

Changes to the financial reporting framework in Singapore



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Acronyms

ASC	Accounting Standards Council
ED	Exposure Draft
FRS	Singapore Financial Reporting Standards
FASB	United States Financial Accounting Standards Board
IASB	International Accounting Standards Board
IAS	International Accounting Standards
ISCA	Institute of Singapore Chartered Accountants
IFRIC	IFRS Interpretations Committee
IFRS	International Financial Reporting Standards
INT FRS	Interpretation of Singapore Financial Reporting Standards
RAP	Recommended Accounting Practice
SGX	Singapore Exchange Limited
SIC	Standing Interpretations Committee
US GAAP	United States Generally Accepted Accounting Principles

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Introduction

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

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

We have retained the relevant summaries of new/revised FRSs and INT FRSs included in the 2012 edition. For Standards that are not effective yet, entities will need to consider and disclose in their current financial statements, the possible effects that these new/revised FRSs and INT FRSs might have in the period of initial application.

One of the key IFRSs not adopted as an FRS at the time of this publication is IFRS 9 *Financial Instruments*. The ASC has deferred the adoption of IFRS 9 until a later date which is yet to be confirmed. The plan towards full convergence of Singapore FRSs with IFRSs for Singapore incorporated companies listed on the SGX has been deferred to a later date, which will be announced at an appropriate juncture.

Section 1: Financial Reporting Standards

Standards effective for annual periods beginning on or after 1 July 2012 / 1 January 2013

	Title	Effective date*	Issue date
FRS 1 (Amended)	<i>Presentation of Financial Statements</i> - Presentation of Items of Other Comprehensive Income	1-Jul-12	2011
FRS 19 (Amended)	<i>Employee Benefits</i> - Post Employee Benefits	1-Jan-13	2011
FRS 113	<i>Fair Value Measurement</i>	1-Jan-13	2011
FRS 101 (Amended)	<i>First-time Adoption of Financial Reporting</i> - Government Loans	1-Jan-13	2012
FRS 107 (Amended)	<i>Financial Instruments: Disclosures</i> - Offsetting Financial Assets and Financial Liabilities ⁽¹⁾	1-Jan-13	2012
INT FRS 120	<i>Stripping Costs in the Production Phase of a Surface Mine</i>	1-Jan-13	2012
General	<i>Improvements to FRSs (August 2012)</i>	1-Jan-13	2012

*Applies to annual periods beginning on or after the date shown

⁽¹⁾FRS 107 (Amended) has been issued together with FRS 32 (Amended) *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*. FRS 32 (Amended) is effective from 1 January 2014.

FRS 1 (Amended) *Presentation of Financial Statements* - *Presentation of Items of Other Comprehensive Income*

Background

The amendment to FRS 1 *Presentation of Financial Statements* is part of a wider project on performance reporting to overhaul the presentation of primary statements.

Amendment

This limited amendment on Other Comprehensive Income (“OCI”) presentation is to require entities to present separate grouping for OCI items that might be recycled i.e. reclassified to profit or loss (e.g. those arising from cash flow hedging, foreign currency translation) and those items that would not be recycled (e.g. revaluation gains on property, plant and equipment that are carried at revalued amounts). The tax effects recognised for the OCI items would also be captured in the respective grouping, although there is still a choice to present OCI items before tax or net of tax.

The choice of presenting OCI and profit and loss items either in a single statement or in two consecutive statements has been retained.

The amendments also introduce new terminologies, referring to a ‘statement of profit or loss and other comprehensive income’ and a ‘statement of profit or loss’. The use of these terms is not mandatory.

Effective date and transition

Changes arising from these amendments to FRS 1 will take effect from financial years beginning on or after 1 July 2012, with full retrospective application. Early adoption is permitted.

FRS 19 (Amended) Employee Benefits

- Post Employment Benefits

Background

The amendments to FRS 19 change the following:

- (i) The accounting for actuarial gains and losses;
- (ii) The presentation approach;
- (iii) Requirement for additional disclosures;
- (iv) Classification of employee benefits;
- (v) Clarified the timing of when termination benefits should be recognised; and
- (vi) Clarification of certain practical issues.

Amendments

(i) Accounting for actuarial gains and losses

Prior to the amendment, FRS 19 permitted choices on how to account for actuarial gains and losses on pensions and similar items, including the 'corridor approach' which resulted in the deferral of the actuarial gains and losses.

The amended FRS 19 will require an entity to recognise changes in defined benefit obligations and plan assets when they occur, thus eliminating the 'corridor approach'.

All actuarial gains and losses are to be recognised immediately through other comprehensive income ("OCI") in order for the net pension asset or liability recognised in the statement of financial position to reflect the full value of the plan deficit or surplus. The option to recognise actuarial gains and losses in profit or loss has been removed.

On transition to the amended FRS 19, an entity currently using the corridor approach may have to recognise a larger liability (or smaller asset) in the statement of financial position, which could affect its compliance with debt covenants.

On an ongoing basis, there will be greater volatility in the statement of financial position and in OCI due to the immediate recognition of actuarial gains and losses, but the profit or loss impact of amortising actuarial gains and losses under the 'corridor approach' will no longer occur.

(ii) Change in presentation approach

The amendments introduce a new approach for presenting changes in defined benefit obligations and plan assets in the statement of comprehensive income. Entities will need to segregate changes in the defined benefit obligations and the fair value of plan assets into those associated with (a) service costs, (b) net interest on the defined benefit liability (asset) and (c) remeasurements.

- (a) Service cost component – recognised in profit or loss and includes current service cost, vested and unvested past service cost (together with gains and losses from curtailments) and gains and losses on settlements. The distinction between past service cost and curtailments in the previous version of FRS 19 is no longer necessary as both of these items are now recognised immediately.
- (b) Net interest component – recognised in profit or loss and is calculated by applying the discount rate by reference to market yields at the end of the reporting period on high quality corporate bonds (or government bonds when no deep market for bonds exists) to the net defined benefit liability or asset at the beginning of each reporting period. The difference between the actual return on plan assets and the change in plan assets resulting from the passage of time will be recognised in OCI as part of the remeasurement component.

In many cases, using the rate representing the market yields on high quality corporate bonds to calculate the net interest will reduce net profit or loss, since the net interest will not reflect the benefit from the expectation of higher returns on riskier investments.

- (c) Remeasurement component – recognised in OCI and comprises actuarial gains and losses on the defined benefit obligation, the actual return on plan assets net of the interest on plan assets included in the net interest component and any changes in the effect of the asset ceiling. Actuarial gains and losses include experience adjustments and the effects of changes in actuarial assumptions. Remeasurements are never reclassified to profit or loss but may be transferred within equity (e.g. to retained earnings).

(iii) Requirement for additional disclosures

The amendments set objectives to improve the understandability and usefulness of disclosures, allowing users of financial statements to evaluate better the financial effect of liabilities and assets arising from defined benefit plans. The objectives are to:

- Explain the characteristics and related risks of defined benefit plans;
- Identify and explain the amounts in the financial statements; and
- Describe how defined benefit plans may affect the future cash flows.

To meet these objectives, the amendments require an entity to provide additional disclosures, including a narrative description of the risks that the entity judges to be significant or unusual, actuarial gains and losses arising from changes in demographic assumptions separately from changes in financial assumptions, sensitivity analysis on the defined benefit obligation arising from reasonably possible changes to significant actuarial assumptions, etc.

The amendments also add disclosure requirements on multi-employer defined benefit plans by requiring qualitative information about any agreed deficit or surplus allocation on wind-up of the plan, or the entity's withdrawal from the plan. If an entity accounts for a multi-employer defined benefit plan as if it were a defined contribution plan, the disclosures of the level of participation in the plan and the expected contribution for the next reporting period are required.

(iv) Classification of employee benefits

The amendments define short-term employee benefits as employee benefits that are “expected to be settled wholly” (previously “due to be settled”) before twelve months after the annual reporting period. Other long-term benefits are defined as all employee benefits other than short-term employee benefits, post-employment benefits and termination benefits.

This modified definition may result in more plans being classified as long-term employee benefit plans that will need to be measured using actuarial assumptions.

(v) Timing of when termination benefits should be recognised

While there is no fundamental change in the definition of a termination benefit, the amendments provide additional guidance to assist in distinguishing between:

- Benefits payable in exchange for termination of employment; and
- Benefits payable in exchange for service.

For example, if an entity makes an offer to an employee of benefits available for more than a short period, or there is more than a short period between the offer and the expected date of actual termination, the offer is less likely to be deemed a termination benefit.

To align the timing of recognising amounts resulting from plan amendments, curtailments, termination benefits and restructuring, the amendments require that:

- If a plan is linked to a restructuring or termination benefit, the gain or loss should be recognised at the earlier of:
 - When the plan amendment or curtailment occurs; and
 - When the related restructuring or termination benefits are recognised.
- If a termination benefit is linked to a restructuring, the termination benefit should be recognised at the earlier of:
 - When the entity can no longer withdraw an offer of the benefits; or
 - When the related restructuring costs are recognised under FRS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

All of these amounts are recognised at the same time if they are related to each other.

(vi) Clarification of certain practical issues

The amendments also clarify that a settlement is a “transaction that eliminates all further legal or constructive obligations for part or all of the benefits provided under a defined benefit plan, other than a payment of benefits to, or on behalf of, employees that is set out in the terms of the plan and included in the actuarial assumptions”. Therefore, settlements that are recognised in profit or loss are limited to payments that are not in accordance with the terms of the plan. The amendments also clarify that only tax paid by the plan and costs related to the management of the assets are deducted from the return on plan assets.

Effective date and transition

The amendments are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

Retrospective application is required except:

- When benefit costs are included in the carrying amount of assets outside the scope of FRS 19 (e.g., inventories) these assets do not need to be adjusted on adoption; and
- In financial statements for periods beginning before 1 January 2014, comparative information does not need to be presented for disclosures for sensitivity of the defined benefit obligation.

FRS 113 *Fair Value Measurement*

Background

FRS 113 establishes a single framework for measuring fair value where that is required or permitted by other standards.

Some FRSs require or permit entities to measure or disclose the fair value of assets, liabilities or their own equity instruments. Because those FRSs were developed over many years, the requirements for measuring fair value and for disclosing information about fair value measurements were dispersed and in many cases did not articulate a clear measurement or disclosure objective.

As a result, some of those FRSs contained limited guidance about how to measure fair value, whereas others contained extensive guidance and that guidance was not always consistent across those FRSs that refer to fair value. Inconsistencies in the requirements for measuring fair value and for disclosing information about fair value measurements have contributed to diversity in practice and have reduced the comparability of information reported in financial statements. FRS 113 remedies that situation.

FRS 113 applies to all transactions and balances (whether financial or non-financial) for which FRSs require or permit fair value measurements or disclosures. FRS 113 defines fair value, provides guidance on its determination and introduces consistent requirements for disclosures on fair value measurements. It does not include requirements on when fair value measurement is required. Instead, it prescribes how fair value is to be measured if another FRS requires it.

The measurement and disclosure requirements of FRS 113 do not apply to transactions within the scope of FRS 102 *Share-based Payment*, FRS 17 *Leases*, and measurements involving net realisable value under FRS 2 *Inventories* and value in use under FRS 36 *Impairment of Assets*. In addition, the disclosure requirements of FRS 113 do not apply to plan assets measured at fair value in accordance with FRS 19 *Employee Benefits*, retirement benefit plan investments measured at fair value in accordance with FRS 26 *Accounting and Reporting by Retirement Benefit Plans*; and assets for which recoverable amount is fair value less costs of disposal in accordance with FRS 36.

Requirements

Definition of fair value

FRS 113 defines fair value as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date” i.e. “exit price”.

Measurement guidance

To arrive at an appropriate measure of fair value, the following needs to be determined:

- The unit of account for the asset or liability to be measured at fair value (as determined by the relevant FRS applicable to the asset or liability);
- The principal (or most advantageous) market for the asset or the liability;
- For a non-financial asset, the highest and best use of the asset (and whether the asset is used in combination with other assets or on a stand-alone basis) is to be determined;
- The appropriate valuation technique to use, focusing on inputs a market participant would use when pricing the asset or liability; and
- The assumptions that market participants would use when pricing the asset or liability.

Unit of account

In measuring the fair value of an asset or liability, the asset or liability might be either of the following:

- A stand-alone asset or liability (e.g. a financial instrument or a non-financial asset); or
- A group of assets, a group of liabilities or a group of assets and liabilities (e.g. a cash-generating unit or a business).

Whether the asset or liability is a stand-alone asset or liability, a group of assets, a group of liabilities or a group of assets and liabilities for recognition or disclosure purposes depends on its unit of account. FRS 113 clarifies that the unit of account for the asset or liability shall be determined in accordance with the FRS that requires or permits the fair value measurement, except as provided in FRS 113 itself.

Principal (or most advantageous) market

Fair value is the price that would be achieved if an asset were sold (or liability transferred) to a market participant in the principal market. The principal market is the “market with the greatest volume and level of activity for that asset or liability”. If there is no principal market, the price in the most advantageous market is used. The most advantageous market is the “market in which the entity could achieve the most beneficial price”.

In the absence of evidence to the contrary, the market in which the entity normally transacts would be presumed to be the principal or most advantageous market. If location is a characteristic of an asset, the price should be adjusted for costs that would be incurred to transport the asset to or from the principal (or most advantageous) market. However, transaction costs would not be included in a fair value measurement because such costs are not a characteristic of the asset or liability.

Highest and best use (non-financial assets)

The fair value of a non-financial asset is measured on the basis of the highest and best use of the asset by a market participant. In determining the highest and best use, an entity must contemplate whether the use of the asset is “physically possible, legally permissible and financially feasible”. Unless market or other factors suggest otherwise, an entity’s current use of a non-financial asset is presumed to be its highest and best use.

Some entities may purposefully decide not to employ an asset at its highest and best use (e.g., when an entity holds an asset defensively to prevent others from using it). In such circumstances, FRS 113 continues to require measurement based on the highest and best use and also requires disclosure of the fact that the asset is not used in that way.

When the highest and best use of an asset is in combination with an asset group (e.g. a business), but the unit of account is the individual asset, the fair value of that asset would be measured under the assumption that a market participant has, or can obtain, the complementary asset or liability.

Liabilities or own equity

The fair value of a liability or equity instrument of an entity is determined under the assumption that the instrument is transferred on the measurement date, but would remain outstanding (i.e. transfer value not an extinguishment or settlement cost).

The standard provides a hierarchy of methods for arriving at this value, stating that when a quoted price for the transfer of the liability or equity is not available, the fair value of the liability or equity instrument from the perspective of a market participant holding the item as an asset is used in preference to a value determined using a valuation technique.

Regardless of the method used, the fair value of a liability must take into account non-performance risk – including the entity’s own credit risk.

Offsetting market risks or counterparty credit risk

FRS 113 allows a limited exception to the basic fair value measurement principles for a reporting entity that holds a group of financial assets and financial liabilities with offsetting positions in particular market risks as defined in FRS 107 *Financial Instruments: Disclosures* or counterparty credit risk (also as defined in FRS 107) and manages those holdings on the basis of the entity's net exposure to either risk. This exception allows the reporting entity, if certain criteria are met, to measure the fair value of the net asset or liability position in a manner consistent with how market participants would price the net risk position.

The measurement of the fair value of a portfolio of financial assets and financial liabilities on the basis of net exposure does not affect the financial statement presentation of these instruments. The requirements of other FRSs (namely FRS 32 *Financial Instruments: Presentation*) on offsetting financial assets and liabilities must still be met in order to present net position. If those requirements are not met, and hence the assets and liabilities are presented on a gross basis, an entity should allocate any portfolio-level adjustments to the individual assets and liabilities "on a reasonable and consistent basis using a methodology appropriate in the circumstance".

When an entity has elected a policy to apply the exception above to a portfolio in which the market risks being offset are substantially the same, the entity should apply the price within the bid-ask spread that is most representative of fair value to the entity's net exposure to those market risks.

FRS 113 also indicates that when netting credit exposures with a particular counterparty in a fair value measurement, the entity should consider whether market participants would take into account any existing arrangements that mitigate risk exposure (e.g. a master netting agreement) in the event of a default.

Valuation techniques

FRS 113 also describes three valuation techniques an entity might use to determine fair value:

- The market approach;
- The income approach; and
- The cost approach.

A valuation technique should be selected and consistently applied to maximise the use of relevant observable inputs (and minimise unobservable inputs).

Premiums and discounts

FRS 113 permits a premium or discount to be included in a fair value measurement only when it is consistent with the unit of account for the item. Thus, a fair value measurement shall not incorporate a premium or discount that is inconsistent with the unit of account in the FRS that requires or permits the fair value measurement.

Generally, premiums or discounts are not included when they are not characteristics of the asset or liability measured, but will be included when they are characteristics of the asset or liability measured. An example of the latter is the premium when measuring the fair value of a non-controlling interest.

Fair value at initial recognition

If the transaction price for an item is determined to be its fair value at that date, then any valuation technique utilising unobservable inputs must be calibrated to show that fair value at initial recognition, thus ensuring that future remeasurements reflect only changes in value subsequent to initial recognition.

If, on the other hand, the fair value at initial recognition differs from the transaction price, the resulting gain or loss must be recognised in profit or loss unless another FRS specifies a different treatment. For financial assets or financial liabilities, FRS 39 specifies how to account for a difference between the initial fair value and the transaction price.

Disclosures

FRS 113 requires a number of quantitative and qualitative disclosures about fair value measurements – many relating to the following three-level hierarchy on the basis of the inputs to the valuation technique:

- Level 1 – inputs are fully observable (e.g. unadjusted quoted prices in an active market for identical assets and liabilities that the entity can access at the measurement date);
- Level 2 – inputs are those other than quoted prices within Level 1 that are directly or indirectly observable; and
- Level 3 – inputs are unobservable.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorised within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The disclosures are required not only for financial instruments, but also for all other assets and liabilities measured within the scope of FRS 113. Certain disclosure requirements also apply to assets and liabilities not measured at fair value in the statement of financial position but for which the fair value is disclosed.

Some disclosure requirements differ depending on whether the fair value calculation is performed on a recurring (done at each reporting period) or non-recurring (done in particular circumstances e.g. when an entity measures an asset held for sale at fair value less costs to sell in accordance with FRS 105 *Non-current Assets Held for Sale and Discontinued Operations* because the asset's fair value less costs to sell is lower than its carrying amount).

Recurring fair value measurements of assets or liabilities are those that other FRSs require or permit in the statement of financial position at the end of each reporting period. Non-recurring fair value measurements of assets or liabilities are those that other FRSs require or permit in the statement of financial position in particular circumstances.

Required disclosure	For assets and liabilities measured at fair value in the statement of financial position after initial recognition		Disclosed at fair value in the footnotes to the financial statements
	Recurring	Non-recurring	
The fair value at the reporting date	√	√	√
The reason it is measured at fair value		√	
The level in the three-level fair value hierarchy	√	√	√
The amounts of transfer between Levels 1 and 2, the reasons for those transfers, and the entity's policy for determining when transfers between levels are deemed to have occurred	√		
For Levels 2 and 3 – a description of the valuation technique(s) and inputs used	√	√	√
For Level 2 and 3 fair value measurements for which there has been a change in valuation technique, disclose the change and the reason(s) for making it	√	√	√
If the highest and best use of an non-financial asset differs from its current use, disclose that fact and why the non-financial assets is being used in a manner that differs from its highest and best use	√	√	√
Information sufficient to permit reconciliation between the disclosure of classes of assets and liabilities by fair value hierarchy and the line items presented in the statement of financial position	√	√	
If an entity makes an accounting policy decision to use the exception in paragraph 48 of FRS113, disclose that fact	√		
For a liability measured at fair value, disclose the existence of any credit enhancement and whether it is reflected in the fair value measurement of the liability	√	√	
The following disclosure requirements apply to fair value measurement using significant unobservable inputs (Level 3):			
Quantitative information about the significant unobservable inputs used in the fair value measurement	√	√	

Required disclosure	For assets and liabilities measured at fair value in the statement of financial position after initial recognition		Disclosed at fair value in the footnotes to the financial statements
	Recurring	Non-recurring	
A reconciliation of the opening and closing balances with separate disclosure of (i) amounts in profit or loss (and line item in which they are recognised), (ii) amounts in other comprehensive income, (iii) amounts of purchases, sales, issues and settlements (each type separately), and (iv) the amounts of any transfers in or out of Level 3 (including the reasons for those transfers, and the entity's policy for determining when transfers between levels are deemed to have occurred)	√		
The amount of total gains or losses for the period included in profit or loss that is attributable to the change in unrealised gains or losses for those assets and liabilities held at the reporting date and the line items in which the gains or losses are recognised	√		
Description of the valuations processes, including for example how an entity decides its valuation policies and procedures and analyses changes in fair value from period to period	√	√	
Narrative description of the sensitivity of fair value to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement and a description of the interrelationships between unobservable inputs including how such interrelationship might magnify or mitigate the impact to fair value from changes in such inputs	√		
For financial assets and financial liabilities, when a change in one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly, an entity shall disclose that fact, the effect of those changes, and how the effect of the change is calculated	√		

Effective date and transition

FRS 113 is effective for annual periods beginning on or after 1 January 2013. Early application is permitted. The standard is to be applied prospectively from the beginning of the annual period in which it is adopted.

FRS 101 *First-time Adoption of Financial Reporting Standards*

– Government Loans

Background

The amendments provide relief to first-time adopters of FRSs by permitting prospective application of both FRS 39 *Financial Instruments: Recognition and Measurement* and the requirements of FRS 20 *Accounting for Government Grants and Disclosure of Government Assistance* in relation to benefit of government loans that are either interest free or at below-market rate of interest.

FRS 20 requires the benefit of government loans advanced either interest free or at a below-market rate of interest to be treated as a government grant, measured as the difference between the initial carrying amount of the loan determined in accordance with FRS 39 and the proceeds received.

When this requirement was introduced as part of the Improvements to FRS in 2008, it was to be prospectively applied to avoid entities measuring the fair value of loans at an earlier date. However, no corresponding amendment was made to FRS 101, which has a general requirement of retrospective application at the date of transition to FRSs.

Amendments

The amendments correct this oversight by permitting first-time adopters of FRSs to apply the above requirements of FRS 20 only to new loans entered into after the date of transition to FRSs.

The first-time adopter is required to apply FRS 32 *Financial Instruments: Presentation* to classify the loan as a financial liability or an equity instrument at the transition date. However, if it did not, under its previous GAAP, recognise and measure a government loan at a below-market rate of interest on a basis consistent with FRS requirements, it would be permitted to apply the previous GAAP carrying amount of the loan at the date of transition as the carrying amount of the loan in the opening FRS statement of financial position. An entity would then apply FRS 39 in measuring the loan after the transition date.

The amendments give first-time adopters the option, on a loan by loan basis, of applying the requirements of FRS 39 and the above requirements of FRS 20 retrospectively provided that the necessary information to apply the requirements to a particular government loan was obtained at the time of initially accounting for that loan.

Effective date

Entities are required to apply the amendments for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

FRS 107 (Amended) *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*

– issued together with FRS 32 (Amended) *Financial Instruments: Presentation* (effective 1 January 2014)

Background

The amendments to FRS 32 and FRS 107 are adopted from equivalent amendments to IAS 32 and IFRS 7, which are a result of a joint project between the IASB and FASB to address the differences between IFRS and US GAAP regarding offsetting financial instruments.

Amendments on the criteria for offset

The amendments to FRS 32 clarify that to result in offset of a financial asset and a financial liability, a right to set-off must be available today rather than being contingent on a future event, and must be exercisable by any of the counterparties, both in the normal course of business and in the event of default, insolvency or bankruptcy. Also the amendments clarify that the determination of whether the right meets the legally enforceable criterion will depend on both the contractual terms as well as the governing laws.

Entities may not have considered events of default, insolvency or bankruptcy in the assessment of offsetting rules or may have only considered the counterparty instead of all parties to the arrangement. Thus, entities may need to reconsider their existing arrangements to determine if items currently being offset would qualify for such a presentation under the amendments.

The amendments also provide clarification on which settlement processes would meet the requirement for offsetting that an entity has ‘the intention to settle a financial asset and a financial liability net or simultaneously’. The realisation of a financial asset and settlement of a financial liability is simultaneous if the settlements occur ‘at the same moment’. However, gross settlement that does not occur simultaneously may also meet the principle and criteria for offsetting if a single settlement process results in cash flows being equivalent to a single net amount. The amendments specify characteristics that must be met for a gross settlement system to meet the criteria for net settlement.

Disclosure requirements

The amendments to FRS 107 require an entity to disclose information about rights of offset and related arrangements for financial instruments under an enforceable master netting agreement or similar arrangement. At a minimum, entities should disclose (in a tabular format, separating financial assets and financial liabilities unless another format is more appropriate) the following information:

- (a) The gross amounts of those recognised financial assets and recognised financial liabilities under an enforceable master netting agreement, or similar arrangement;
- (b) The amounts offset in accordance with the criteria in FRS 32;
- (c) The net amounts presented in the statement of financial position ((a) less (b));
- (d) The amounts subject to an enforceable master netting arrangement or similar arrangement that are not included in (b), including:
 - (i) Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria in FRS 32; and
 - (ii) Amounts related to financial collateral (including cash collateral); and
- (e) The net amount after deducting the amounts in (d) from the amounts in (c).

The amounts in (d) would include those rights to set-off amounts that are only enforceable and exercisable in the event of default, insolvency or bankruptcy. The disclosures may be grouped entirely by type of financial instrument or transaction (e.g. derivatives, repurchase and reverse repurchase agreements or securities borrowing and lending arrangements) or by type of financial instrument for items (a) to (c) and then by counterparty for items (c) to (e). If the disclosures are provided by counterparty, the counterparty is not required to be identified by name but should be separated into individually significant counterparties with immaterial counterparty exposures aggregated together (Counterparty A, Counterparty B, Other Counterparties).

An illustration of these disclosures by type of financial asset is shown below. Similar disclosures are needed for financial liabilities.

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

\$ million						
As at 31 December 2013	(a)	(b)	(c)=(a)-(b)	(d)		(e)=(c)-(d)
				Related amounts not set off in the statement of financial position		
	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	(d)(i), Financial instruments	(d)(ii) Cash collateral received	Net amount
Description						
Derivatives	200	(80)	120	(80)	(30)	10
Reverse repurchase, securities borrowing and similar agreements	90	-	90	(90)	-	-
Other financial instruments	-	-	-	-	-	-
Total	290	(80)	210	(170)	(30)	10

Effective dates and transition

The amended offsetting disclosures in FRS 107 are required for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the clarifying amendments to FRS 32 are not effective until annual periods beginning on or after 1 January 2014, also with retrospective application required.

INT FRS 120 *Stripping Costs in the Production Phase of a Surface Mine*

Background

INT FRS 120 applies to all types of natural resources that are extracted using the surface mining activity process. In surface mining operations, entities may need to remove waste materials to access mineral ore deposits. The material removed during the production phase will often be a combination of ore and waste that can vary in grade. The removal of low grade materials may produce useable inventory as well as providing access to deeper levels of higher grade material.

Before the issuance of INT FRS 120, there was diversity in practice in accounting for production stripping costs, with some entities recognising all stripping costs as an immediate production cost expense and others capitalising stripping costs using approaches such as the 'life-of-mine' ratio or other similar approaches. There was also diversity in presentation of any stripping activity asset and INT FRS 120 is expected to bring more consistency to the classification.

Requirements

INT FRS 120 addresses the following issues:

- Recognition of production stripping costs as an asset;
- Initial measurement of the stripping activity asset; and
- Subsequent measurement of the stripping activity asset.

Recognition of production stripping costs as an asset

If the benefit from the stripping activity is realised in the form of inventory produced, the entity should account for the costs of that stripping activity in accordance with the principles of FRS 2 *Inventories*.

If the benefit from the stripping activity is realised in the form of improved access to ore deposits, the entity should recognise these costs as non-current asset ("stripping activity asset") when the following criteria are met:

- It is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;
- The entity can identify the component of the ore body for which access has been improved; and
- The costs relating to the stripping activity associated with that component can be measured reliably.

The stripping activity asset should be accounted for as an addition to, or as an enhancement of, an existing asset and classified as tangible or intangible according to the nature of the existing asset that it forms part of.

Initial measurement of the stripping activity asset

The stripping activity asset should be initially measured at cost being those "costs directly incurred to perform the stripping activity that improves access to the identified component of ore, plus an allocation of directly attributable overhead costs". Costs associated with incidental operations should not be included in the cost of the stripping activity asset.

The following are examples of directly attributable overhead costs which would be included in the stripping activity asset:

- An allocation of salary costs of the mine supervisor overseeing that component of the mine; and
- An allocation of rental costs of any equipment that was hired specifically to perform stripping activity.

The building of an access road in the area which the stripping campaign is taking place is provided as an example of an incidental operation, the costs of which would not be included in the stripping activity asset.

Inability to separately identify costs of stripping activity asset and inventory

If the costs of the stripping activity asset and of the inventory produced are not separately identifiable, those costs should be allocated between the inventory produced and the stripping activity asset by using an allocation basis that is based on a relevant production measure calculated for the identified component of the ore body. This measure should be used as a benchmark to identify the extent to which additional activity of creating a future benefit has taken place. Examples of such a measure include:

- Cost of inventory produced compared with expected cost;
- Volume of waste extracted compared with expected volume, for a given volume of ore production; and
- Mineral content of the ore extracted compared with expected mineral content to be extracted, for a given quantity of ore produced.

Subsequent measurement of stripping activity asset

The asset should be depreciated or amortised on a systematic basis over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity. The units of production method should be applied unless another method is more appropriate. The expected useful life of the identified component of the ore body will differ from the expected useful life of the mine itself and the related life-of-mine assets, unless the stripping activity provides improved access to the whole of the remaining ore body.

Effective date and transition

INT FRS 120 is effective for annual periods beginning on or after 1 January 2013, with early application permitted. An entity should apply the interpretation to production stripping costs incurred on or after the beginning of the earliest period presented. Existing asset balances that resulted from stripping activity as at the date of transition should be reclassified as part of an existing asset to which the stripping activity relates to and depreciated or amortised over the remaining useful life of the identified component of the ore body to which each existing asset balance relates. When there is no identifiable component of the ore body to which that existing asset balance relates, it should be recognised in the opening retained earnings at the beginning of the earliest period presented.

Improvements to Financial Reporting Standards (August 2012)

This is another set of Improvements to FRSs that is intended to deal with non-urgent, minor amendments to FRSs. These amendments focus on areas of inconsistency in FRSs or where clarification of wording is required. The improvements are effective from 1 January 2013 except as otherwise specified.

Details of amendments

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

Standard	Subject of amendment	New requirements
FRS 101 <i>First-time Adoption of Financial Reporting Standards</i>	Repeated application of FRS 101	<p>The amendments apply to an entity that had applied FRSs in a previous reporting period, but whose most recent previous annual financial statements did not contain an explicit and unreserved statement of compliance with FRSs.</p> <p>For example, assume that an entity already applied FRS 101 when it first prepared FRS financial statements in prior periods, but for its most recent financial statements, it may have decided to prepare its financial statements in another GAAP instead of FRS. Subsequently, if it decides to prepare its financial statements in FRS, the amendments clarify that an entity may repeat the application of FRS 101 even if the entity had applied FRS 101 in the past.</p> <p>An entity that does not elect to apply FRS 101 must apply FRSs retrospectively as if there was no interruption.</p> <p>An entity should disclose:</p> <ul style="list-style-type: none"> a) The reason it stopped applying FRSs; b) The reason it is resuming the application of FRSs; and c) The reason it has elected not to apply FRS 101, if applicable.
	Borrowing costs	<p>The amendments clarify that borrowing costs capitalised under previous GAAP before the date of transition to FRSs may be carried forward without adjustment to the amount previously capitalised at the transition date.</p> <p>Borrowing costs incurred on or after the date of transition to FRSs that relate to qualifying assets under construction at the date of transition should be accounted for in accordance with FRS 23 <i>Borrowing Costs</i>.</p> <p>A first-time adopter can choose to apply FRS 23 at a date earlier than the transition date.</p>

Standard	Subject of amendment	New requirements
FRS 1 <i>Presentation of Financial Statements</i>	Clarification of the requirements for comparative information	<p>The amendments clarify that additional comparative information is not necessary for periods beyond the minimum comparative financial statement requirements of FRS 1. If additional comparative information is provided, the information should be presented in accordance with FRSs, including disclosure of comparative information for any additional statements included beyond the minimum comparative financial statement requirements.</p> <p>In addition, an entity that changes accounting policies retrospectively, or makes a retrospective restatement or reclassification which has a material effect on the information in the statement of financial position at the beginning of the preceding period would present the statement of financial position at the end of the current period and the beginning and end of the preceding period. Other than disclosure of certain specified information, related notes are not required to accompany the opening statement of financial position as at the beginning of the preceding period.</p>
FRS 16 <i>Property Plant and Equipment</i>	Classification of servicing equipment	This amendment clarifies the treatment of spare parts, stand-by equipment and servicing equipment. These should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in FRS 16 and as inventory otherwise.
FRS 32 <i>Financial Instruments: Presentation</i>	Tax effect of distribution to holders of equity instruments	This amendment results in consistency between FRS 32 and FRS 12 <i>Income Taxes</i> . Income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with FRS 12 <i>Income Taxes</i> .
FRS 34 <i>Interim Financial Reporting</i>	Interim financial reporting and segment information for total assets and liabilities	This amendment results in consistency between FRS 108 <i>Operating Segments</i> and FRS 34. The total assets and total liabilities for a particular reportable segment would be separately disclosed in interim financial reporting only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amounts disclosed in the last annual financial statements for that reportable segment.

Standards effective for annual periods beginning on or after 1 January 2014

	Title	Effective date*	Issue date
FRS 27 (Revised)	<i>Separate Financial Statements</i> ⁽¹⁾	1-Jan-14	2011
FRS 28 (Revised)	<i>Investments in Associates and Joint Ventures</i> ⁽¹⁾	1-Jan-14	2011
FRS 110	<i>Consolidated Financial Statements</i> ⁽¹⁾	1-Jan-14	2011
FRS 111	<i>Joint Arrangements</i> ⁽¹⁾	1-Jan-14	2011
FRS 112	<i>Disclosure of Interests in Other Entities</i> ⁽¹⁾	1-Jan-14	2011
Amendments to FRS 27, FRS 28, FRS 110, FRS 111, FRS 112	Mandatory Effective Date ⁽¹⁾	1-Jan-14	2012
Amendments to FRS 110, FRS 111, FRS 112	Transition Guidance ⁽¹⁾	1-Jan-14	2012
Amendments to FRS 27, FRS 110, FRS 112	Investment Entities	1-Jan-14	2013
FRS 32 (Amended)	<i>Financial Instruments: Presentation</i> ⁽²⁾ - Offsetting Financial Assets and Financial Liabilities	1-Jan-14	2012
FRS 36 (Amended)	<i>Impairment of Assets</i> - Recoverable Amount Disclosures for Non-Financial Assets	1-Jan-14	2013
FRS 39 (Amended)	<i>Financial Instruments: Recognition and Measurement</i> - Novation of Derivatives and Continuation of Hedge Accounting	1-Jan-14	2013
INT FRS 121	<i>Levies</i>	1-Jan-14	2013

*Applies to annual periods beginning on or after the date shown

⁽¹⁾ The summaries for FRS 27 (revised), FRS 28 (revised), FRS 110, FRS 111, FRS 112 below include the requirements arising from the subsequent amendments on "Mandatory Effective Date" and "Transition Guidance" issued in 2012.

⁽²⁾ FRS 32 (Amended) has been issued together with FRS 107 (Amended) *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*. Please refer to the summary of FRS 107 (Amended) for more details.

FRS 27 (Revised) *Separate Financial Statements*

Background and amendment

The revised FRS 27 was issued concurrently with FRS 110 (see below). While FRS 27 was superseded by the issuance of FRS 110, the amended FRS 27 retains the current guidance for separate financial statements.

Effective date and transition

The amended FRS 27 is effective for financial periods beginning from 1 January 2014. Requirements for early application are the same as FRS 110 (see below).

Note: Originally, when this amended version of FRS 27 was issued, it was effective for financial periods beginning from 1 January 2013. However, on 31 August 2012, the ASC announced a deferral of the effective date by a year to 1 January 2014. The IFRS equivalent of the amendments continues to be effective for financial periods beginning from 1 January 2013.

FRS 28 (Revised) *Investments in Associates and Joint Ventures*

Background and amendment

The amended FRS 28 was issued concurrently with FRS 111 (see below). The amendments to FRS 28 are mainly on conforming changes based on the issuance of FRS 111.

The amended FRS 28 now sets out the requirements for the application of the equity method when accounting for investments in joint ventures, as the option for proportionate consolidation has been removed.

Effective date and transition

The amended FRS 28 is effective for financial periods beginning from 1 January 2014. Requirements for early application are the same as FRS 110 (see below).

Note: Originally, when this amended version of FRS 28 was issued, it was effective for financial periods beginning from 1 January 2013. However, on 31 August 2012, the ASC announced a deferral of the effective date by a year to 1 January 2014. The IFRS equivalent of the amendments continues to be effective for financial periods beginning from 1 January 2013.

FRS 110 Consolidated Financial Statements

Background

FRS 110 is a replacement of FRS 27(2009) *Consolidated and Separate Financial Statements* and INT FRS 12 *Consolidation-Special Purpose Entities*.

The objective of FRS 110 is to have a single basis for consolidation, irrespective of the nature of the investee. It is based on its IFRS equivalent – IFRS 10 *Consolidated Financial Statements*.

One of the reasons the IASB issued the amendments is to deal with diversity in practice in applying IAS 27(2008) and SIC 12 (the IFRS equivalents of FRS 27(2009) and INT FRS 12). For example, entities varied in their application of the control concept in circumstances in which a reporting entity controls another entity but holds less than a majority of the voting rights of the entity, and in circumstances involving agency relationships.

In addition, there is a perceived conflict of emphasis between IAS 27(2008) and SIC 12 that has led to inconsistent application of the concept of control. IAS 27(2008) required the consolidation of entities that are controlled by a reporting entity, and it defined control as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. SIC 12, which interpreted the requirements of IAS 27(2008) in the context of special purpose entities, placed greater emphasis on risks and rewards.

Finally, the global financial crisis that started in 2007 highlighted the lack of transparency about the risks to which investors were exposed from their involvement with 'off balance sheet vehicles' (such as securitisation vehicles), including those that they had set up or sponsored. As a result, there was a review by the IASB on the accounting and disclosure requirements for such 'off balance sheet vehicles'.

The above are some of the reasons that led to the development and issuance of IFRS 10 and subsequently adopted as FRS 110.

Concurrent with the issuance of FRS 110, the following standards were also issued (The requirements of these standards are also elaborated in the publication):

- FRS 111 *Joint Ventures*
- FRS 112 *Disclosures of Interests in Other Entities*
- FRS 27 *Separate Financial Statements (Revised)*
- FRS 28 *Investments in Associates and Joint Ventures (Revised)*

Subsequent amendments to FRS 110

FRS 110 was subsequently amended in respect of effective dates and transition guidance. Details of subsequent amendments relating to effective dates and transition guidance are outlined below.

The IASB has also subsequently issued amendments to IFRS 10 to provide an exception to consolidating particular subsidiaries for investment entities. Similar amendments have been issued by ASC in 2013. Please refer to amendments to FRS 110 on Investment Entities below for more details.

Requirements

FRS 110 uses control as the single basis for consolidation, irrespective of the nature of the investee. Thus, it eliminates the risk and rewards approach in INT FRS 12. The three elements of control in FRS 110 are:

- (i) Power over the investee;
- (ii) Exposure (or rights) to variable returns from involvement with the investee; and
- (iii) Ability to use power over the investee to affect the amount of investor's returns.

All elements above must exist in order to conclude that an investor has control over the investee. If there are any changes to the three elements, the conclusion of control must be reassessed.

(i) Power

FRS 110 states that power exists when the investor has existing rights that give it the current ability to direct "relevant activities" i.e. the activities that significantly affect the investee's returns. Power most commonly arises through voting rights granted by equity instruments, but can also arise through other contractual arrangements. The following factors should be considered in determining whether an investor has power over an investee:

- The purpose and design of the investee;
- The relevant activities of the investee and how decisions are made about those activities (the concept of relevant activities is summarised below);
- Whether the investor's rights give it the current ability to direct the relevant activities; and
- Relationships with other parties.

Power – Relevant activities

The relevant activities for entities whose operations are directed through voting rights will generally be its operating and financing activities.

Examples of what may be relevant activities include (but are not limited to):

- Selling and purchasing of goods or services;
- Managing financial assets during their life (including upon default);
- Selecting, acquiring or disposing of assets;
- Researching and developing new products or processes; and
- Determining a funding structure or obtaining funding.

Examples of decisions about relevant activities include (but are not limited to):

- Establishing operating and capital decisions of the investee; and
- Appointing and remunerating an investee's key management personnel or services providers and terminating their employment.

If two or more investors have rights to direct different relevant activities of an investee, the investors must decide which of the relevant activities most significantly affects the returns of the investee.

Power – Substantive rights versus protective rights

When evaluating investors' rights in determining power to control, FRS 110 further distinguishes between substantive rights and protective rights. Only substantive rights are considered in evaluating power.

An investor has substantive rights when it has the practical ability to exercise the rights when decisions about the direction of the relevant activities (see above) need to be made. Rights need not be currently exercisable for them to be substantive. Also, rights held by other parties may prevent the investor from controlling the investee. FRS 110 provides the following factors to consider when determining whether rights are substantive:

- Whether there are any barriers (economic or otherwise) that prevent the holder (or holders) from exercising the rights;
- When the exercise of rights requires the agreement of more than one party, or when the rights are held by more than one party, whether a mechanism is in place that provides those parties with the practical ability to exercise their rights collectively if they choose to do so; and
- Whether the party or parties that hold the rights would benefit from the exercise of those rights.

An investor who holds only protective rights would not have power over an investee and could not prevent another party from having power over an investee. Protective rights are generally designed to protect the interests of their holder. FRS 110 provides the following examples of protective rights:

- A lender's right to restrict a borrower from undertaking activities that could significantly change the credit risk of the borrower to the detriment of the lender;
- The right of a party holding a non-controlling interest in an investee to approve capital expenditure greater than that required in the ordinary course of business, or to approve the issue of equity or debt instruments; and
- The right of a lender to seize the assets of a borrower if the borrower fails to meet specified loan repayment conditions.

Power – Investor rights and special relationships

FRS 110 also requires an investor to consider special relationships with its investee that indicates that the investor has power over the investee. FRS 110 provides the following examples of such special relationships that may indicate power:

- The investee's key management personnel are current or previous employees of the investor;
- The investee's operations are dependent on the investor;
- A significant portion of the investee's activities either involves or is conducted on behalf of the investor; or
- The investor's exposure, or rights, to investee returns is disproportionately greater than its voting or similar rights.

Power – De facto control

FRS 110 requires an investor that has less than majority voting rights to consider the size of its holdings in voting rights relative to the size and dispersion of holdings of other vote-holders and any additional facts and circumstances that may be relevant (e.g. voting patterns at previous shareholders meetings). After evaluating all facts, such an investor may meet the power criterion despite having less than majority of voting rights.

The assessment may prove quite challenging to apply in practice because it is likely to involve a significant degree of judgement. FRS 110 does not include any bright lines in this area. However, FRS 110 does have examples that illustrate how such judgement is applied. One example is as follows:

An investor acquires 48% of the voting rights of an investee. The remaining voting rights are held by thousands of shareholders, none individually holding more than 1% of the voting rights. None of the shareholders has any arrangements to consult any of the others or make collective decisions. When assessing the proportion of voting rights to acquire, on the basis of the relative size of the other shareholdings, the investor determined that a 48% interest would be sufficient to give it control. In this case, on the basis of the absolute size of its holding and the relative size of the other shareholdings, the investor concludes that it has a sufficiently dominant voting interest to meet the power criterion without the need to consider any other evidence of power.

Power – Principal versus agent relationship

FRS 110 introduces guidance on assessing whether an entity with decision making rights is acting as a principal or agent for another investor. The guidance is particularly relevant for investment managers who make investment decisions on behalf of investors in exchange for a fee. An investment manager may be considered a principal if the manager is deemed to be not making investment decisions solely on behalf of the investors.

In determining whether a decision maker is an agent, the following factors should be considered, along with any other relevant elements of the relationship between the decision maker, the investee and other parties involved with the investee:

- The scope of the decision making authority over the investee;
- Rights held by other parties;
- The remuneration to which it is entitled (including whether it is commensurate with the services provided and whether any non-standard terms are included);
- Their exposure to variability of returns from other interests held in the investee; and
- The rights of a single party to remove the decision maker.

FRS 110 does not provide guidance on how to weigh each of the above criteria, except when a single party has the unilateral ability to remove the decision maker without cause (commonly referred to as “kick-out” or “removal” rights). In those cases, the decision maker would be deemed an agent and the party holding those removal rights would be deemed the principal. However, if removal rights were shared among multiple investors, then each of the factors above would need to be considered in making the principal/agent assessment. FRS 110 indicates that the greater the number of parties required to remove the decision maker, the less weighting should be placed on that factor.

FRS 110 provides the following example of an investment manager that may be considered a principal:

The consideration of other interests held by a decision maker may impact the principal/agent determination as well as the overall conclusion. For example, a different conclusion may be reached for an investment manager with a standard 2% management fee and a 20% incentive fee arrangement who does not hold an equity investment in the managed fund and for an investment manager with the same fee structure who also holds a 35% equity investment. Likewise, a decision maker whose interests are exposed to higher degrees of variability than other investors may also be determined to be a principal. A servicer to a trust of mortgage backed securities who also invests in the 'equity' tranche of securities may be considered to be a principal whereas a servicer who only earns a fee based only on the outstanding receivables may be considered an agent.

Power – Consider relationship with other parties

FRS 110 also provides guidance on when an investor has special relationship with another party such that the investor may direct the other party in acting on the investor's behalf (referred to as "de-facto agents").

This guidance in considering an investor's relationship with other parties is necessary to reflect properly the relationship that a group may have with its investee. An investor and its "de-facto agents" may each have power and economic involvements that when considered in isolation may not result in either party being identified as having control, but which together result in the group having control.

Examples of "de-facto" agents include:

- Related parties of the investor;
- A party who received its interest in the investee as a result of a loan or contribution from the investor;
- A party who has agreed not to sell, transfer or encumber their interest in the investee without prior approval of the investor;
- A party that cannot finance its operations without subordinated financial support from the investor;
- An investee who shares a majority of its board or key management personnel with the investor; and
- A party with a close business relationship with the investor (such as the relationship between a professional service provider and a significant client).

(ii) Exposure (or rights) to variable returns from involvement with the investee

This is the second criterion in control assessment. FRS 110 uses the term 'returns' rather than 'benefits' to clarify that the economic exposure to an investee may be either positive, negative or both. Examples of returns from involvement in investee may include changes in the value of the investment in the entity, residual interests in cash flows of structured entities, dividends, interest, management fee arrangements, guarantees, tax benefits or any other returns that may not be available to other interest holders. While many investors may share in the returns of an investee, only one investor will control the entity.

FRS 110 clarifies that although certain economic interests may be fixed (e.g., fixed coupon debt instrument), they might still result in variable returns as they expose the investor to variability e.g., credit risk from debt instrument.

(iii) Ability to use power over the investee to affect the amount of investor's returns

The third element of control considers the interaction between the two elements elaborated above. To have control over an investee, and investor must be able to use its power to affect its returns from involvement with the investee.

Other considerations

Silos

In some situations, an investor may have interests in a particular set of assets and liabilities (a portion of an investee) by virtue of legal and contractual arrangements. In addition, in some jurisdictions, legal entities are divided into separate parts (often referred to as “silos”). In such circumstances, a question arises as to whether it is possible to consider only an individual silo or a portion of an investee (rather than the entire legal entity) as a separate entity for the purposes of control assessment.

Under FRS 110, the determination of whether a silo exists is based on whether the individual silo is in-substance separate or “ring-fenced” from the overall investee. If the portion of the investee is economically separate from the overall investee and the investor controls the portion of the investee, that portion should be treated as a subsidiary of the investor.

Continuous assessment

FRS 110 requires a continuous assessment of control of an investee. This continuous assessment would consider both changes in an investor’s power over the investee and changes in the investor’s exposure or rights to variable returns. This assessment will be made based on changes in facts and circumstances but would be revisited at least at each reporting period.

Effective date

FRS 110 is effective for financial periods beginning from 1 January 2014. Earlier application is permitted, but when early applied, all five standards (FRS 110, FRS 111, FRS 112, FRS 27 (Revised) and FRS 28 (Revised)) will have to be applied together. However, an entity may start including disclosures in FRS 112 into their financial statements without early adopting FRS 112 (and thereby the other four standards).

Note

Originally, when FRS 110 was first issued, it was effective for financial periods beginning from 1 January 2013. However, the ASC announced on 31 August 2012 that it will allow stakeholders more time to implement FRS 110 as well as FRS 111, FRS 112, FRS 27 (Revised) and FRS 28 (Revised). Thus, the effective dates of these standards have been deferred by a year. The IFRS equivalents of these standards continue to be effective for financial periods beginning from 1 January 2013.

Transition

FRS 110 is to be applied retrospectively and with the transitional provisions outlined below.

On 6 September 2012, the ASC issued amendments that clarify the transition guidance of FRS 110, FRS 111 and FRS 112. The amendments are to be applied in whichever accounting period when FRS 110, FRS 111 and FRS 112 are applied for the first time.

Clarification on “date of initial application”

The amendments explain that “date of initial application” in FRS 110 means “the beginning of the annual reporting period in which FRS 110 is applied for the first time” i.e. 1 January 2014 for calendar year-end entity applying FRS 110 for the first time in its 2014 financial statements. An entity will not be required to make adjustments to the previous accounting for its involvement with entities if the consolidation conclusion reached at the date of initial application is the same under FRS 27(2009) and INT FRS 12.

This means that an entity will be relieved from making adjustments in respect of interests in investees that were disposed of before the date of initial application of FRS 110. This is because the consolidation conclusion following the disposal would be not to consolidate, irrespective of whether the investee would have been consolidated prior to disposal under the requirements of FRS 110.

Consolidating an investee on adoption of FRS 110 (previously not consolidated under FRS 27(2009))

If, at the date of initial application (e.g. 1 January 2014), an entity concludes that it should consolidate an investee that was not previously consolidated, the assets, liabilities and non-controlling interests should be measured as if FRS 103(2009) *Business Combinations* had been applied at the date when the investor obtained control under the requirements of FRS 110.

The entity would adjust retrospectively the annual period immediately preceding the date of initial application (e.g. year ending 31 December 2013). If the date the control was obtained is earlier than the beginning of the immediately preceding period (e.g. before 1 January 2013), any difference between the amount of assets, liabilities and non-controlling interests recognised and the previous carrying amount of the investor's involvement in the investee would be recognised as an adjustment to equity at the beginning of the immediately preceding period (e.g. as at 1 January 2013).

If control was obtained before the effective date of FRS 103(2009), an entity can either apply the 2009 version or the 2004 version of FRS 103 in the transition requirements above.

Ceasing to consolidate an investee on adoption of FRS 110 (previously consolidated under FRS 27(2009))

If, at the date of initial application (e.g. 1 January 2014), an entity concludes that it should no longer consolidate an investee that was previously consolidated, the interests in the investee would be measured at the amount which it would have been measured if the requirements of FRS 110 had been effective when the investor became involved, or loss control of, the investee.

The annual period immediately preceding the date of initial application (e.g. year ending 31 December 2013) would be adjusted retrospectively. If the date that the entity became involved with, or lost control of, the investee is earlier than the beginning of the immediately preceding period (e.g. 1 January 2013), any difference between the previous carrying amount of the assets, liabilities and non-controlling interests recognised and the recognised amount of the entity's interest in the investee would be recognised as an adjustment to equity at the beginning of the immediately preceding period (e.g. 1 January 2013).

Impracticability

For investees that are consolidated under FRS 110 but were not previously consolidated, or cease to be consolidated on adoption of FRS 110, if retrospective adjustment is not practicable as defined in FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, the deemed acquisition or deemed disposal should be the beginning of the earliest period for which application of the above requirements is practicable. This period may even be the current period.

Other reliefs

The amendments limit the requirement to present adjusted comparative information to the period immediately preceding the date of initial application (e.g. information as at 1 January 2013 and 31 December 2013 and for comparative the period ending 31 December 2013) even if an entity voluntarily discloses additional comparative primary statements beyond the minimum required under FRS 1.

In addition, the requirement to disclose quantitative information on the current period impact of adopting a new FRS (as required by FRS 8.2(f)) has been waived for the initial adoption of FRS 110.

FRS 111 Joint Arrangements

Background

FRS 111 supersedes FRS 31 *Interests in Joint Ventures* and INT FRS 13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers*.

FRS 111 addresses two aspects of FRS 31 – (1) that the legal structure of an arrangement was the sole determinant of the accounting; and (2) that an investor has a policy choice of equity accounting or proportionate consolidation for interests in jointly controlled entities.

FRS 111 improves on FRS 31 by requiring a party to a joint arrangement to look beyond the legal structure of the arrangement in evaluating the type of joint arrangement (and thus the appropriate accounting) and removes the option for proportionate consolidation.

Subsequent amendments to FRS 111

FRS 111 was subsequently amended in respect of effective dates and transition guidance as outlined below.

Requirements

(i) Definition of joint arrangement

FRS 111 defines a joint arrangement as an “arrangement of which two or more parties have joint control” and makes clear that joint control exists only when “decisions about the relevant activities require the unanimous consent of the parties that control the arrangement collectively”.

The concept of joint control includes control by more than two parties, but not when decisions may be reached by more than one combination of parties. FRS 111 provides the following example to illustrate this point:

Assume an arrangement has three parties: A has 50% of the voting rights in the arrangement and B and C each have 25%. The contractual arrangement between A, B and C specifies that at least 75% of the voting rights are required to make decisions about the relevant activities of the arrangement. Even though A can block any decision, it does not control the arrangement because it needs the agreement of either B or C. In this example, A, B and C collectively control the arrangement. However, there is more than one combination of parties that can agree to reach 75% of the voting rights (i.e. either A and B, or A and C). In such a situation, to be a joint arrangement, the contractual arrangement between the parties would need to specify which combination of the parties is required to agree unanimously to decisions about the relevant activities of the arrangement.

(ii) Joint operation and joint ventures

FRS 111 classifies joint arrangements as either of the following:

- Joint operations – an arrangement where parties that have joint control have rights to the assets and obligations for the liabilities; or
- Joint venture – an arrangement where parties that have joint control have rights to the net assets of the arrangement.

FRS 111 specifies that the existence of a separate vehicle is a necessary but not sufficient condition for a joint arrangement to be considered a joint venture. In an arrangement with a separate vehicle, all relevant facts and circumstances should be considered in determining whether the parties to the arrangement have rights to the net assets of the arrangement. This represents a significant change from FRS 31 which treats the establishment of a separate legal vehicle as the key factor in determining the existence of a jointly controlled entity.

In the absence of a separate vehicle, FRS 111 is clear that the parties to the joint arrangement have direct rights and obligations to the assets and liabilities of the arrangement and thus, it will be classified as a joint operation.

FRS 111 provides further guidance on factors to consider in the identification of a joint venture as outlined below:

Legal form of the separate vehicle

A joint arrangement that is conducted through a separate vehicle may offer the investors no limitation on the liability of the parties to that arrangement. This indicates that the joint arrangement is a joint operation. However, a joint arrangement that limits the liability of the parties would not necessarily indicate that the arrangement is a joint venture because (a) the terms of the contractual arrangement or (b) other facts and circumstances may affect whether the parties have limited liability.

(a) Terms of the contractual arrangement

Contractual arrangements between the parties to the joint arrangement may counteract the legal form of the vehicle. For example, parties may have direct rights to the assets and obligations for the liabilities of the arrangement despite the fact that the legal form of the vehicle would normally shelter the investors from having a direct obligation for its liabilities. This would be the case if the contractual arrangement between the parties establishes that all parties to the arrangement are directly liable for third party claims or establish a sharing of revenues and expenses based on the relative performance of the parties.

(b) Other facts and circumstances

When a separate vehicle is used and the terms of the contractual arrangement do not indicate that the joint arrangement is a joint operation, the parties should consider any other relevant facts and circumstances in determining the type of arrangement. For example, if a separate vehicle is formed to hold the assets and liabilities of the joint arrangement and the parties to the joint arrangement are committed to purchase the entire output of the arrangement, this indicates that the arrangement is a joint operation because the parties have rights to all of the economic benefits generated by the assets of the arrangement. Additionally, the parties are required to fund the settlement of the liabilities of the joint arrangement because the arrangement is exclusively dependent on the parties for the generation of cash flows. This also indicates that the arrangement is a joint operation. However, if the joint arrangement was able to sell output to third parties because the joint arrangement would assume demand, inventory and credit risks, this would indicate the joint arrangement is a joint venture.

The following example from FRS 111 illustrates the consideration of other facts and circumstances:

Assume that two parties structure a joint arrangement in an incorporated entity (entity C) in which each party has a 50 per cent ownership interest. The purpose of the arrangement is to manufacture materials required by the parties for their own, individual manufacturing processes. The arrangement ensures that the parties operate the facility that produces the materials to the quantity and quality specifications of the parties.

The legal form of entity C (an incorporated entity) through which the activities are conducted initially indicates that the assets and liabilities held in entity C are the assets and liabilities of entity C. The contractual arrangement between the parties does not specify that the parties have rights to the assets or obligations for the liabilities of entity C. Accordingly, the legal form of entity C and the terms of the contractual arrangement indicate that the arrangement is a joint venture.

However, the parties also consider the following aspects of the arrangement:

- *The parties agreed to purchase all the output produced by entity C in a ratio of 50:50. Entity C cannot sell any of the output to third parties, unless this is approved by the two parties to the arrangement. Because the purpose of the arrangement is to provide the parties with output they require, such sales to third parties are expected to be uncommon and not material.*
- *The price of the output sold to the parties is set by both parties at a level that is designed to cover the costs of production and administrative expenses incurred by entity C. On the basis of this operating model, the arrangement is intended to operate at a break-even level.*

From the fact pattern above, the following facts and circumstances are relevant:

- *The obligation of the parties to purchase all the output produced by entity C reflects the exclusive dependence of entity C upon the parties for the generation of cash flows and, thus, the parties have an obligation to fund the settlement of the liabilities of entity C.*
- *The fact that the parties have rights to all the output produced by entity C means that the parties are consuming, and therefore have rights to, all the economic benefits of the assets of entity C.*

These facts and circumstances indicate that the arrangement is a joint operation. The conclusion about the classification of the joint arrangement in these circumstances would not change if, instead of the parties using their share of the output themselves in a subsequent manufacturing process, the parties sold their share of the output to third parties.

If the parties changed the terms of the contractual arrangement so that the arrangement was able to sell output to third parties, this would result in entity C assuming demand, inventory and credit risks. In that scenario, such a change in the facts and circumstances would require reassessment of the classification of the joint arrangement. Such facts and circumstances would indicate that the arrangement is a joint venture.

(iii) Accounting requirements

It is possible that an investment that previously met the definition of a jointly controlled entity under FRS 31 will be a joint operation under FRS 111. This will change the manner in which the investor accounts the investment.

For joint operations, the joint operator recognises its share of assets, liabilities, revenues and expenses in accordance with applicable FRS while a joint venturer would account for its interest using the equity method of accounting under FRS 28 (Revised) (see below). The option of proportional consolidation in FRS 31 has not been retained in FRS 111.

The mechanics of equity accounting, as detailed in FRS 28, have not changed and the accounting for joint operations is consistent with the treatment of jointly controlled operations and jointly controlled assets under FRS 31.

Note that FRS 111 may also affect a party that participates in, but does not have joint control of, a joint operation. Such a party may have previously accounted for its interest in the joint operation under FRS 39. However, FRS 111 requires that if the party has rights to the assets and obligations for the liabilities relating to the joint operation, it would have to recognise directly its share of assets, liabilities, revenues and expenses relating to the joint operation. This will be the case despite the party not having joint control over the operation. If however, the party does not have rights to the assets and obligations for the liabilities relating to the joint operation, it will continue to account for its interest under FRS 39. A party that has joint control over a joint venture will account for its interest using the equity method of accounting. A party that participates in, but does not have joint control of, a joint venture will account for the investee under FRS 28 if it has significant influence over the investee and under FRS 39 if otherwise.

In separate financial statements, joint operations are accounted for in the same manner in consolidated financial statements. Joint ventures, on the other hand, are accounted for either at cost or under FRS 39 in an investor's separate financial statements.

Effective date

FRS 111 is effective for financial periods beginning from 1 January 2014. Requirements for early application are the same as FRS 110 (see above).

Note: Originally, when FRS 111 was first issued, it was effective for financial periods beginning from 1 January 2013. However, on 31 August 2012, the ASC announced a deferral of the effective date by a year to 1 January 2014. The IFRS equivalent of this standard continues to be effective for financial periods beginning from 1 January 2013.

Transition

FRS 111 is to be applied retrospectively and with the main transitional provisions outlined below.

When changing from proportionate consolidation to the equity method, an entity shall recognise its investment in the joint venture as at the beginning of the earliest period presented. That initial investment shall be measured as the aggregate of the carrying amounts of the assets and liabilities that the entity had previously proportionately consolidated, including any goodwill arising from acquisition. An entity shall also assess whether the opening balance of the investment is impaired (by applying the requirements of FRS 28) and shall recognise any impairment loss as an adjustment to retained earnings at the beginning of the earliest period presented.

When changing from the equity method to accounting for assets and liabilities in respect of its interest in a joint operation, an entity shall, at the beginning of the earliest period presented, derecognise (1) the investment that was previously accounted for using the equity method (and any other items that formed part of the entity's net investment in the arrangement) and recognise (2) its share of each of the assets and the liabilities in respect of its interest in the joint operation, including any goodwill that might have formed part of the carrying amount of the investment. If net amount in (2) exceeds the amounts in (1), the excess will be offset against goodwill to the extent it exists, with any remaining excess recognised against retained earnings at the beginning of the earliest period presented. If amounts in (1) exceed the net amount in (2), the excess will be adjusted against retained earnings at the beginning of the earliest period presented.

Other subsequent amendments to FRS 111

On 6 September 2012, the ASC issued amendments that clarify the transition guidance of FRS 110, FRS 111 and FRS 112. The amendments are to be applied in whichever accounting period when FRS 110, FRS 111 and FRS 112 are applied for the first time.

The amendments limit the requirement to present adjusted comparative information to the period immediately preceding the date of initial application (e.g. information as at 1 January 2013 and 31 December 2013 and for a comparative period ending 31 December 2013), even if an entity voluntarily discloses additional comparative primary statements beyond the minimum required under FRS 1.

In addition, the requirement to disclose quantitative information on the current period impact of adopting a new FRS (as required by FRS 8.2(f)) has been waived for the initial adoption of FRS 111.

FRS 112 *Disclosure of Interests in Other Entities*

Background

FRS 112 requires extensive disclosures relating to the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. FRS 112 is issued concurrently with four other standards as elaborated above. It is intended to integrate the disclosure requirements on interests in other entities, currently included in several standards, and also adds additional requirements in a number of areas.

Subsequent amendments to FRS 112

FRS 112 was subsequently amended in respect of effective dates and transition guidance. These amendments are outlined below.

ASC also issued amendments to FRS 110, FRS 112 and FRS 27 in 2013 to provide an exception to consolidating particular subsidiaries for investment entities. Please refer to the related amendments to FRS 112 on *Investment Entities* below for more details.

Significant judgements and assumptions

An entity should disclose information about significant judgements and assumptions it has made in determining whether it has control, joint control or significant influence over an entity and the type of joint arrangement when the arrangement has been structured through a separate vehicle. An entity should also provide these disclosures when changes in facts and circumstances affect the entity's conclusion during the reporting period.

FRS 112 provides examples of the judgements and assumptions requiring disclosure. These examples (which include the basis for concluding that holding more than half of the voting rights of an entity does not result in control or, conversely, that control is achieved with less than half the voting rights) make it clear that particular care should be taken in explaining departures from the assumed correlation between voting rights and level of influence or control over an entity.

Interests in subsidiaries

An entity that is a parent should disclose information regarding:

- The composition of the group;
- Non-controlling interests (including summarised financial information about each subsidiary with material non-controlling interests);
- Significant restrictions on the parent's ability to access or use the assets and settle liabilities of its subsidiaries;
- The nature of, and changes in, the risks associated with interests in consolidated structured entities; and
- The effects of changes in ownership interest that did or did not result in loss of control during the reporting period.

Disclosure is also required when the financial statements of a subsidiary are as of a date for a period that is different from that of the consolidated financial statements.

Interests in joint arrangements and associates

An entity should disclose information about the nature, extent and financial effects of its interests in joint arrangements and associates, including information about contractual relationships with other parties to the joint arrangements or other investors that have interests in associates. An entity should also disclose the nature of, and changes in, the risks associated with its interest in joint ventures and associates.

Interests in unconsolidated structured entities

FRS 112 defines a structured entity as “an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity”. Examples of structured entities include securitisation vehicles, asset-backed financings and certain investment funds.

FRS 112 requires extensive disclosures to help users understand the nature and extent of an entity’s interests in unconsolidated structured entities and the risks associated with those interests, including:

- The nature, purpose, size and activities of the structured entity;
- How the structured entity is financed;
- The carrying amounts of assets and liabilities relating to interests in unconsolidated structured entities and how they compare to the maximum exposure to loss from those interests; and
- Any support provided to an unconsolidated structured entity when there is no contractual obligation to do so (including the reasons for providing such support).

Aggregation of information

FRS 112 requires granular information in a number of areas (for example, in respect of each material joint arrangement and each subsidiary with non-controlling interests material to the group) and specifies that information relating to interests in subsidiaries, joint ventures, joint operations, associates and unconsolidated structured entities be presented separately, but does permit some aggregation of information within these classes of entities.

FRS 112 requires that the level of detail provided through disclosures should satisfy the needs of users of financial statements but should not result in excessive detail that may not be helpful to those users. An entity may aggregate information but only if that does not obscure the information provided.

When considering the appropriate level of aggregation, FRS 112 indicates that consideration should be given to both quantitative and qualitative information about the risks and returns of each entity as well as consideration of the overall significance of the entity.

Effective date and transition

FRS 112 is effective for annual periods beginning on or after 1 January 2014. Early application is permitted, but when early applied, all five standards (together with FRS 27 (Revised), FRS 28 (Revised), FRS 110 and FRS 111) have to be applied together.

However, an entity may start including disclosures in FRS 112 into their financial statements without early adopting FRS 112 (and thereby the other four standards).

Note: Originally, when FRS 112 first was issued, it was effective for financial periods beginning from 1 January 2013. However, on 31 August 2012, the ASC announced a deferral of the effective date by a year to 1 January 2014.

This deferral also applies to FRS 110, FRS 111, FRS 27 (Revised) and FRS 28 (Revised). The IFRS equivalents of these standards continue to be effective for financial periods beginning from 1 January 2013.

Transition

On 6 September 2012, the ASC issued amendments that clarified the transition guidance of FRS 110, FRS 111 and FRS 112. The amendments are to be applied in whichever accounting period when FRS 110, FRS 111 and FRS 112 are applied for the first time.

The amendments limit the requirement to present adjusted comparative information to the period immediately preceding the date of initial application (e.g. for a calendar-year end, information as at 1 January 2013 and 31 December 2013 and for the period ending 31 December 2013).

In addition, the amendments provide relief by eliminating the requirement to present comparatives for the disclosures relating to unconsolidated structured entities for any period before the first annual period for which FRS 112 is applied.

Amendments to FRS 110 *Consolidated Financial Statements*, FRS 112 *Disclosure of Interests in Other Entities* and FRS 27 *Separate Financial Statements – Investment Entities*

Background

The amendments to FRS 110 are principally concerned with establishing whether an entity qualifies as an 'investment entity'. FRS 110 emphasises that the definition does not set a 'bright-line' but establishes the typical features of an entity that meets the notion of an 'investment entity'. Accordingly, in applying the definition judgement will need to be exercised.

Where an entity qualifies as an 'investment entity', it shall not consolidate particular subsidiaries in accordance with the consolidation provisions of FRS 110 but instead to measure those subsidiaries at fair value through profit or loss ('FVTPL') in accordance with FRS 39 *Financial Instruments: Recognition and Measurement*. The rationale for this exception to the principle of consolidation of controlled investees is that to consolidate such entities that are controlled by an investment entity may reduce the comparability of different investments reported in an investment entity's financial statements and that the fair value of the investment of the investee with changes in that value recognised in profit or loss provides more relevant information for users of the financial statements of investment entities.

Defining an 'investment entity'

The exception to consolidation is based on the type of entity that owns the subsidiary.

To qualify as an 'investment entity' an entity is required to:

- Obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- Commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- Measure and evaluate performance of substantially all of its investments on a fair value basis

An entity that meets the definition is expected to have the following 'characteristics':

- Multiple investments
- Multiple investors
- Investors that are not related to the parent entity or the investment manager
- Ownership interests in the form of equity or partnership interests

If an entity does not display one or more of the typical characteristics, additional judgement is required in determining whether the entity meets the definition of an investment entity but this does not necessarily mean that the definition is not met.

In satisfying the business purpose aspect of the definition, the notion of an investment time frame is critical. The investment entity should not hold its investments indefinitely but should have some exit strategy for their realisation. Exit strategies need not be documented for each investment but an entity will have to “identify different potential strategies for different types or portfolios of investments, including a substantive time frame for exiting the investments”. Holding debt securities (other than those that have the potential to be held indefinitely) to maturity can be considered an exit strategy.

The existence of benefits other than capital appreciation and/or investment income may indicate that the business purpose aspect of the definition is not met.

Such benefits include:

- The acquisition, use, exchange or exploitation of the processes, assets or technology of an investee.
- Joint arrangements or other agreements between the entity or another group member and an investee.
- Financial guarantees or assets provided by investee to serve as collateral for borrowing arrangements of the entity.
- An option held by a related party of the entity to purchase an ownership interest in an investee of the entity.
- Transactions between the entity or another group member and an investee that are not on normal market terms or represent a substantial portion of the investee’s or the entity’s business activity.

The fair value aspect of the definition requires that investments are measured and evaluated on a fair value basis. That is, the entity provides investors with fair value information and its key management personnel use fair value information as the primary basis for evaluating the performance of substantially all of its investments.

An entity is required to account for any investment property, investments in associates and joint ventures and financial assets using the fair value model set out in FRS 40 *Investment Property*, FRS 28 *Investments in Associates and Joint Ventures* and FRS 39 respectively but is not required to measure and manage its financial liabilities on a fair value basis.

Investments in associates and joint ventures

The consequential amendments to other standards do not include the changes to FRS 28 *Investments in Associates and Joint Ventures* which were proposed in the exposure draft. The ‘investment entity’ provisions are achieved by electing to measure such investments at fair value under FRS 28.18 where the investment is held by an entity that is venture capital organisation, mutual fund, unit trust and similar entities including investment-linked insurance funds.

Non-investment entity parent

A non-investment entity parent is not provided with relief from consolidation and the general requirements of FRS 110 apply even if it has subsidiaries that are themselves investment entities. This means that a non-investment entity parent has to consolidate all of its subsidiaries, including those controlled via a subsidiary that is an investment entity.

Subsidiaries providing investment-related services

The standard also allows for investment entities to have a business model that encompasses subsidiaries providing investment-related services, even if these services constitute a substantive part of their activities. Where this is the case, the servicing subsidiary itself is required to be consolidated but other subsidiaries are still measured at fair value.

Disclosures (Amendments to FRS 112)

Disclosure requirements for investment entities are set out in FRS 112 *Disclosure of Interests in Other Entities*.

An investment entity is required to disclose information about significant judgements and assumptions made in determining that it has met the definition of an investment entity.

In particular, the entity will disclose:

- (a) That it is an investment entity and as such has not consolidated controlled investees; and
- (b) How it has met the definition and typical characteristics to be an investment entity, with specific reasons given if it has not met one or more of them.

An entity beginning or ceasing to be considered an investment entity triggers disclosure with information required on both the reason for the change and the impact on the financial statements.

An investment entity is required to provide details about each unconsolidated subsidiary including any significant restrictions on it to transfer funds to the investment entity; any support the investment entity (or its subsidiaries) has provided an unconsolidated entity without having a contractual obligation to do so. Disclosures are also required for any structured entity that it controls.

Effective date and transition

The investment entity requirements are to be applied retrospectively and are effective for reporting periods beginning on or after 1 January 2014, although early application is permitted.

FRS 36 Impairment of assets

– Recoverable amount disclosures for non-financial assets

Background

FRS 113 *Fair Value Measurement* made some consequential amendments to the disclosure requirements in FRS 36. Those changes had a broader impact than intended. In particular, introducing a requirement to disclose in every reporting period the recoverable amount of each cash-generating unit (CGU) or group of units to which a significant portion of the overall carrying amount of goodwill (or other intangible assets with indefinite useful lives) had been allocated. It was intended to limit such disclosures to reporting periods in which an impairment loss was recognised or reversed.

Amendment

In addition to removing the requirement to disclose recoverable amounts when there has been no impairment or reversal of impairment, the amendments require the following disclosures (in addition to the others already required by FRS 36) when an impairment is recognised or reversed and recoverable amount is based on fair value less costs of disposal:

- The level of the FRS 113 'fair value hierarchy' within which the fair value measurement of the asset or CGU has been determined
- For fair value measurements at Level 2 or Level 3 of the fair value hierarchy:
 - A description of the valuation techniques used and any changes in that valuation technique.
 - Key assumptions used in the measurement of fair value, including the discount rate(s) used in the current measurement and previous measure if fair value less costs of disposal is measured using a present value technique.

The disclosure requirements for impairments and reversals based on the value in use of an asset or CGU under FRS 36 have not been amended.

Effective date and transition

The amendment applies retrospectively to annual reporting periods beginning on or after 1 January 2014.

FRS 39 Financial Instruments: Recognition and Measurement

– Novation of Derivatives and Continuation of Hedge Accounting

Background

This amendment provides some relief from the requirement to cease hedge accounting when a derivative is required to be novated to a central counterparty (CCP) or entity acting in a similar capacity, under certain circumstances.

Laws and regulations on over-the-counter (OTC) derivatives are changing in several jurisdictions (based on the G20 commitments arising out of the financial crisis), requiring many of them to be transacted with a CCP or with an entity acting in a similar capacity.

Many derivatives that are subject to these laws and regulations have been designated in hedging relationships. Prior to this amendment, FRS 39 requires an entity to discontinue hedge accounting in these circumstances (assuming the novation was not contemplated in the original hedging documentation) because the novation involves the termination or expiration of the original hedging instrument. Discontinuation of hedge accounting, particularly for cash flow hedges, is particularly problematic as it makes it more difficult for entities to apply hedge accounting in future periods.

The amendment

The amendment states that the novation of a hedging instrument should not be considered an expiration or termination giving rise to the discontinuation of hedge accounting when a hedging derivative is novated:

- As a consequence of laws and regulations, or the introduction of laws and regulations, one or more clearing counterparties replace the original counterparty; and
- Any changes in terms of the novated derivative are limited to those necessary to effect the replacement of the counterparty (for example, changes in all collateral requirement, rights to offset receivables and payables balances, and charges levied).

Any changes to the derivative's fair value arising from the novation would be reflected in its measurement and therefore in the measurement and assessment of hedge effectiveness.

There are no additional disclosures introduced by this amendment.

Effective date

The amendment shall be applied retrospectively for annual periods beginning on or after 1 January 2014 with early application permitted.

However, even with retrospective application, if an entity had previously discontinued hedge accounting, as a result of novation, that (pre-novation) hedge accounting relationship cannot be reinstated because doing so would be inconsistent with the requirements for hedge accounting (i.e. hedge accounting cannot be applied retrospectively).

INT FRS 121 Levies

Background

The Interpretation defines a levy as "an outflow of resources embodying future economic benefits that is imposed by governments on entities in accordance with legislation". Taxes within the scope of FRS 12 *Income Taxes* are excluded as are fines and penalties.

Payments to governments for services or the acquisition of an asset under a contractual arrangement are also outside the scope. That is, the levy must be a non-reciprocal transfer to a government where the entity paying the levy does not receive specific goods and services in exchange.

For the purpose of the Interpretation, a 'government' is defined in accordance with FRS 20 *Accounting for Government Grants and Disclosures of Government Assistance*. When an entity acts as an agent for a government to collect a levy, the agency cash flows collected are outside the scope of the Interpretation.

How does the Interpretation impact the accounting for levies?

Consistent with FRS 37 *Provisions, Contingent Liabilities and Contingent Assets*, a liability is recognised when the obligating event occurs. The obligating event is the activity that triggers payment of the levy. This is typically specified in the legislation that imposes the levy.

For example, if an entity pays a levy on the previous period's (20X2) revenue but the levy is only payable if the entity is operating at 1 January (20X3), the obligating event is being in operation on 1 January and the levy should not be accrued until that date. The logic is that generating revenue in the previous year is a necessary but not a sufficient condition to trigger the recognition of a liability.

The Interpretation also considers a range of different levy arrangements. The table below summarises different types of levy arrangements dealt with by the Interpretation.

Levy Arrangement	When would a liability be recognised?
Levy is triggered progressively as the entity generates revenue.	The obligating event is the generation of revenue as specified in legislation. An entity accrues a liability to pay the levy as it generates revenue.
Levy triggered in full as soon as the entity generates revenue.	The obligating event is initial revenue generated by entity. In these arrangements a levy is typically payable based on the revenue of a previous period. Accordingly, earning revenue in the previous period is a necessary but not a sufficient condition to recognise a liability for the payment of the levy.
Levy triggered in full if the entity is operating on a specific date.	The obligating event is being in operation on a specified date and until that date, the entity can avoid paying the levy. In this case, even though the amount of levy is calculated based on balance in a previous period, no obligation is accrued until the specified date has been reached.
Levy triggered if the entity generates revenue above a specified minimum amount of revenue.	The obligating event is generating revenue about the trigger level. No liability is accrued until the trigger level is reached, irrespective of the likelihood of that even occurring. Accordingly, even if that minimum is always reached each period and it is reasonably certain that the threshold will be met in the current period, the liability is not booked until the obligating event has been reached.

When should an obligation to pay a levy be recognised in interim financial statements?

The Interpretation makes it clear that a liability to pay a levy should only be recognised in interim reports once the obligating event has occurred.

Effective date and transition

The Interpretation applies to annual reporting periods beginning on or after 1 January 2014. In accordance with FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, the Interpretation is to be applied retrospectively.

Outline of recent exposure drafts

Below are highlights of the recent proposals issued by the IASB of which the AC has similarly sought comments through the public consultation process.

Exposure drafts	Main proposals
<i>Annual Improvements to IFRSs 2011- 2013</i>	<p>IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i> The ED proposes to clarify that an entity, in its first IFRS financial statements, has the choice between applying an existing and currently effective IFRS or applying early a new or revised IFRS that is not yet mandatorily effective, provided that the new or revised IFRS permits early application.</p> <p>IFRS 3 <i>Business Combinations</i> The ED proposes to exclude from its scope the accounting for the formation of all types of joint arrangements as defined in IFRS 11 <i>Joint Arrangements</i>, including those involving the contribution of a business to a joint arrangement, and clarifies that the scope exclusion in paragraph 2(a) of IFRS 3 only addresses the accounting in the financial statements of the joint venture or the joint operation itself, and not the accounting by the parties to the joint arrangement for their interests in the joint arrangement.</p> <p>IFRS 13 <i>Fair Value Measurement</i> The ED proposes to clarify that the portfolio exception in paragraph 52 of IFRS 13 applies to all contracts accounted for within the scope of IAS 39 <i>Financial Instruments: Recognition and Measurement</i> or IFRS 9 <i>Financial Instruments</i>, even if they do not meet the definition of financial assets or financial liabilities as defined in IAS 32 <i>Financial Instruments: Presentation</i>, such as certain contracts to buy or sell non-financial items that can be settled net in cash or another financial instrument.</p> <p>IAS 40 <i>Investment Property</i> The ED proposes to clarify that the discussion in paragraphs 7–15 of IAS 40 relates to whether or not a property is an owner-occupied property or an investment property and not to determine whether or not the acquisition of the property is a business combination, which requires judgement based on the guidance in IFRS 3 <i>Business Combinations</i>.</p>
<i>ED Equity Method: Share of Other Net Asset Changes</i>	The ED proposes that an investor would recognise directly in equity its share of the changes in the net assets of an investee that are neither recognised in profit or loss or other comprehensive income of the investee nor distributions received from the investee. An investor would reclassify to profit or loss the cumulative amount of equity that it had previously recognised when it loses significant influence over or gains control of the investee and hence discontinues the use of the equity method.

Exposure drafts	Main proposals
<i>Classification and Measurement : Limited Amendments to IFRS 9</i>	<p>The ED proposes to:</p> <ul style="list-style-type: none"> • Introduce a fair value through other comprehensive income (FVTOCI) measurement category for financial assets that contain contractual cash flows that are solely payments of principal and interest and are held in a business model in which assets are managed both in order to collect contractual cash flows and for sale; • Change the transition guidance so that following completion of IFRS 9 only the complete version of IFRS 9 would be available for early adoption; however, as an exception, entities would be permitted to apply early in isolation the requirements for the presentation in other comprehensive income of gains and losses attributable to changes in a liability's credit risk for financial liabilities designated under the fair value option; • Amend the contractual cash flows characteristics test for certain debt instruments where there is a modified economic relationship between the principal amount and consideration for time value of money and credit risk; this is relevant where the interest rate reset frequency does not match the tenor of the interest rate; and • Provide some clarifications on the nature of a business model whose objective is to collect contractual cash flows and how this differs from a business model whose objective is both to collect contractual cash flows and for sale.
<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>	<p>The ED proposes to clarify that a revenue-based method should not be used because it reflects a pattern of economic benefits being generated by using the asset, rather than the pattern of consumption of the future economic benefits embodied in the asset itself.</p>
<i>Acquisition of an Interest in a Joint Operation</i>	<p>The ED proposes the application of the principles for business combination accounting in IFRS 3 in accounting for the acquisition of an interest in a joint operation that meets the definition of a business in that standard.</p>
<i>Contribution of Assets between an Investor and its Associate or Joint Venture</i>	<p>The ED proposes that all non-monetary assets sold or contributed to an associate or joint venture which constitutes a business (as defined in IFRS 3) would follow the existing principles in IFRS 10 Consolidated Financial Statements – that being full gain or loss recognition by the investor.</p> <p>Conversely, any gains or losses on assets sold or contributed that do not meet the definition of a business would be recognised only to the extent of the other investors' interests in the associate or joint venture.</p>
<i>Recoverable Amount Disclosures for Non-Financial Assets</i>	<p>Refer to FRS 36 <i>Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets</i> issued in July 2013</p>
<i>Novation of Derivatives and Continuation of Hedge Accounting</i>	<p>Refer to FRS 39 <i>Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting</i> issued in September 2013</p>

Exposure drafts	Main proposals
<i>Defined Benefit Plans: Employee Contributions</i>	<p>The ED proposes that contributions from employees or third parties that are linked solely to the employee's service rendered in the same period in which they are paid may be treated as a reduction in the service cost and accounted for in that same period.</p> <p>Other employee contributions would be attributed to periods of service in the same way as the gross benefits under the scheme.</p>
<i>Financial Instruments: Expected Credit Losses</i>	The ED proposes to establish principles for the recognition, measurement, presentation, and disclosure of expected credit losses that will provide useful information for users of financial statements in their assessment of the amount, timing, and uncertainty of future cash flows.
<i>Regulatory Deferral Accounts</i>	The ED proposes to permit (but not require) entities that adopt IFRS to continue to use their previous GAAP, as accepted in their local jurisdiction, for the recognition, measurement and impairment of regulatory deferral account balances, subject to certain eligibility criteria.
<i>Agriculture: Bearer Plants</i>	<p>The ED proposes that certain bearer plants (such as grape vines and oil palms that can be repeatedly harvested for agricultural produce) will be accounted for under the requirements of IAS 16 rather than IAS 41.</p> <p>The proposed changes are restricted to bearer plants that are only used as such and are not intended to be sold as living plants or harvested as agricultural produce.</p>
<i>Insurance Contracts</i>	The ED proposes to introduce a single consistent and transparent IFRS for insurance contracts. The new IFRS focuses on a principle-based approach to the recognition of profits from insurance contracts as the insurer's obligations towards its policyholders are fulfilled.

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

Revenue project

ED Revenue from Contracts with Customers

In 2011, the IASB reissued ED *Revenue from Contracts with Customers* (the “2011 ED”). The 2011 ED was a revised version of an original ED issued in June 2010. The Revenue project is the result of the IASB’s and FASB’s objectives of developing a common, comprehensive, principles-based revenue standard that can be applied consistently to complex transactions across a wide range of industries.

The revised ED’s core principle is that “an entity shall recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services”. The proposal lists five key steps for entities to follow in recognising revenue for contracts within the ED’s scope:

Step 1 – identify the contract with a customer

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

Step 2 – identify the separate performance obligations in the contract

A good or service would be accounted for as a separate performance obligation if it is deemed “distinct”. A good or service is distinct if either of the following criteria is met:

- a) The entity regularly sells the good or service separately; or
- b) The customer can benefit from the good or service either on its own or together with resources that are readily available to the customer

Step 3 – determine the transaction price

The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. The transaction price would include discounts, rebates, refunds, credits, incentives, performance bonuses, penalties, concessions and other similar items.

Step 4 – allocate the transaction price to the separate performance obligations in the contract

The original ED proposed that an entity should allocate the transaction price to all separate performance obligations in proportion to the standalone selling price of the good or service underlying each of those performance obligations at contract inception. More flexibility is provided in this revised ED where the estimation method used when the stand-alone selling price of a good or service is not directly observable.

Step 5 – recognise the revenue when (or as) the entity satisfies each performance obligation

The ED proposed indicators of when a customer obtains control at a point in time and also provided additional guidance that an entity must consider in determining whether control transfers continuously over time. Individual onerous performance obligations must still be assessed for under certain parameters.

Some of the proposals may have significant implications as they represent significant differences from current practice.

Since the end of the comment period for the ED in March 2012, the IASB and FASB have been discussing the comments received.

We provide a status update of the Revenue project, with highlights of the Boards' (IASB and FASB) tentative decisions taken in re-deliberating some of the key areas proposed in the 2011 ED, including:

- 1) **Identifying separate performance obligations**
- 2) **Licences**
- 3) **Collectability**
- 4) **Allocation of the transaction price**
- 5) **Performance obligations satisfied over time**
- 6) **Constraint on recognising variable consideration**
- 7) **Losses arising from onerous obligations in contracts with customers**
- 8) **Repurchase agreements**

Particularly, the key proposal for determining whether performance obligations are satisfied over time could be of significant relevance to the real estate development entities, as well as entities engaged in other types of long term contracts, involving construction of assets or rendering of services.

The information below is based on the tentative decisions made by the Boards during their recent meetings up to October 2013 and may not necessarily represent the final position until the standard is issued. Please also note that the above is not an exhaustive list of all the tentative decisions made by the Boards. The IASB's project timetable as of October 2013 indicated that the final standard may be issued sometime in the 1st Quarter of 2014, and the final IASB standard will likely be effective for annual reporting periods beginning on or after 1 January 2017, with early application permitted. Initial application will generally require retrospective application, or election of alternative transition methods prescribed.

The IASB and FASB have thus far reached the same tentative decisions on the revenue project with the exception of the interim disclosure requirements and the ability to adopt early the final standard. Differences may continue to exist to the extent that the revenue recognition guidance requires reference to other standards.

1. Identifying separate performance obligations

The Boards tentatively decided:

- To clarify the underlying principle of identifying separate performance obligations;
- To retain the concept of a distinct good or service, which is used to determine whether a promise to transfer a good or service to a customer should be accounted for as a separate performance obligation;
- To improve the assessment of whether a good or service is distinct that was proposed by clarifying the criterion proposed and by replacing the proposed criterion with indicators; and
- To remove the practical expedient of the revised ED (which permitted an entity to account for two or more distinct goods or services as a single performance obligation if those goods or services have the same pattern of transfer to the customer) for concurrently delivered goods and services and include a pattern of transfer indicator for when performance obligations are distinct in the context of the contract for consecutively delivered goods or services.

To improve the "distinct" concept in the revised ED, the Boards tentatively decided that an entity should account for a promised good or service (or a bundle of goods or services) as a separate performance obligation only if:

- The promised good or service is capable of being distinct because the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer; and
- The promised good or service is distinct within the context of the contract because the good or service is not highly dependent on, or highly interrelated with, other promised goods or services in the contract. There was a clarification that while items may be capable of being individually distinct (e.g., building materials, labour, etc.), these items could lose their distinctiveness in the context of the contract (e.g. provide a building) and therefore the second criterion would override the first criterion.

The Boards tentatively agreed that the assessment of whether a promised good or service is distinct in the context of the contract should be supported by indicators, such as:

- The entity does not provide a significant service of integrating the good or service (or bundle of goods or services) into the bundle of goods or services that the customer has contracted (i.e., the entity is not using the good or service as an input to produce the output specified in the contract).
- The customer was able to purchase or not purchase the good or service without significantly affecting the other promised goods or services in the contract.
- The good or service does not significantly modify or customise another good or service promised in the contract.
- The good or service is not part of a series of consecutively delivered goods or services promised in a contract that meet the following two conditions:
 - The promises to transfer those goods or services to the customer are performance obligations that are satisfied over time; and
 - The entity uses the same method for measuring progress to depict the transfer of those goods or services to the customer.

2. Licences

The Boards tentatively decided that some licence arrangements represent the promise to transfer a right, which transfers to the customer at a point in time, and others represent a promise to provide access to the entity's intellectual property, which transfers benefits to the customer over time. To determine how control transfers, an entity would assess the nature of the promise embodied in the licence. The following characteristics may indicate an entity is selling "a right" to use its intellectual property:

- a) The right transferred to the customer represents an output of the entity's intellectual property, similar to a tangible good.
- b) The licence can be easily reproduced by the entity with little or no effect on the value of the entity's intellectual property.
- c) The customer can determine how and when to use the right (i.e. when the benefits from the asset can be consumed) and the customer does not require any further performance from the entity to be able to consume those benefits.

In the absence of the above characteristics, the licence represents a promise to "access" the entity's intellectual property given that the customer obtains a right to use only a portion of the intellectual property and that portion is closely connected to the remaining intellectual property.

The Boards tentatively decided to:

- a) Place greater emphasis in the implementation guidance on the importance of identifying performance obligations before applying the criteria to distinguish between the two types of licences;
- b) Include additional rationale in the implementation guidance that explains the intention of the criteria; and
- c) Provide further examples to clarify the objective and application of the criteria.

3. Collectability

The Boards tentatively decided:

- That any initial or subsequent impairment of customer receivables should be presented prominently as an expense in the statement of comprehensive income.
- To clarify the requirements relating to estimates of variable consideration, specifically as they relate to assessing whether an entity has provided a price concession.
- To clarify the criteria that must be met before an entity can apply the revenue model to a contract with a customer, by including an explicit collectability threshold. To meet that threshold and apply the revenue model, an entity must conclude that it is probable that it will collect the consideration to which it will be ultimately entitled to in exchange for the goods or services that will be transferred to the customer. In making

that assessment, the Boards noted that an entity would only consider customer credit risk and not other uncertainties, such as those related to performance or measurement, which would be accounted for in the timing of recognition and measurement of revenue. In setting the threshold, the Boards also acknowledged that the term 'probable' has different meanings in US GAAP and IFRS; however the Boards tentatively decided to set the threshold at a level that is consistent with current practice and existing Standards for revenue recognition in US GAAP and IFRS.

4. Allocation of the transaction price

The Boards tentatively decided to retain the proposals relating to the use of a residual approach to estimate the standalone selling price of a performance obligation where a variable performance obligation exists.

The Boards clarified that a residual approach could also be used when two or more performance obligations in a contract have standalone selling prices that are highly variable or uncertain, if at least one of the other goods or services in the contract has a standalone selling price that is not highly variable or uncertain. The entity could estimate the standalone selling prices by first applying the residual approach to estimate an aggregate standalone selling price for the group of promised goods or services, and then using another method to estimate the standalone selling prices of the goods or services underlying each separate performance obligation. Use of other estimation methods should depict the amount of consideration to which the entity expects to be entitled in exchange for satisfying each separate performance obligation.

The revised ED specified when discounts and contingent consideration in an arrangement should be allocated to specific performance obligations. The Boards tentatively decided to retain the proposals in the revised ED, while also clarifying that discounts and contingent consideration should be initially allocated on the basis of the revised ED before applying a residual approach to estimate the standalone selling price of any other performance obligations.

5. Performance obligations satisfied over time

The Boards tentatively decided to make the following refinements to the criteria proposed in the revised ED for determining whether an entity satisfies a performance obligation over time and, consequently, recognises revenue over time:

- To retain the criterion proposed which considers whether the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced;
- To combine the 'simultaneous receipt and consumption of benefits' criterion proposed and the 'another entity would not need to substantially re-perform' into a single criterion that would apply to 'pure service' contracts;
- Link more closely the 'no alternative use' criterion and the 'right to payment to performance to date' criterion by combining them into a single criterion. The Boards also tentatively decided to clarify aspects of the 'alternative use' and 'right to payment for performance complete to date' criteria as follows:
 - a. Right to payment:
 - i. The payment schedule specified in the contract does not indicate whether an entity has a right to payment for performance to date.
 - ii. The right to payment should be enforceable and, in assessing the enforceability of that right, an entity should consider the contractual terms as well as any legislation or legal precedent that could override those contractual terms.
 - b. A 'reasonable profit margin' should represent either:
 - i. A reasonable proportion of the expected profit margin under the contract; or
 - ii. A reasonable return on the entity's cost of capital for similar contracts if the contract specific margin is higher than the return the entity usually generates from similar contracts; and
 - iii. The entity should assess whether, for the entire duration of the contract, the entity would be entitled to an amount that is intended to at least compensate the entity for performance completed to date.

- c. Assessment of alternative use:
- i. There must be a substantive reason for the presence of a contractual restriction in the contract;
 - ii. A practical limitation might exist if the entity would face a significant economic loss (through either incurring significant costs of rework or selling the asset at a significant loss) if it redirected the asset to another party;
 - iii. The assessment of alternative use is made at contract inception and the entity considers its ability throughout the product process to readily re-direct the partially completed asset to another customer.

The Boards discussed the use of the 'units produced' or 'units of delivery' methods for measuring progress toward complete satisfaction of a performance obligation that is satisfied over time. The Boards affirmed their previous tentative decision that input methods such as units produced or units of delivery may be appropriate methods for measuring progress towards completion. The Boards tentatively decided to clarify when these methods could provide a reasonable proxy for an entity's performance in satisfying a performance obligation.

The Boards noted:

- A units produced method could provide a reasonable proxy for the entity's performance if the value of any work in progress at the end of the reporting period is immaterial.
- A units of delivery method could provide a reasonable proxy for the entity's performance if:
 - The value of any work in progress at the end of the reporting period is immaterial; and
 - The value of any units produced but not yet delivered to the customer at the end of the reporting period is immaterial.

The Boards tentatively agreed to clarify the scope and application of the revised ED by specifying that the adjustment to the input method (for uninstalled materials) proposed to ensure that the input method meets the objective of measuring progress that is specified in the revised ED (i.e. to depict the entity's performance). An entity would also need to make adjustments to the input method measure if some of the costs incurred (e.g. wasted materials) do not contribute to the progress in the contract.

6. Constraint on recognising variable consideration

Consistent with the proposal, the Boards tentatively decided that an entity should evaluate whether to constrain the cumulative amount of revenue recognised if the amount of consideration to which an entity expects to be entitled is variable. The Boards tentatively agreed to clarify that this constraint applies to contracts with a variable price and to contracts with a fixed price where it is uncertain whether the entity would be entitled to that consideration after satisfying the related performance obligation. The indicators included in the revised ED regarding when the constraint should apply would be retained, subject to minor improvements and clarifications.

An entity should recognise revenue as performance obligations are satisfied up to the amount the entity has a "high level of certainty" will not be subject to significant future reversals. An entity's experience with similar types of performance obligations would support its assessment regarding the likelihood of significant revenue reversals. However, an entity would be required to consider all the facts and circumstances associated with both the risk of a revenue reversal arising from an uncertain future event and the magnitude of the reversal if that uncertain event were to occur.

The Boards tentatively decided:

- a) To specify that, for all contracts, an entity should include a minimum amount of variable consideration in the estimate of the transaction price, when including that amount would not result in a significant revenue reversal; and
- b) Not to specify the circumstances when that minimum amount would be zero, nor to specify an exception for sales-based royalties on licences of intellectual property.
- c) To specify a confidence level in the objective of 'highly probable' when applying the constraint.
- d) That if an entity expects that including some, but not all, of the estimated amount of variable consideration in the transaction price would not result in a significant revenue reversal, the entity should include that amount in the estimate of the transaction price.
- e) That an entity should update the estimated transaction price at each reporting date to represent faithfully the circumstances present at the reporting date and the changes in circumstances during the reporting period.

The Boards tentatively decided to apply the constraint to the measurement of the transaction. Accordingly, revenue from variable consideration will be constrained through the determination of the transaction price rather than as a separate constraint on the amount recognised subsequent to allocating the transaction price.

The Boards tentatively decided to include a specific requirement that an entity should include consideration from the sales- or usage-based royalty in the transaction price when the uncertainty has been resolved (that is, when the subsequent sales or usage occur).

7. Losses arising from onerous obligations in contracts with customers

The Boards tentatively decided not to include onerous test requirements for onerous contracts with customers within the scope of the new revenue standard. Consequently, the IASB tentatively decided that the requirements for onerous contracts in *IAS 37 Provisions, Contingent Liabilities and Contingent Assets*, should apply to all contracts with customers within the scope of the revenue standard. The Boards tentatively decided not to amend the existing onerous models.

8. Repurchase agreements

Certain contracts provide for the sale of an asset to a customer and simultaneously provide the entity the unconditional right or obligation to repurchase the asset (e.g. a call option or forward contract) from the customer.

The Boards tentatively decided:

- To affirm the requirements which require lease accounting in circumstances in which a seller agrees to repurchase an asset sold if the buyer has a significant economic incentive to exercise its put option.
- That a residual value guarantee provided by the seller would not preclude revenue recognition.
- To clarify that a sale-leaseback transaction in which a customer has a put option with a repurchase price that is less than the original sales price and for which the customer has a significant economic incentive to exercise would be accounted for as a financing arrangement.

The revised ED specified that the presence of a call option would always preclude the transfer of control. Conversely, determination of whether control has transferred at the presence of a put option requires an assessment of whether the customer has a significant economic incentive to exercise that option. The Boards considered whether these requirements should be aligned. However, the Boards affirmed their previous proposal that control has not transferred if the seller has a call option. Non-substantive options should not affect the assessment of the transfer of control to a customer.

Leases project

ED Leases

Background

In August 2010, the IASB issued an ED proposing fundamental changes to the accounting for lease arrangements. The ED was a result of the IASB's and FASB's joint project to develop a new single approach to lease accounting that would ensure that all assets and liabilities arising under lease contracts are recognised in the statement of financial position. Subsequently, the IASB published a revised exposure draft Leases (the '2013 ED' or the "proposals") in May 2013.

Where are we in the standard setting process?

The 2013 ED is the latest step in a long-running project to improve the financial reporting of leases under IFRSs and US GAAP. The objective of the project is to address criticisms that the existing accounting model fails to meet the needs of users of financial statements.

How will the proposals impact your business?

The proposals in the 2013 ED may significantly impact the operations and financial results of lessees and lessors.

Some of the impacts include:

Increased management judgements and estimates	Development of robust accounting policies and internal controls will be necessary as a result of the judgements and estimates required by lessees in recognising their right of-use assets and lease liabilities, and the application of the receivable and residual approach for lessors.
Financial statement ratios and metrics	The recognition of right-of-use assets and lease liabilities for lessees and the application of the receivable and residual approach for lessors may affect gearing ratios, debt covenants and other key performance ratios. Timing of income and expense recognition may impact other financial metrics such as EBITDA and compensation agreements (e.g., stock-based compensation agreements).
Operational complexity and data collection	Detailed lease level data will be required to record the lease, perform required periodic reassessments, and assess the impact of lease modifications. This information may not be available through existing financial reporting systems.
Income tax considerations	Retrospective application is proposed which may result in significant deferred tax consequences upon initial application.

What is now considered to be a lease?

The 2013 ED defines a lease as “a contract that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration”. A contract contains a lease if fulfilment of the contract depends on the use of an identified asset (identifiable either explicitly (e.g. by a specific serial number) or implicitly (e.g. the only asset available to satisfy the lease contract)) and the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The right to use an identified asset is conveyed only if the customer has the ability to both direct the use of the asset and receive the benefit from its use.

Leases with a maximum possible lease term, including renewal options, of 12 months or less (defined as short-term leases) would be eligible for current operating lease accounting. The election to apply the relief would be an accounting policy election on the basis of asset class, rather than on a lease-by-lease basis. Cancellable leases would be considered short-term leases if the initial non-cancellable period, together with any notice period, is 12 months or less.

Leases explicitly excluded from the scope of the proposals include (1) leases to explore for, or use, mineral, oil, natural gas, and similar non-regenerative resources, (2) leases of biological assets, (3) leases of intangible assets, although the IASB proposal would permit lessees to apply the proposals to leases of intangible assets, and (4) service concession arrangements within the scope of IFRIC 12 *Service Concession Arrangements*.

For contracts containing non-lease components, an entity would be required to separate lease and non-lease components and account for the non-lease components in accordance with other standards. Lessees would allocate payments to the lease and non-lease components on the basis of the relative observable standalone prices of the individual components.

If there is no observable standalone price for any component, lessees would combine all components and account for them as one. If there is an observable standalone price for one or more, but not all the components of the contract, the allocation is to be made based on the standalone price of each component and the remaining consideration.

If more than one component is a lease, they are combined and accounted for as a single lease component. Lessors would allocate payments to lease and non-lease components based on the relative standalone selling prices of the individual components.

What drives the classification of leases?

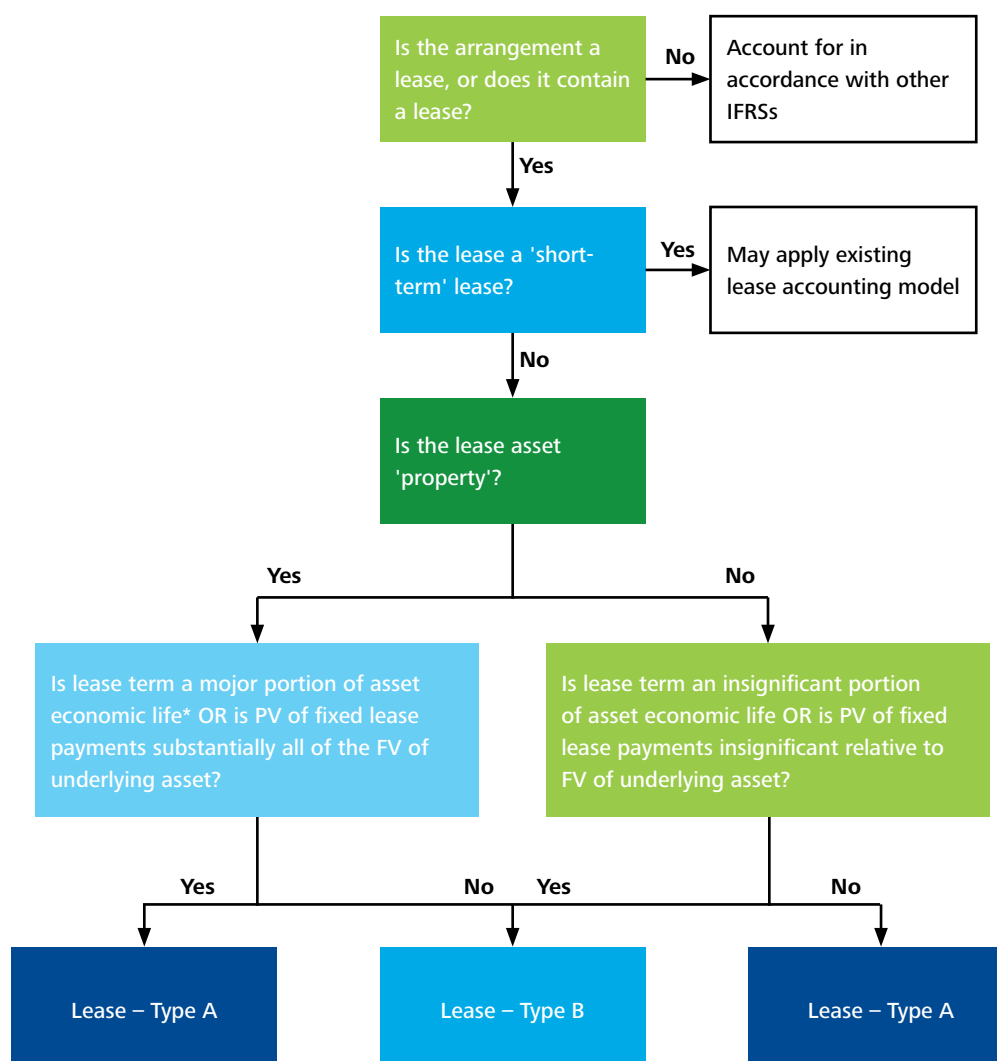
Under the proposals, leases would be classified as either 'Type A' or 'Type B' depending on the nature of the underlying asset.

Leases of property, including land, a building, or part of a building, would be classified as Type B leases unless the lease term is for a major part of the underlying asset's remaining economic life or the present value of fixed lease payments accounts for substantially all of the fair value of the underlying asset.

Leases other than property would be classified as Type A leases unless the lease term is an insignificant portion of the underlying asset's economic life or the present value of fixed lease payments is insignificant relative to the fair value of the underlying asset.

The diagram overleaf provides an overview of the proposed lease classification framework.

Overview of proposed lease classification for lessees and lessors



What are the proposals for lessees?

The 2013 ED proposes the application of a 'right-of-use' model to all leases except for short-term leases. Under this model, lessees would recognise a right-of-use asset and a lease liability in the statement of financial position for each lease. The right-of-use asset and lease liability would be initially measured at the present value of the lease payments. Initial direct costs incurred as a consequence of negotiating and arranging a lease may be capitalised to the right-of-use asset. The lessee's classification of the lease would determine the subsequent measurement of the right-of-use asset and accordingly, the pattern of expense recognition.

For Type A leases, the lessee would amortise the right-of-use asset using a systematic method. In addition, interest expense on the lease liability would be recognised using the effective interest method. Under this method, the interest expense would generally decrease over time whilst amortisation of the right-of-use asset is likely to either remain constant (under a straight-line method) or decrease over time (under a diminishing balance method). Accordingly, the total expense resulting from the lease arrangement would be front-loaded. This pattern of expense recognition is consistent with the treatment of finance leases under current lease accounting.

For Type B leases, the lessee would recognise a single lease expense on a straight-line basis.

What are the proposals for lessors?

Lessors may elect to apply the existing operating lease accounting model for short-term leases. For those leases that are not considered short-term or for short-term leases which the lessor has not elected to apply the existing operating lease accounting model, lessors would be required to classify leases in a similar manner as lessees.

For Type A leases, the lessor would derecognise the leased asset and recognise a receivable for the lease payments and a residual asset. The residual asset represents the lessor's claim to the residual value of the leased asset at the end of the lease term. The residual asset would be measured as the net amount of (a) the gross residual asset, measured at the present value of the estimated residual value at the end of the lease term, and (b) deferred profit, if any. Profit on the residual asset would be deferred until sale or re-lease of the underlying asset. Although the two components of the net residual asset would be presented as a single amount, entities must calculate the two components to apply the subsequent accounting requirements. Lessors would be required to recognise upfront profit or loss related to the leased portion of the asset.

The lessor would subsequently account for the lease receivable at amortised cost under the effective interest method, recognising interest income at the rate the lessor charges the lessee. In addition, the lessor would subsequently accrete the gross residual asset over the lease term to an amount equal to the expected residual value of the leased asset at the end of the lease also using the rate the lessor charges the lessee in the lease contract.

For Type B leases, the lessor would apply a model generally consistent with current operating lease accounting. The lessor would continue to recognise the leased asset in its statement of financial position. Lease payments would be recognised on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

What about leases with variable lease terms?

The 2013 ED proposes that the lease term is the non-cancellable period for which the lessee has contracted with the lessor to lease the underlying asset. It also includes periods covered by options to extend the lease when there is a significant economic incentive to exercise that option and periods covered by an option to terminate the lease if there is a significant economic disincentive not to exercise an option to terminate a lease.

At the commencement date, an entity would consider contract-based, asset-based, entity-based, and market-based factors when making this assessment.

The lease term would be reassessed when there is a significant change in one or more of the factors, other than market-based factors (e.g. market rentals for a comparable asset), such that the entity would then have, or no longer have, a significant economic incentive to exercise an option to extend or terminate the lease.

What about leases with variable payments?

The 2013 ED proposes that lease payments would include fixed payments (or those which are, in-substance, fixed) and variable payments based on an index or rate (e.g. CPI or LIBOR). Termination penalties and purchase option payments would also be included when they were considered in the determination of the lease term. Variable lease payments based on performance or usage would be excluded from lease payments, by both lessees and lessors, and recognised in profit or loss in the period in which they occur. However, for lessors, expected variable lease payments (other than those based on an index or rate or are in-substance fixed payments) are included in the initial measurement of the residual asset.

Lessees would include amounts expected to be payable under residual value guarantees in the calculation of the lease liability. Lessors would only recognise amounts received or receivable under residual value guarantees as lease payments when the counter party also receives benefits of the residual asset at the end of the lease term. In all other situations the lessor would not recognise the residual value guarantee until the end of the lease but would consider the residual value guarantee in assessing the residual asset for impairment during the lease term.

Lessees and lessors would need to reassess variable payments based on an index or rate at each reporting date using the spot rate. To the extent that any reassessment changes affect the current period, a lessee would recognise the change through profit or loss. Any changes relating to future periods would result in a change to the right-of-use asset and lease liability. Conversely, a lessor would recognise all changes in lease payments that depend on an index or rate in profit or loss.

How will lease activities be presented in the financial statements?

Lessees

Statement of financial position

A lessee would report a right-of-use asset and a lease liability for all leases that do not meet the definition of a short term lease. Right-of-use assets and liabilities can either be presented separately in the statement of financial position or included within the same line item as similar assets and similar liabilities and disclosed separately in the notes to the financial statements.

Right-of-use assets and lease liabilities would be distinguished between Type A and Type B leases in either the statement of financial position or in the notes.

Statement of comprehensive income and statement of cash flows

The presentation of lease-related expenses in the statement of comprehensive income, and cash paid for leases within the cash flow statement, depends on the classification of the lease.

For leases classified as Type A, the lessee would report amortisation/depreciation of the asset separately from interest on the lease liability in the statement of comprehensive income. A lessee would separate the total amount of cash paid into a principal portion (presented within financing activities) and interest portion (presented in accordance with IAS 7 *Statement of Cash Flows*).

For leases classified as Type B, the lessee would account for the lease in the statement of comprehensive income and statement of cash flows similarly to an operating lease in existing accounting standards; that is, a lessee would report amortisation/depreciation of the asset and interest on the lease liability as one amount (lease expense) in the statement of comprehensive income and would report cash paid within operating activities in the statement of cash flows.

Lessors

Statement of financial position

For leases classified as Type A, the lessor would either present separately in the statement of financial position or disclose separately in the notes lease receivables and residual assets.

Presentation would remain consistent with current practice for leases classified as Type B.

Statement of comprehensive income and statement of cash flows

Lease income and lease expense would be presented in the statement of comprehensive income either gross or net on the basis of which presentation best reflects the lessor's business model. For leases classified as Type A, the lessor would present the accretion of the residual asset as interest income.

Cash inflows from a lease would be classified as operating activities in the statement of cash flows.

What disclosures will be required?

The 2013 ED proposes extensive disclosure requirements for both lessees and lessors designed to enable users of financial statements to understand the amount, timing, and uncertainty of cash flows arising from leases.

Some of the significant disclosure requirements for lessees include:

- A description of its leasing activities, including information about contingent rentals and term options;
- A maturity analysis outlining undiscounted lease commitments, with reconciliation to the amount reported in the statement of financial position; and
- A reconciliation of the opening and closing balances of the assets and liabilities recognised by the lessee.

Some of the significant disclosure requirements for lessors include:

- A description of its leasing activities, including information about contingent rentals and term options;
- A table of all lease-related income items;
- A maturity analysis of the undiscounted cash flows that are included in the right to receive lease payments; and
- A reconciliation of the opening and closing balance of the right to receive lease payments and residual assets.

What are other key proposals?

Topic	Proposals
Contract modifications	Modifications to the contractual terms and conditions that result in a significant change to the existing lease to be accounted for as a new contract with any differences recognised in profit or loss.
Discount rate	<p>Lessees should discount lease payments using the rate charged by the lessor (for example, the rate implicit in the lease, or the property yield), if available. Otherwise, the lessee's incremental borrowing rate should be used. In any case, the discount rate should reflect the nature of the transaction as well as the specific terms of the lease.</p> <p>Lessors should discount lease payments using the rate they charge in the lease.</p> <p>The discount rate should be reassessed only when there is a change in the lease term, in the factors relevant in the assessment of whether the lessee has (or no longer has) a significant economic incentive to exercise an option to purchase the underlying asset or in the reference interest rate (if variable payments are determined using that rate).</p>
Impairment.	Lessees and lessors would follow guidance in IAS 36, <i>Impairment of Assets</i> , when evaluating the right-of-use asset and residual asset. The lease receivable would be assessed for impairment by lessors consistent with other financial assets under IAS 39 <i>Financial Instruments: Recognition and Measurement</i> .
Inception versus commencement	The lessee and lessor would initially classify, measure, and recognise lease assets and lease liabilities at the date of commencement of the lease. This is the date on which the lessor makes the underlying asset available to the lessee.
Initial direct costs	Initial direct costs (defined as under IAS 17) would be capitalised and added to the lessee's right-of-use asset and to the amount recognised as the lessor's lease receivable.

Topic	Proposals
Sale and leaseback transactions	In determining whether the transferee has obtained control of the asset (indicating a sale transaction), entities would apply the requirements in the proposed revenue recognition standard to establish when a performance obligation is satisfied. When a sale is determined to have occurred, the leaseback transaction is accounted for by the transferor and transferee as any other lease. Gains or losses would be deferred if the consideration for the sale is not at fair value or if the lease payments do not reflect current market rates.
Subleases	Subleases would be accounted for as a separate transaction from the head lease. The sub-lessor would apply lessee accounting on the head lease and lessor accounting on the sublease. When classifying a sublease, an entity would evaluate the sublease with reference to the underlying asset rather than the right-of-use asset.

What transition arrangements are proposed?

The 2013 ED proposes application of the proposals to all leases existing at the beginning of the earliest comparative period presented.

Entities would have the option to apply either a full retrospective approach or a modified retrospective approach at transition. Under the full retrospective approach, lessees and lessors would apply the final standard from the lease commencement date.

In contrast, the modified retrospective approach provides relief from certain provisions on transition such as allowing lessees to apply a single discount rate to portfolio of leases (previously classified as operating leases) with similar characteristics.

For leases previously classified as finance leases, these do not need to be remeasured and the proposed requirements effectively apply to subsequent measurement.

An entity may also use hindsight on transition for judgements such as whether a contract contains a lease, in classifying a lease or determining the lease term if a contract includes options to extend or terminate a lease.

Summary of differences between FRS and IAS/IFRS

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

FRS	Content	IAS /IFRS	Comments
SFRS for Small Entities	Accounting Framework for Small Entities	IFRS for SMEs	<p>The IFRS for SMEs provides an alternative framework that can be applied by eligible entities in place of the full set of IFRSs in issue. It is effective immediately on issue.</p> <p>SFRS for Small Entities is based on the IFRS for SMEs and includes additional eligibility criteria specific to local context. This Standard is available for eligible entities to apply for financial periods beginning on or after 1 January 2011.</p>
FRS 16	Property, Plant and Equipment	IAS 16	FRS 16 exempts regular revaluation of assets for which any one-off revaluation was performed between 1 January 1984 and 31 December 1996 (both dates inclusive) or for assets that were revalued prior to 1 January 1984. IAS 16 does not give such an exemption.
FRS 27(2009), 28(2009) and 31(2011)	Consolidated Financial Statements and Accounting for Investments in Subsidiaries, Associates and Joint Ventures	IAS 27(2008), IAS 28(2008) and IAS 31(2010)	<p>FRS 27(2009) exempts a parent from presenting consolidated financial statements if its holding company (immediate or ultimate) produces consolidated financial statements available for public use. Under IAS 27(2008), such an exemption applies only if the holding company produces consolidated financial statements available for public use that comply with IFRS.</p> <p>Similar differences apply to the exemptions from equity accounting of associates in FRS 28(2009) and equity accounting or proportionate consolidation of jointly controlled entities in FRS 31.</p>
FRS 27(2012), FRS 28(2012), FRS 110(2012), FRS 111(2012) and FRS 112(2012)	Consolidated Financial Statements, Joint Arrangements, Disclosure of Interests in Other Entities, Separate Financial Statements and Investments in Associates and Joint Ventures: Mandatory Effective Date	IAS 27(2011), IAS 28(2011), IFRS 10(2012), IFRS 11(2012), IFRS 12(2012)	<p>IAS 27(2011), IAS 28(2011), IFRS 10(2012), IFRS 11(2012) and IFRS 12(2012) are effective for annual periods beginning on or after 1 January 2013.</p> <p>On 31 August 2012, the ASC issued amendments to FRS 27(2012), FRS 28(2012), FRS 110(2012), FRS 111(2012) and FRS 112(2012). These amendments changed the effective dates of these Standards to annual periods beginning on or after 1 January 2014.</p>
FRS 110, FRS 28(2012)	Consolidated Financial Statements and Accounting for Investments in Associates and Joint Ventures	IFRS 10, IAS 28(2011)	<p>FRS 110 exempts a parent from presenting consolidated financial statements if its holding company (immediate or ultimate) produces consolidated financial statements available for public use. Under IFRS 10, such an exemption applies only if the holding company produces consolidated financial statements available for public use that comply with IFRS.</p> <p>Similar differences apply to the exemption from equity accounting for associates and joint ventures in FRS 28(2012).</p>

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 Financial Instruments (IAS 39 replacement project)	Financial Instruments	IFRS 9	<p>Currently, the mandatory effective date of IFRS 9 has been deferred but the Standard would still be available for early application.</p> <p>This Standard has not been adopted in Singapore yet. The ASC has deliberated the adoption of IFRS 9 and decided to defer its adoption in Singapore.</p>
ED INT FRS	Members' Shares in Co-operative Entities and Similar Instruments	IFRIC 2	<p>IFRIC 2 is effective for annual periods beginning on or after 1 January 2005.</p> <p>This Interpretation has not been adopted in Singapore yet.</p>
INT FRS 115	Agreements for the Construction of Real Estate	IFRIC 15	<p>IFRIC 15 is effective for annual periods beginning on or after 1 January 2009 whereas INT FRS 115 is effective from 1 January 2011.</p> <p>In addition, INT FRS 115 contains an Accompanying Note that takes into account the legal framework in Singapore that is directly relevant to the application of INT FRS 115 in Singapore and summarises the ASC's considerations in reaching its consensus on the accounting treatment for a specific type of sale of uncompleted residential properties.</p>
RAP 8	Foreign Income Not Remitted to Singapore	IAS 12	<p>IAS 12.39 provides an exception to the recognition of deferred tax liability in the case of profits that are retained in subsidiaries, branches, associates and joint ventures that would be taxable if these were to be distributed to the investor. The exception applies provided the parent, investor or venturer is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. IAS 12 does not extend this exception to other types of temporary differences e.g. foreign-sourced income not remitted to Singapore that would be taxable if remitted.</p> <p>RAP 8 recommends that a deferred tax liability in respect of foreign-sourced income not remitted to Singapore (e.g. interest income earned from deposits placed outside of Singapore) should be recognised and accounted for in the same way as temporary differences associated with the unremitted profits from subsidiaries etc.</p>

Section 2: Other financial reporting matters

Revision to XBRL filing requirements

With effect from 2 December 2013, all Singapore incorporated companies will be required to file a full set of financial statements in XBRL format, according to a minimum requirement list within the new ACRA Taxonomy 2013.

Filing of Option B (Partial XBRL), a filing option under the current XBRL filing system, will no longer be available.

Exemptions

The following types of companies are exempted from filing their full set of financial statements in XBRL format, and will file their financial statements in PDF with Financial Statements Highlights in XBRL format instead:

- Companies which are (1) Commercial Banks; (2) Merchant Banks; (3) Registered Insurers; and (4) Finance Companies, that are regulated by the Monetary Authority of Singapore; and
- Companies allowed by law to prepare accounts in accordance with accounting standards other than SFRS, SFRS for Small Entities and IFRS (International Financial Reporting Standards).

Companies limited by guarantee will continue to file only their financial statements in PDF format to ACRA.

Insolvent EPCs will have the following options to file their financial statements with ACRA:

- A full set of financial statements in XBRL format; or
- A full set of financial statements in PDF with Financial Statements Highlights in XBRL format.

Applicable financial periods

The revised XBRL filing requirements will be applicable for companies if they are filing financial statements with periods ending on or after 30 April 2007.

For more details on XBRL filing requirements and the BizFinx filing system, visit the ACRA website at <http://www.acra.gov.sg/XBRL.htm>.

Enhanced listing rules on adequacy of internal controls by the Singapore Exchange Ltd ("SGX")

In September 2011, SGX announced amendments to Listing Rules to strengthen corporate governance practices and foster greater corporate disclosure.

Under Rule 719(1), an issuer is required to have a robust and effective system of internal controls, addressing financial, operational and compliance risks. The audit committee (or such other committee responsible) may commission an independent audit on internal controls for its assurance, or where it is not satisfied with the systems of internal control. The disclosure requirements on internal controls were also introduced in Listing Rules 610(5) and 1207(10).

In April 2012, an advisory note providing guidance on compliance with disclosure requirements on internal controls was sent to all listed companies.

In April 2013, SGX introduced a Practice Note to replace the advisory note. The Practice Note formalises the guidance provided on compliance with the disclosure requirement on internal controls.

More details can be found from the SGX website at www.sgx.com.

Revised Code of Corporate Governance

In May 2012, the Monetary Authority of Singapore (the “MAS”) issued the revised Code of Corporate Governance (the “Code”).

The revised Code will take effect in respect of Annual Reports relating to financial years commencing from 1 November 2012.

The key changes to the Code are focused on the areas of director independence, board composition, director training, multiple directorships, alternate directors, remuneration practices and disclosures, risk management, as well as shareholder rights and roles. The following outlines these key changes:

Director independence

- If a director, in the current or immediate past financial year, is/was a substantial shareholder, partner, executive officer, or director of any organisation to which the company or any of its subsidiaries made, or received significant payments or material services in the current or immediate past financial year, he will be deemed non-independent.
- The definition of director independence is tightened such that a director who is a substantial shareholder, or an immediate family member of a substantial shareholder, or is/was directly associated with a substantial shareholder in the current or immediate past financial year would be considered non-independent.
- The independence of any director who had served on the Board beyond nine years from the date of his first appointment should be subject to particularly rigorous review. Under such circumstances, the Board should explain why any such director should be considered independent.

Board composition

- Independent directors should make up at least half of the Board where the Chairman and Chief Executive Officer (i) is the same person; (ii) are immediate family members; (iii) are part of the same management team; or (iv) if the Chairman is not an independent director. Any changes to Board composition as a result of this requirement should be made at the Annual General Meeting following the end of financial year commencing on or after 1 May 2016.
- Where four situations above relating to the Chairman of the Board do not apply, independent directors should make up at least one-third of the Board. Any changes to Board composition as a result of this requirement should be made at the Annual General Meeting following the end of the financial year commencing or after 1 November 2012.

Director training

- Companies should be responsible for arranging and funding the training of directors, and the Board should disclose in the Annual Report the induction, orientation and training provided to new and existing directors. The Nominating Committee (the “NC”) should make recommendations to the Board on matters relating to the review of training and professional development programmes for the Board.

Multiple directorships

- The NC should decide if a director is able to and has been adequately carrying out his duties as a director, taking into consideration the director’s number of listed company board representations and other principal commitments. The Board should determine and disclose the maximum number of listed company board representations which any director may hold in the Annual Report.

Alternate directors

- The Board should generally avoid approving the appointment of alternate directors except for limited periods in exceptional cases such as when a director has a medical emergency. The NC and the Board should also ensure that an alternate director to an independent director would similarly qualify as an independent director.

Remuneration practices and disclosures

[Note: Rule 1206(12) of the SGX Mainboard Rules and Rule 1204(12) of the SGX Catalist Rules require that for Directors' and Key Executives' Remuneration, the issuer should make disclosure as recommended in the Code of Corporate Governance, or otherwise disclose and explain any deviation from the recommendation.]

- The level and structure of remuneration should be aligned with the long-term interest and risk policies of the company, and should be appropriate to attract, retain and motivate directors and key management personnel to provide good stewardship and successfully manage the company respectively.
- Companies should consider the use of contractual provisions to allow the company to reclaim incentive components of remuneration from directors and key management personnel in exceptional circumstances involving misstatement of financial results, or misconduct resulting in financial loss to the company.
- The Remuneration Committee should ensure that existing relationships, if any, between the company and its appointed remuneration consultants will not affect the independence and objectivity of the remuneration consultants.
- For greater transparency, companies should disclose more information on the link between remuneration paid to executive directors and key management personnel, and performance.
- A company should fully disclose the remuneration of each individual director and the CEO on a named basis. For the top five key management personnel (who are not directors or the CEO), the existing requirement of disclosure in bands of S\$250,000 on a named basis is maintained. In addition, companies should disclose in aggregate the total remuneration paid to these top five key management personnel.

Risk management

- The Board is responsible for the risk governance of a company and should determine the nature and extent of risks which the company may undertake. The Board should ensure that Management maintains a sound system of risk management and internal controls. The Board should also assess appropriate means to assist it in carrying out its responsibility of overseeing the company's risk management framework and policies, which may include establishment of a separate risk committee.
- The Board should comment on whether it has received assurance from the CEO and CFO that the financial records have been properly maintained and the financial statements give a true and fair view of the company's operations and finances; and an effective risk management and internal control system has been put in place.

Shareholder rights and roles

- The revisions introduce a new principle and accompanying guidelines on shareholders' rights to guide companies in their engagement with shareholders. An annexure to the Code contains a statement on the role of shareholders in engaging with the companies in which they invest.
- Companies should put all resolutions to vote by poll and make an announcement of the detailed results showing the number of votes for and against each resolution and the respective percentages.

In addition to the above changes, the Corporate Governance Council issued a Guidance for Boards on Risk Governance. This is intended to provide practical guidance on risk governance for Board members. More details can be obtained from the MAS website <http://www.mas.gov.sg/>.

Risk Governance Guidance for Listed Boards

The Corporate Governance Council (the “CGC”) has released its Risk Governance Guidance for Listed Boards (the “Guidance”). This Guidance seeks to provide further guidance on the Board’s role on risk governance vis-à-vis the Code of Corporate Governance 2012.

The CGC intends the Guidance to provide key information on risk governance to all board members. This would include factors which the board should collectively consider when overseeing the company’s risk management framework and policies. The Guidance also spells out the Board’s and Management’s respective responsibilities in managing the company’s risks. The Guidance is not meant to be a new rulebook or to prescribe additional standards. Its purpose is to enhance the awareness of Board members, and spur them to work towards strong corporate governance in their companies. Specifically, the following key areas are covered in the guide:

- (i) What is risk governance?
- (ii) Who is responsible for risk governance and implementation of risk governance policies/measures?
- (iii) What constitutes a sound system of risk management and internal controls?
 - What goes into a risk management policy?
 - How can risk tolerance be determined?
 - What does a risk management process look like?
 - What are some of the key information technology risks?
- (iv) How to ensure that the risk management and internal controls system is adequate and effective?
- (v) What should be disclosed in the annual report with respect to risk management and internal controls?

More details can be obtained from the MAS website <http://www.mas.gov.sg/>.

Section 3: Resources

Resources

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

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

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