnings)	30	
CR Liabilities (dividend payable)		30

On settlement of the liability, the following entries would be required:

	CUm	CUm
DR Liabilities (dividend payable)	30	
CR Land		20
CR Profit or loss (gain on distribution of asset)		10

If the fair value of the property changes between the date on which the dividend is declared and the date of settlement, the liability is remeasured through equity (retained earnings) and, on settlement, profit or loss is affected.

Continuing the previous example, if the fair value of the land has increased to CU32m on the date of settlement, the net effect is to debit to retained earnings an additional CU2m and to increase the gain on distribution of the asset from CU10m to CU12m.

ED D24 *Customer Contributions*

The key impact of D24 would be that entities that have not previously recognised contributed assets would begin (prospectively) to recognise increased property, plant and equipment and revenue. Entities that have previously recognised revenue immediately on the receipt of a contributed asset might be required to recognise revenue over a longer period (again, prospectively).

Background

In some industries, a customer may be required to contribute an asset (or cash towards the construction or acquisition of an asset) that is then used to provide access to an ongoing supply of goods or services to the customer.

For example, a property developer may be required to install an electricity substation to service a new housing development that must then be contributed to the supplier operating the electricity network. The supplier must use the asset to provide access to electricity to the future homeowners.

The draft Interpretation provides guidance for the supplying entity on the accounting for the receipt of such contributions, in particular:

- Whether the contribution gives rise to an asset of the entity receiving the contribution, and at what amount any such asset should be initially recognised;
- If a customer contribution is recorded at fair value on initial recognition, how the resulting credit is accounted for; and
- How an entity should account for the receipt of a cash contribution.

Scope

The ED applies to all situations in which an entity (the access provider) receives an item of property, plant and equipment (or cash it is required to use to construct or acquire an item of property, plant and equipment) that must be used to provide access to a supply of goods or services.

D24 specifically applies only to contributions of property, plant and equipment or cash. Contributions of intangible assets such as patents, research findings or software are not addressed.

Recognition of a customer contribution as an asset

Under D24's proposals, when an entity receives a customer contribution, it would be required to assess whether the contribution qualifies for recognition as an asset. If the customer contribution does qualify for recognition as an asset, it would be recognised as property, plant and equipment and initially measured at fair value.

Obligation to provide access to a supply of goods or services

An entity that receives a customer contribution usually has an obligation to provide access to a supply of goods or services. The ED proposes that this obligation should be recognised and measured at the fair value of the contribution received. The obligation would be reduced and revenue recognised as access to the supply of goods or services is provided.

The period over which revenue would be recognised is the period over which the entity has an obligation to continue to provide access to a supply of goods or services using the contributed asset. The period of the obligation may be shorter, but never longer, than the useful economic life of the asset.

Determining whether the ongoing arrangement contains a lease

An entity that receives a customer contribution would be required to assess whether the ongoing arrangement to provide access to a supply of goods or services using that asset contains a lease, in accordance with FRS 17 *Leases* and INT FRS 104 *Determining whether an Arrangement contains a Lease*, and to account for the arrangement as appropriate.

Accounting for a cash contribution

A cash contribution is a payment of cash to an entity to acquire or construct an item of property, plant and equipment that the entity must use to provide access to a supply of goods or services to the customer. Where the asset to be acquired or constructed will meet the criteria to be recognised as property, plant and equipment, consistent with above discussion, the asset would be accounted for in accordance with FRS 16. If not, the entity would be required to account for the cash contribution as proceeds for providing the asset to the customer, applying FRS 11 *Construction Contracts* or FRS 18 *Revenue* as appropriate.

ED of *An Improved Conceptual Framework for Financial Reporting*

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

Chapter 1: The objective of financial reporting

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

Capital providers are identified as investors, lenders and other creditors (including suppliers, employees and customers). The reference to 'present and potential' investors is intended to acknowledge that general purpose financial reports are used both for future investment decisions and for assessing the stewardship of resources already committed to the entity.

The stewardship responsibilities of management are addressed specifically. This issue sparked considerable debate during the discussion paper phase of this project. While 'stewardship' is not a separate objective of financial reporting as some had requested, the Boards have acknowledged that evaluating past performance of an entity is as important as predicting future cash flows.

Chapter 2: Qualitative characteristics and constraints of decision-useful financial reporting information

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

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

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

The Basis for Conclusions accompanying the ED lists additional candidates for qualitative characteristics that were considered by the Boards, but not included in the proposals. These include 'transparency' (the Boards concluded that this characteristic is subsumed within faithful representation and understandability); 'true and fair view' (this is equivalent to faithful representation); 'credibility' (implied by verifiability); and 'high quality' (this is achieved by adherence to the objective and qualitative characteristics of financial reporting generally). One other candidate, 'internal consistency' was rejected because the Boards considered that such a requirement, although desirable and the goal of the Boards, could impede the evolution of financial reporting standards.

Constraints

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

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

ED Proposed Amendments to FRS *33 Simplying Earnings per Share*

The ED was issued simultaneously with a proposed amendment to FAS 128 *Earnings per Share*, the US GAAP equivalent. Both proposals are part of the ongoing convergence project between the IASB and the FASB.

The effective date of these amendments has not yet been determined. The IASB's project plan anticipates a revised standard in the second half of 2009. The IASB has requested comments on the ED by 5 December 2008.

What is converged?

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

The ED aims to converge:

- The basic principle of determining what instruments are included in basic Earnings Per Share (EPS). The ED proposes that only ordinary shares that give (or are deemed to give) the holder the right to share currently in profit or loss of the period should be included in the calculation of basic EPS. Ordinary shares include ordinary shares that are currently issuable for little or no cash or other consideration. The treatment for many mandatorily convertible instruments will change. Currently under FRS 33 these instruments are likely to be treated for EPS purposes as if the instrument has already been converted, i.e. the shares have been issued, whereas under the ED this will not be the case if the holder of the instrument does not have the right to immediately convert as the holder does not currently share in profit or loss of the period. Also, in determining the amount of earnings attributable to ordinary shares an entity shall consider the effects of a second class of ordinary shares and participating instruments.
- The EPS impact for contracts that require the entity to buy back its own ordinary shares for cash or other

financial assets that are not fair valued through profit or loss, e.g. some forward purchase contracts over own equity. It proposes to treat those contracts as if the entity had already repurchased the shares, therefore as a reduction in the number of ordinary shares outstanding. This would also apply to mandatorily redeemable ordinary shares. If the underlying shares to be acquired are receiving dividends it may result in the financial liability being considered a participating instrument.

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

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

What is simpler?

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

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

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

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

ED Proposed improvements to FRSs

This is the second set of proposals under the IASB's annual improvements process which is intended to deal with non-urgent but necessary amendments to Standards. The proposed amendments focus on areas of inconsistency in Standards or where clarification of wording is required. The ED includes 12 separate amendments which impact 8 different Standards.

Detail of amendments

The following table provides a summary of each of the amendments proposed in the ED. Unless otherwise specified, the proposed amendments are effective for annual periods beginning on or after 1 January 2010. The proposed amendments to FRS 36, FRS 38 and FRS 39 are to be applied prospectively.

FRS	Subject of amendment
FRS 102 *Share-based Payment*	Scope of FRS 102 and revised FRS 103
FRS 105 *Non-current Assets Held for Sale and Discontinued Operations*	Disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations
FRS 108 *Operating Segments*	Disclosure of information about segment assets
FRS 7 *Statement of Cash Flows*	Classification of expenditures on unrecognised assets
FRS 18 *Revenue*	Determining whether an entity is acting as a principal or as an agent
FRS 36 *Impairment of Assets*	Unit of accounting for goodwill impairment test
FRS 38 *Intangible Assets*	Additional consequential amendments arising from revised FRS 103
	Measuring the fair value of an intangible asset acquired in a business combination
FRS 39 *Financial Instruments: Recognition and Measurement*	Scope exemption for business combination contracts
	Application of the fair value option
	Cash flow hedge accounting
	Bifurcation of an embedded foreign currency derivative

IFRIC issued in 2008

IFRIC 15 *Agreements for the Construction of Real Estate*

IFRIC 15 *Agreements for the Construction of Real Estate* was issued on 3 July 2008 and addresses the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. IFRIC 15 addresses two (related) issues:

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

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

The Interpretation provides some limited additional guidance on the distinction between 'construction contracts' (falling within the scope of IAS 11) and other agreements for the construction of real estate (falling within the scope of IAS 18). Agreements involving the construction of real estate will need to be examined carefully to determine whether they should be accounted for in accordance with IAS 11 or IAS 18. Entities most affected are likely to be those that undertake construction of multiple-unit developments. For some agreements falling within the scope of IAS 18 and involving the supply of goods, the Interpretation has introduced a new concept, i.e. that IAS 18's revenue recognition criteria may be met 'continuously as construction progresses'. In such circumstances, revenue is recognised by reference to the stage of completion of construction, using the percentage of completion method. IFRIC 15 is effective for annual periods beginning on or after 1 January 2009 for entities reporting under IFRS.

The Interpretation has yet to be adopted by the ASC.

Summary of differences between FRS and IAS/IFRS

The FRSs and INT FRSs issued by the ASC are largely aligned with the standards and interpretations under IAS/IFRS, except for certain modifications to effective dates and transitional provisions, and differences in timing of adoption. Differences in effective dates related to periods before 2007 are no longer relevant for 2008 financial reporting and are not included here. Below, we identify the key differences between FRS and IAS/IFRS as at 31 October 2008:

FRS	Content	IAS /IFRS	Comments
FRS 16	Property, Plant and Equipment	IAS 16	FRS 16 exempts regular revaluation for assets on which any one-off revaluation is performed between 1 January 1984 and 31 December 1996 (both dates inclusive) or for assets that have been revalued prior to 1 January 1984, whereas IAS 16 does not give such an exemption.
FRS 17	Leases	IAS 17	FRS 17 removes the words in paragraphs 14 and 15 of IAS 17, which indicates that land normally has an indefinite economic life and, if title is not expected to pass to the lessee by the end of the lease term, the lessee does not receive substantially all of the risks and rewards incident to ownership.
FRS 27, 28 and 31	Consolidated Financial Statements and Accounting for Investments in Subsidiaries, Associates and Joint Ventures	IAS 27, 28 and 31	FRS 27 exempts a parent from presenting consolidated financial statements if its holding company produces consolidated financial statements available for public use, whereas under IAS 27, such an exemption applies only if the holding company produces consolidated financial statements available for public use that comply with IFRS.
ED FRS 27	Consolidated and Separate Financial Statements	IAS 27 (r2008)	IAS 27 (r2008) is effective for annual periods beginning on or after 1 July 2009. This revised Standard has not been adopted in Singapore yet.
ED FRS 27	Consolidated and Separate Financial Statements (Cost of an investment in the separate financial statements)	IAS 27 (r2008)	IAS 27 (r2008) is effective for annual periods beginning on or after 1 January 2009. This revised Standard has not been adopted in Singapore yet.

FRS	Content	IAS /IFRS	Comments
FRS 102	Share-based Payment	IFRS 2	The cut-off grant date for retrospective treatment of equity-settled share-based payment is 7 November 2002 under IFRS 2 and 22 November 2002 under FRS 102.
ED FRS 103	Business Combinations	IFRS 3 (r2008)	IFRS 3 (r2008) is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. This revised Standard has not been adopted in Singapore yet.
FRS 107 and consequential amendments to FRS 1	Financial Instruments: Disclosures	IFRS 7 and consequential amendments to IAS 1	IFRS 7 and consequential changes to FRS 1 are effective for annual periods beginning on or after 1 January 2007. In Singapore, FRS 107 is effective for listed entities for annual periods beginning on or after 1 January 2007 and for all other entities from 1 January 2008.
ED INT FRS	Members' Shares in Co-operative Entities and Similar Instruments	IFRIC 2	IFRIC 2 is effective for annual periods beginning on or after 1 January 2005. This interpretation has not been adopted in Singapore yet.
ED INT FRS	Agreements for the Construction of Real Estate	IFRIC 15	IFRIC 15 is effective for annual periods beginning on or after 1 January 2009. This interpretation has not been adopted in Singapore yet.

Section II: Other Financial Reporting Matters

Amendments to SGX Listing Manual

In November and December 2007, amendments were made to the listing rules on two key areas:

- Improving market efficiency and disclosure – effective 3 December 2007
- To introduce the watch-list for Mainboard issuers – effective 1 March 2008

The following is not a comprehensive summary of all changes to the SGX listing rules announced in November and December 2007 but only those areas we believe to be important.

The detailed changes can be found on SGX website at www.sgx.com.

SGX Rule No.	Amendments to SGX Listing Manual Summary and Comments
Amendments to Listing Rules to Improve Market Efficiency and Disclosure Effective 3 December 2007	
Definitions and Interpretations	For the purposes of the Listing Rules, Treasury shares will be excluded from references to "issued share capital" and "equity securities" and for the calculation of market capitalisation and public float.
704(26)	An issuer is required to immediately announce details relating to the sale, transfer, cancellation and/or use of treasury shares.
704(27)	An issuer is required to immediately announce details relating to any grant of options, and such announcement must be made on the date of the offer.

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705	(1) An issuer must announce the financial statements for the full financial year (as set out in Appendix 7.2) immediately after the figures are available, but in any event not later than 60 days after the relevant financial period. (2) An issuer must announce its financial statements for each of the first three quarters of its financial year (as set out in Appendix 7.2) immediately after the figures are available, but in any event not later than 45 days after the quarter end if: (a) its market capitalization exceeded S$75 million as at 31 March 2003; or (b) it was listed after 31 Mach 2003 and its market capitalization exceeded S$75 million at the time of listing (based on the IPO issue price); or (c) its market capitalization is S$75 million or higher on the last trading day of each calendar year commencing from 31 December 2006. An issuer whose obligation falls within this sub-section (c) will have a grace period of a year to prepare for quarterly reporting. As an illustration, an issuer whose market capitalization is S$75 million or higher as at the end of the calendar year 31 December 2006 must announce its quarterly financial statements for any quarter of its financial year commencing in 2008. Notwithstanding the grace period, all issuers whose obligation falls under this sub-section (c) are strongly encouraged to adopt quarterly reporting as soon as possible. (3) (a) An issuer who falls within the sub-sections in Rule 705(2) above must comply with Rule 705(2) even if its market capitalization subsequently decreases below S$75 million. (b) An issuer who does not fall within the sub-sections in Rule 705(2) above must announce its first half financial statements (as set out in Appendix 7.2) immediately after the figures are available, but in any event not later than 45 days after the relevant financial period. (4) In the case of an announcement of interim financial statements (quarterly or half-yearly, as applicable, but excluding full year financial statements), an issuer's directors must provide a confirmation that, to the best of their knowledge, nothing has come to the attention of the board of directors which may render the interim financial statements to be false or misleading in any material aspect. In order to make this confirmation, Directors would not be expected to commission an audit of these financial statements. The confirmation may be signed by 2 directors on behalf of the board of directors.
712(2)	A change in auditors must be specifically approved by shareholders in a general meeting.

SGX Rule No.	Amendments to SGX Listing Manual Summary and Comments
1018 (1)	If the assets of an issuer consist wholly or substantially of cash or short-dated securities, its securities will normally be suspended. The suspension will remain in force until the issuer has a business which is able to satisfy the Exchange's requirements for a new listing, and all relevant information has been announced. Upon completion of the disposal of its operations and / or assets, the issuer must :- (a) Place 90% of its cash and short-dated securities (including existing cash balance and the consideration arising from the disposal(s) undertaken by the issuer) in an account opened with and operated by an escrow agent which is part of any financial institution licensed and approved by the Monetary Authority of Singapore. The amount that is placed in the escrow account cannot be drawn down until the completion of the acquisition of a business which is able to satisfy the Exchange's requirements for a new listing, except for payment of expenses incurred in a reverse takeover approved by shareholders and pro-rata distributions to shareholders; and (b) Provide monthly valuation of its assets and utlilization of cash, and quarterly updates of milestones in obtaining a new business to the market via SGXNET. Taking the above compliance into account, the Exchange may allow continued trading in a cash company's securities on a case-by-case basis, subject to:- (c)Contractual undertakings from the issuer's directors, controlling shareholders, chief executive officer and their associates to observe a moratorium on the transfer or disposal of all their interests, direct and indirect, in the securities of the issuer, and (d) The period of the moratorium must commence from the date shareholders approve the disposal of business, up to and including the completion date of the acquisition of a business which is able to satisfy the Exchange's requirements for a new listing.
1018(2)	The Exchange will proceed to remove an issuer from the Official List if it is unable to meet the requirements for a new listing within 12 months from the time it becomes a cash company. The issuer may apply to the Exchange for a maximum 6-month extension to the 12-month period subject to the issuer finding a new business which investors may evaluate the issuer's progress. In the event the issuer is unable to meet its milestones, or find a new business despite the time extension granted, no further extension will be granted and the issuer will be required and make a cash exit offer in accordance with Rule 1309 to its shareholders within 6 months.

SGX Rule No.	Amendments to SGX Listing Manual Summary and Comments
1203(5)	An issuer must submit to the Exchange for review, one draft copy of a notice of meeting if it contains a resolution relating to change of auditors, and such a notice should include specific details relating to the change i.e. • Confirmation from the outgoing auditors whether or not they are aware of any professional reasons why the new auditors should not accept appointment as auditors of the issuer. If so, to provide details; • Confirmation from the issuer whether or not there were disagreements with the outgoing auditors on accounting treatments within the last 12 months. If so, to provide details; • Confirmation from the issuer whether or not it is aware of any circumstances connected with the change of auditors that should be brought to the attention of the shareholders of the issuer; and • Specific reasons for the change of auditors, including but not limited to, whether the outgoing auditors resigned, declined to stand for election or were dismissed.
1207(9)(f)	An annual report must include the number of treasury shares held and the percentage of such holding against the total number of issued shares excluding treasury shares.
1303(1)	The Exchange may at any time suspend trading of the listed securities of an issuer in any of the following circumstances:- (1) If the percentage of an issuer's total number of issued shares excluding treasury shares held in public hands falls below 10%, as provided in Rule 723. In a take-over situation, where the Offeror succeeds in gamering acceptances exceeding 90% of the issuer's total number of issued shares excluding treasury shares, thus causing the percentage of an issuer's total number of issued shares excluding treasury shares held in public hands to fall below 10%, the Exchange will suspend trading of the listed securities of the issuer only at the close of the take-over offer.
1303(3)	The Exchange may at any time suspend trading of the listed securities of an issuer in any of the following circumstances:- (3) Where the issuer is unable to continue as a going concern or unable to demonstrate to the Exchange and its shareholders that it is able to do so, including the following circumstances: (a) When an application is filed with a court to place the issuer (or significant subsidiary) under judicial management; or (b) When an application is filed with a court for the liquidation of the issuer (or significant subsidiary) and the amount of the debt alleged is significant; or (c) When the issuer is unable to reasonably assess its financial position and inform the market accordingly.

SGX Rule No.	Amendments to SGX Listing Manual Summary and Comments
New Rule 1306	If the Exchange exercises its power to remove an issuer from the Official List, the issuer or its controlling shareholder(s) must comply with the requirements of Rule 1309. For purposes of Rule 1309, a reasonable exit offer may include a voluntary liquidation of the issuer's assets and distribution of cash back to shareholders.
PN 10.1 7.1 – 7.2	For the purposes of classification of Acquisitions and Realizations transactions under Rule 1006(c), the aggregate value of the consideration given or received should include the maximum amount of any deferred consideration that may be payable or receivable.
Amendments to Listing Rules to Introduce Watch-List Effective 1 March 2008	
1310	Chapter 13 now includes Rules 1310 to 1316, which apply to issuers listed on the SGX Mainboard, except for investment funds, real estate investment trusts, business trust, global depository receipts and companies with secondary listings on the Exchange.
1311	An issuer will be placed on the watch-list if it records: (1) pre-tax losses for the three (3) most recently completed consecutive financial years (based on the latest announced full year consolidated accounts, excluding exceptional or non-recurrent income and extraordinary items); and (2) an average daily market capitalisation of less than $40 million over the last 120 market days on which trading was not suspended or halted.
1312	Upon recording a pre-tax loss for the third consecutive financial year, an issuer must immediately announce the fact through the SGXNet.
1313	If an issuer is placed on the watch-list, it must, immediately announce the fact through the SGXNet; and for the period in which it remains on the watch-list, provide the market with a quarterly update on its financial situation, including its future direction, or other material development that may have a significant impact on its financial position. If any material development occurs between the quarterly updates, it must be announced immediately.
1314/1315	An issuer on the watch list must take active steps to apply for its removal from the list within 24 months of the date on which it was placed on the list. In order to apply for removal, the issuer must satisfy either one of the following requirements: • It records consolidated pre-tax profit for the latest completed financial year and has an average daily market capitalisation of S$40 million or more over the last 120 days, or • It satisfies the Mainboard admission criteria either under Rule 210(2)(a) or Rule 210(2)(b).

Launch of Catalist rules

On 26 November 2007, the SGX announced the launch of Catalist, a new sponsor-supervised listing platform which replaced the SGX-ST Dealing and Automated Quotation System (the "SESDAQ").

The new rules for Catalist take effect on 17 December 2007. Accordingly, all SESDAQ listed companies will be known as Catalist listed companies. These companies will continue to be regulated by the SGX under the SESDAQ regime until they have engaged a Catalist sponsor and adopted the Catalist rules.

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

Update on Auditing Standards

The Institute of Certified Public Accountants of Singapore released the revised and redrafted Singapore Standard on Auditing (SSA) relating to group audits, SSA 600, in April 2008. The scope of the revised SSA 600 is broader than the extant standard and covers all audits of group financial statements, while the extant standard covers only group audits where 'other auditors' are involved.

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

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

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

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

- Auditors are required to comply with the auditing standards contained in this SSA in respect of audits of group financial statements for periods beginning on or after 15 December 2009.

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

Resources

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

Deloitte Touche Tohmatsu – www.deloitte.com - the website provides a global e-library and links to websites of member firms around the world.

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