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Changes to the financial reporting framework in Singapore

October 2012

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Acronyms

ASC	Accounting Standards Council
ED	Exposure Draft
FRS	Singapore Financial Reporting Standards
FASB	United States Financial Accounting Standards Board
IASB	International Accounting Standards Board
ICPAS	Institute of Certified Public Accountants of Singapore
IFRIC	IFRS Interpretations Committee
IFRS	International Financial Reporting Standards
INT FRS	Interpretation of Singapore Financial Reporting Standards
RAP	Recommended Accounting Practice
SGX	Singapore Exchange Limited
SGX-ST	Singapore Exchange Securities Trading Limited
US GAAP	United States Generally Accepted Accounting Principles

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13th Edition
Contents of booklet current as of 31 October 2012

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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 continue to provide a summary of the new/revised FRSs and INT FRSs, as well as significant Projects in Progress and Exposure Drafts issued in 2012, including an updated comparison of FRS against IFRS.

We have retained summaries of the new/revised FRSs and INT FRSs summarised in the 2011 edition which are effective in the near future. While these 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.

A summary of differences between FRS and IFRS is provided in this publication. 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 by 2012 has also been deferred to a later date, which will be announced at an appropriate juncture.

Section I: Financial Reporting Standards

Revised/amended FRSs and INT FRSs issued in 2011

New/revised/amended FRSs/INT FRSs		Effective date*
FRS 1 (Amended)	*Presentation of Financial Statements* – Presentation of Items of Other Comprehensive Income	1 July 2012
FRS 12 (Amended)	*Income Taxes* – Deferred Taxes: Recovery of Underlying Assets	1 January 2012
FRS 19 (Amended)	*Employee Benefits* – Post Employment Benefits	1 January 2013
FRS 107 (Amended)	*Financial Instruments: Disclosures* – Disclosures on Transfers of Financial Assets	1 July 2011
FRS 110	*Consolidated Financial Statements*(1)(2)(3)	1 January 2014
FRS 27 (Revised)	*Separate Financial Statements*(1)	1 January 2014
FRS 111	*Joint Arrangements*(1)(2)	1 January 2014
FRS 28 (Revised)	*Investments in Associates and Joint Ventures*(1)	1 January 2014
FRS 112	*Disclosure of Interests in Other Entities*(1)(2)(3)	1 January 2014
FRS 113	*Fair Value Measurement*	1 January 2013

*Applies to annual periods beginning on or after the date shown
(1) including amendments to these standards issued in 2012 on *Mandatory Effective Dates*
(2) including amendments to these standards issued in 2012 on *Transition Guidance*
(3) including the amendments to IFRS equivalents on *Investment Entities*

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.

Presentation of OCI and profit and loss items can continue to be presented either in a single statement or in two consecutive statements.

The amendments also introduce new terminology, 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 12 (Amended) *Income Taxes*
- Deferred Taxes: Recovery of Underlying Assets

Background

The amendments provide an exception to the general principle in FRS 12 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset.

The amendments were issued in response to concerns that application of this principle can be difficult or subjective particularly for an investment property measured at fair value because it may be that the entity intends to hold the asset for an indefinite or indeterminate period of time, during which it anticipates both rental income and capital appreciation. In addition, gains and losses from the recovery of an asset through sale may be taxed at a different rate from that applicable to income earned from using the same asset. These factors have resulted in confusion and potential inconsistency in applying this principle in practice.

Amendment

In response, the amendment provides an exception to the principle when deferred tax assets or deferred tax liabilities arise from investment property measured using the fair value model in FRS 40 and for investment property acquired in a business combination if it is subsequently measured using the fair value model in FRS 40. The amendments introduce a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale.

This presumption is rebutted if the investment property is depreciable (e.g., building and leasehold land) and is held within a business model whose objective is to consume substantially all of the economic benefits over time, rather than through sale.

The implication of the amendment is that entities holding investment properties accounted for using the fair value model in accordance with FRS 40 in jurisdictions where tax is not imposed on sale of the investment property would no longer recognise deferred tax on any temporary differences arising from fair value gains or losses (unless the presumption is rebutted). This is because there would be no tax consequences expected to arise from recovering the carrying amount entirely through sale regardless as to whether the entity intends to use the property to generate rental income for a period of time prior to sale. For investment properties in jurisdictions where tax is imposed on sale of investment properties, entities will have to recognise deferred tax on any temporary differences arising from fair value gains or losses using the rates applicable to a sale of the properties.

Note that because the presumption can only be rebutted in relation to a depreciable investment property, it may not apply to a freehold land component of an investment property. Accordingly, entities that are able to rebut the presumption may need to separate their investment property into 'depreciable' and 'non-depreciable' components and perform a separate deferred tax calculation for each component.

Effective date and transition

The amendments should be applied retrospectively, and will result in a retrospective restatement of all deferred tax assets or deferred tax liabilities within the scope of the amendment, including those that were initially recognised in a business combination.

The amendments also incorporate the requirements of INT FRS 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* (adapted to allow for the introduced rebuttable presumption), i.e., deferred tax arising on a non-depreciable asset measured using the revaluation model in FRS 16 should be based on the rate applicable to a sale of the property. Accordingly, INT FRS 21 has been withdrawn.

The effective date of the amendments is for annual periods beginning on or after 1 January 2012. Earlier application 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 obligation 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).

<u>(iii) Requirement for additional disclosures</u>

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.

<u>(iv) Classification of employee benefits</u>

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 107 (Amended) *Financial Instruments: Disclosures* – Disclosures on Transfers of Financial Assets

Background

The amendments increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures of transactions where a financial asset is transferred but the transferor retains some level of continuing exposure (referred to as 'continuing involvement') in the asset. The amendments also require disclosure where transfers of financial assets are not evenly distributed throughout the period (e.g., where transfers occur near the end of a reporting period). This is intended to create transparency around transactions that may be motivated by window dressing.

Amendments

Disclosures about transfers of financial assets should be presented in a single note in an entity's financial statements. The disclosures are required for all transferred financial assets where the transferor retains continuing involvement in the transferred asset, whether the asset is derecognised or not. The disclosures will apply in the period when the asset is transferred, as well as in future periods as long as the transferor retains a continuing involvement in the asset.

The amendments clarify that the disclosure requirements apply to transfers of all or a part of a financial asset if the entity:

- "transfers contractual rights to receive cash flows of that financial asset;" or
- "retains contractual rights to receive cash flows of that financial asset, but assumes a contractual obligation to pay the cash flows to other recipients in an arrangement."

Continuing involvement

An entity has continuing involvement in a transferred financial asset if it "retains any of the contractual rights or obligations inherent in the transferred financial asset or obtains any new contractual rights or obligations relating to the transferred financial asset." Normal representations and warranties relating to fraudulent transfers as well as forwards, options and other contracts to reacquire the transferred financial asset for which the contract price (or exercise price) is the fair value of the transferred financial asset do not constitute continuing involvement.

Summary of disclosure requirements

Many of the disclosure requirements for assets that are derecognised are new to FRS 107. The focus in FRS 107 currently is on those assets that fail to be derecognised, as opposed to those that are derecognised. The amendments to FRS 107 redress that balance by requiring the transferor to explain to what extent it continues to be exposed to an asset that is no longer recognised on its statement of financial position. Entities will need to consider whether current information systems are capable of capturing the necessary information, particularly as the additional disclosures are required for as long as the entity retains a continuing exposure. Disclosures related to the distribution of transfer activity in the reporting period, e.g., whether there is a concentration of transfer activity around the end of reporting periods, are intended to provide more insightful information about the timing of activities to address concerns around "window dressing".

(i) Disclosure requirements - Transfers of financial assets that are not derecognised in their entirety

For transfers of financial assets that do not qualify for derecognition, an entity discloses information that enables users to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities.

For each class of financial asset (as determined in accordance with FRS 107), the entity is required to disclose:

(a) the nature of the assets;
(b) the nature of the risks and rewards of ownership to which the entity is exposed;
(c) a description of the nature of the relationship between the assets and the associated liabilities, including any restrictions arising from the transfer on the entity’s use of the transferred assets;
(d) when the counterparty to the associated liabilities has recourse only to the transferred assets, a schedule that sets out the fair value of the transferred assets, the fair value of the associated liabilities and the net position;
(e) when the entity continues to recognise all of the transferred assets, the carrying amounts of the transferred assets and of the associated liabilities; and
(f) when the entity continues to recognise the assets to the extent of its continuing involvement, the total carrying amount of the original assets before the transfer, the carrying amount of the assets that the entity continues to recognise, and the carrying amount of the associated liabilities.

(ii) Disclosure requirements - Transfers of financial assets that are derecognised in their entirety

For transfers of financial assets that result in full derecognition, but where the entity has continuing involvement in the assets, the entity discloses information that allows users to evaluate the nature of and risks associated with the entity’s continuing involvement in derecognised financial assets. The assessment of continuing involvement is made at the level of the reporting entity. As indicated above, ‘continuing involvement’ is not restricted to the occasions where FRS 39 requires continuing involvement accounting, and may result from contractual provisions in the transfer agreement or in a separate agreement with the transferee or a third party entered into in connection with the transfer.

An entity is required to disclose information at the reporting date for each class of continuing involvement (aggregating its continuing involvement into types representative of the exposure to risks) including:

(a) the carrying amounts and fair values of the assets and liabilities that represent the entity’s continuing involvement in the derecognised financial assets;
(b) the maximum exposure to loss from continuing involvement;
(c) the undiscounted cash flows that would or may be required to repurchase derecognised financial assets along with a maturity analysis of those cash flows;
(d) any gain or loss recognised at the date of the transfer of the assets;
(e) any income and expenses recognised in the reporting period from the entity’s continuing involvement in the derecognised financial assets; and
(f) qualitative information that explains and supports the quantitative disclosures.

The amendments require further disclosures where transfers that qualify for derecognition are not evenly distributed throughout the reporting period. In that case, an entity is required to disclose when in the reporting period the greater transfer activity took place, the amounts (e.g., related gains or losses) recognised and the total transfer proceeds from the transfer activity during that part of the reporting period.

Effective date and transition

These amendments are effective for annual periods beginning on or after 1 July 2011. Early application of the amendments is permitted. Disclosures are not required for any period presented that begins before the date of initial application of the amendments.

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 had 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 in Singapore.

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

- 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)*

Recent amendments to FRS 110

FRS 110 was recently amended in respect of effective dates and transition guidance. The IASB also recently issued amendments to IFRS 10 to provide an exception for investment entities, but these amendments are not yet adopted in FRS 110. Details of these amendments are outlined below.

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.

<u>(i) Power</u>

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 – Defacto 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).

<u>(ii) Exposure (or rights) to variable returns from involvement with the investee</u>

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 visited 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) [these other standards are elaborated further below]. 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 voluntary 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.

Amendments to IFRS 10 on *Investment Entities*

On 31 October 2012, the IASB issued an amendment to IFRS 10, *Investment Entities* which proposes that investment entities ("IEs") do not apply consolidation requirements to investments that they control, except in certain limited circumstances. Consequential disclosure requirements are also added to IFRS 12. These amendments are effective for financial periods beginning from 1 January 2014, with early application permitted.

As the SFRS equivalents of these amendments have not been issued yet at the date of this publication, we have summarised the requirements of IFRS 10 amendments below on the assumption that the ASC will adopt these amendments for FRS 110 in due course. Consequential amendments to IFRS 12 are also summarised in FRS 112 section below.

Exception from consolidation

The amendments introduce an exception to the principle that all subsidiaries shall be consolidated. The amendments define an IE and require a parent that is an IE to measure its investments in particular subsidiaries at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments* (or IAS 39 *Financial Instruments: Recognition and Measurement* if IFRS 9 is not adopted yet), instead of consolidating those subsidiaries or applying IFRS 3 in respect of acquisitions of subsidiaries. In addition, the amendments introduce new disclosure requirements related to IEs in IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Separate Financial Statements*.

A non-IE parent of an IE subsidiary would be required to consolidate all of its subsidiaries; that is, the exception to consolidation available to an IE would not be available to its non-IE parent.

Notwithstanding the exception from consolidation, if an IE has a subsidiary that provides services that relate to the IE's investment activities, the IE will consolidate that subsidiary.

Definition of IE and assessment

The amendments define an IE is an entity that:

a) obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;
b) commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
c) measures and evaluates the performance of substantially all of its investments on a fair value basis.

In assessing whether it meets the definition above, an entity shall consider whether it has the following typical characteristics of an IE:

a) it has more than one investment;
b) it has more than one investor;
c) it has investors that are not related parties of the entity; and
d) it has ownership interests in the form of equity or similar interests.

The amendments clarify that the absence of any of the above typical characteristics does not necessarily disqualify an entity from being classified as an IE. An IE that does not have all of these typical characteristics provides certain additional disclosures in IFRS 12 (Refer to the summary of FRS 112 below).

If facts and circumstances indicate that there are changes to one or more of the three elements that make up the definition of an IE, as described in paragraph 27, or the typical characteristics of an IE, as described in paragraph 28, a parent shall reassess whether it is an IE.

A parent that either ceases to be an IE or becomes an IE shall account for the change in its status prospectively from the date at which the change in status occurred.

FRS 27 (Revised) *Separate Financial Statements*

Background and amendment

The revised FRS 27 was issued concurrently with FRS 110 (see above). 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 above).

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 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.

Recent amendments to FRS 111

FRS 111 was recently 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 on 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 the parties that have joint control of the arrangement 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 recent 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 voluntary 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 28 (Revised) *Investments in Associates and Joint Ventures*

Background and amendment

The amended FRS 28 was issued concurrently with FRS 111 (see above). 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 above).

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 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.

Recent amendments to FRS 112

FRS 112 was recently amended in respect of effective dates, transition guidance. Its IFRS equivalent i.e., IFRS 12 was recently amended to include certain disclosure requirements for investment entities but these amendments have yet to be adopted in FRS 112. These amendments are outlined below.

Requirements

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.

Other recent amendments to FRS 112

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. 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.

Recent amendments to IFRS 12

On 31 October 2012, the IASB issued an amendment to IFRS 10 on *Investment Entities* ("IEs"), which resulted in consequential amendments to IFRS 12. These amendments are effective for financial periods beginning from 1 January 2014, with early application permitted.

As the FRS 112 equivalents of these amendments have not been issued yet at the date of this publication, we have summarised the requirements of IFRS 12 amendments below on the assumption that the ASC will adopt these amendments for FRS 112 in due course.

Some of the additional disclosures added to IFRS 12 applicable to IEs include:

- information about significant judgements and assumptions an entity has made in determining that it is an IE;
- reasons for concluding that it is an IE although it does not have one or more of the typical characteristics of an IE (see IFRS 10 summary above);
- if there is a change in IE status, the reason for change and the effects on financial statements for the period presented;
- particulars of each unconsolidated subsidiary of an IE e.g., name, principal place of business, proportion of ownership interest;
- any restrictions on distributions from unconsolidated subsidiaries; and
- commitments on providing financial support to unconsolidated subsidiaries.

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 both financial and non-financial items measured at fair value. 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 liabilities.

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 account of 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 assets 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.

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., on business combinations under FRS 103).

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	√	√	√

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	
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 46 (see Offsetting discussion within this in Focus), 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	√	√	
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) and 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 unrealized gains or losses for those assets and liabilities held at the reporting date and the line items(s) 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.

Revised/amended FRSs and INT FRSs issued in 2012

New/revised/amended FRSs/INT FRSs		Effective date*
FRS 110, FRS 111, FRS 112, FRS 27 and FRS 28 (Amended)	*Consolidated Financial Statements, Joint Arrangements, Disclosure of Interests in Other Entities, Separate Financial Statements and Investments in Associates and Joint Ventures* – Mandatory Effective Date#	1 January 2014
FRS 110, FRS 111, FRS 112 (Amended)	*Consolidated Financial Statements, Joint Arrangements, and Disclosure of Interests in Other Entities* – Transition Guidance#	1 January 2014
FRS 32 and FRS 107 (Amended)	*Financial Instruments: Presentation and Financial Instruments: Disclosures* – Offsetting Financial Assets and Financial Liabilities	FRS 107 - 1 January 2013 FRS 32 - 1 January 2014
INT FRS 120	*Stripping Costs in the Production Phase of a Surface Mine*	1 January 2013
General Amendments	*Improvements to Financial Reporting Standards (August 2012)*	1 January 2013
FRS 101 (Amended)	*First-time Adoption of Financial Reporting Standards* – Government Loans	1 January 2013

*Applies to annual periods beginning on or after the date shown
#Summaries of these amendments are included in the previous sections for FRS 110, FRS 111, FRS 112, FRS 27(Revised) and FRS 28(Revised).

FRS 32 (Amended) *Financial Instruments: Presentation* and FRS 107 (Amended) *Financial instruments: Disclosures* – Offsetting Financial Assets and Financial Liabilities

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 (see below on clarifications on presentation requirements);
(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

CU million						
As at 31 December 20XX	(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), (d) (ii) 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 *First-time Adoption of Financial Reporting Standards*	Repeated application of FRS 101	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. 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. An entity that does not elect to apply FRS 101 must apply FRSs retrospectively as if there was no interruption. An entity should disclose: 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	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. 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 *Borrowing Costs*. A first-time adopter can choose to apply FRS 23 at a date earlier than the transition date.

Standard	Subject of amendment	New requirements
FRS 1 *Presentation of Financial Statements*	Clarification of the requirements for comparative information	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. 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.
FRS 16 *Property Plant and Equipment*	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 *Financial Instruments: Presentation*	Tax effect of distribution to holders of equity instruments	This amendment results in consistency between FRS 32 and FRS 12 *Income Taxes*. 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 *Income Taxes*.
FRS 34 *Interim Financial Reporting*	Interim financial reporting and segment information for total assets and liabilities	This amendment results in consistency between FRS 108 *Operating Segments* 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.

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.

Summary of significant projects and exposure drafts issued in 2012

Significant projects in progress
• *Revenue from Contracts with Customers*
• *Leases*

Revenue from Contracts with Customers

In 2011, the IASB issued ED *Revenue from Contracts with Customers* (the "2011 ED"), a 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 2011 ED was a revised version of an original ED issued in June 2010. Some of the proposals may have significant implications as they represent significant differences from current practice.

In our 2011 publication, we summarised the proposals in the 2011 ED.

Since the end of the comment period in March 2012, the IASB and FASB have been discussing the comments received. Certain tentative decisions were taken in those discussions, with key ones outlined below:

Identifying separate performance obligations ("POs")

Some of the key tentative decisions include:

- to clarify the underlying principle of identify separate POs;
- 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 PO; and
- to improve the assessment of whether a good or service is distinct that was proposed in the 2011 ED by clarifying the criterion proposed.

To improve the distinct concept, it was tentatively decided that an entity should account for a promised good or service as a separate PO 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 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 assessment of whether a promised good or service is distinct in the context of the contract should be supported by several indicators to be specified in the final standard.

POs satisfied over time
It was tentatively decided to make the following refinements to the criteria proposed in the 2011 ED for determining whether an entity satisfies a PO over time and consequently recognises revenue over time:

- retain the criterion which considers whether the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced;
- combine the "simultaneous receipt and consumption of benefits" criterion with the "another entity would not need to substantially re-perform" criterion from the 2011 ED into a single criterion that would apply to "pure service" contracts;
- combining the "no alternative use" criterion and the "right to payment to performance to date" criterion into a single criterion. The concepts of "alternative use" and "right to payment for performance to date" are also clarified.

In respect of methods for measuring progress towards complete satisfaction of a PO that is satisfied over time, it was clarified that input methods such as units produced or units of delivery may be appropriate methods for measuring progress towards completion. It was also clarified as to when these methods could provide a reasonable proxy for an entity's performance in satisfying a PO i.e.,:

- units produced method could provide a reasonable proxy for entity's performance if value of any work in progress at the end of the reporting period is immaterial; and
- units of delivery method could provide a reasonable proxy for 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.

Onerous obligations
It was tentatively decided not to include onerous test requirements for contracts within the scope of the new revenue standard. The requirements of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* should apply to all contracts within the scope of the new revenue standard.

Next steps
Note, the above decisions are tentative, and may be revised again in the process of finalising the revised standard. The IASB and FASB are expected to continue their redeliberations over the next few months. The final standard is expected to be issued in the first half of 2013. The effective date of the final standard will be determined during the completion of the deliberations.

Leases

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.

In our 2011 publication, we summarised the proposals in the ED.

The IASB has been redeliberating the proposals in the ED since January 2011, while considering feedback from comment letters, roundtables and outreach sessions. The IASB substantially concluded their redeliberations and have made significant changes to many of the proposals in the 2010 ED.

Among these changes are proposals that lessees recognise all leases with a maximum lease term of more than 12 months in the statement of financial position. The pattern of total non-contingent lease expense recognised by lessees generally would be either front-loaded or straight-lined depending on the outcome of a new lease classification test that would include consideration of the characteristics of the underlying asset and the terms of the lease.

Similar to lessee accounting, the IASB is proposing two types of leases for lessor accounting – a model that is similar to the straight-line operating lease accounting of today, with no derecognition of the underlying asset or gain/loss on lease commencement, and the 'receivable and residual' model which recognises a lease receivable and retained interest in a residual asset. The classification test for distinguishing between lessor models would be symmetrical with that proposed for lessees.

Because of the significance of changes to the proposals from those outlined in the ED, the IASB decided to re-expose the lease accounting proposals for comment with a revised exposure draft expected to be issued in the first quarter of 2013.

We outline below the proposals expected to be included in the forthcoming revised exposure draft, based on Board redeliberations in 2011 and 2012, to that of the 2010 ED. Note, however, the anticipated proposals may be revised again in the process of finalising the revised exposure draft. The requirements in the new leasing standard will be dependent on the outcome of due process procedures.

The forthcoming revised exposure draft on the leases project is expected to propose the following:

- Recognition of assets and liabilities by lessees for all leases other than short-term leases. The concept of an 'operating lease' would no longer exist.
- The proposals would increase the lease-related assets and liabilities in the statement of financial position, affecting financial ratios in debt covenants.
- Two approaches for lessee expense recognition resulting in straight-line expense recognition for many real estate leases and accelerated expense recognition for many equipment leases.
- A revision to the presentation of lease-related expenses in the statement of comprehensive income based on the type of lease. For some leases currently classified as operating leases, rent expense would be replaced with amortisation expense and interest expense, with total expense being recognised earlier in the lease term. Accordingly, financial metrics such as earnings before interest, taxes, depreciation and amortisation (EBITDA) would be affected.

- A 'dual' model for lessors resulting in application of the 'receivable and residual' model or an operating lease model.
- A 'lease classification' test based on the extent of consumption of the underlying asset.
- Revisions to existing guidance in areas including identification of leases, lease term and variable lease payments.
- Extensive disclosure requirements for both lessees and lessors.
- Application of either a full retrospective or modified retrospective approach to existing operating leases; both requiring adjustment of comparative periods. Entities maintaining existing finance leases may elect to either carry forward the amounts recognised as at the date of initial application or to apply a full retrospective approach.

The IASB will not make a final decision on the effective date of the new standard until they complete their deliberations on a revised ED. Although the IASB has not discussed a potential effective date for the final lease standard, they did discuss effective date pertaining to the revenue project and noted that such date would not be earlier than 1 January 2015. The lease project is more than one year behind the revenue project. Therefore, we would expect the effective date for the final lease standard to be no earlier than 1 January 2015.

Next steps

The revised ED is expected to be issued in the first quarter of 2013 with a 120-day comment period.

Exposure Drafts issued in 2012
• Draft of IFRS on *General Hedge Accounting*
• ED *Improvements to Financial Reporting Standards 2010-2012*
• Draft Interpretation on *Put Options Written on Non-controlling Interests*
• Draft Interpretation on *Levies Charged by Public Authorities on Entities that Operate in a Specific Market*

Draft of IFRS on *General Hedge Accounting*

Background

The hedge accounting project is one phase of IFRS 9 *Financial Instruments*, the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The objective of this phase is to improve the usefulness of financial statements for users by fundamentally reconsidering the current hedge accounting requirements.

This is a draft of the new hedge accounting guidance that will form part of IFRS 9. [Note: The adoption of IFRS 9 in Singapore has been deferred to a later date to be advised by the ASC.]

The proposals

The draft includes amendments to hedge accounting requirements, made in response to criticism of IAS 39 which was often viewed as too stringent and not capable of reflecting risk management policies.

- The three types of hedge accounting remain: cash flow, fair value and net investment hedges. However, there have been significant changes to the types of these transactions eligible for hedge accounting, specifically a broadening of the risks eligible for hedge accounting of non-financial items.
- The proposals change in the way forward contracts and derivative options are accounted for when they are in a hedge accounting relationship and will reduce profit or loss volatility when compare with IAS 39 and therefore will be attractive to some entities.
- In addition, the effectiveness test has been overhauled and replaced with the principle of an "economic relationship". Retrospective assessment of hedge effectiveness is no longer required.
- The flexibility of the new accounting requirements is counter-balanced by enhanced disclosure requirements about an entity's risk management activities. IFRS 7 *Financial Instruments: Disclosure* is proposed to be amended to introduce more of these disclosure requirements.

Some aspects of IAS 39 remain unchanged:

- Applying hedge accounting remains a choice.
- Terminology from IAS 39 is also retained in many cases (e.g., hedged items, hedging instruments, fair value hedges, cash flow hedges, hedge ineffectiveness etc).
- The mechanics of fair value, cash flow and net investment hedge accounting have not been changed.
- With the exception of hedge ineffectiveness related to hedges of equity investments designated as at fair value through other comprehensive income, all hedge ineffectiveness is recognised in profit or loss.
- The method for determining how much ineffectiveness to recognise for cash flow hedges, often known as the "lower of test" is unchanged.
- General prohibition on hedge accounting with written options is retained.

Effective date

When finalised, the standard is expected to be mandatorily applicable as part of IFRS 9 from 1 January 2015 with early adoption permitted. The application is to be prospective with some limited exceptions.

ED *Improvements to Financial Reporting Standards 2010-2012*

These proposals are part of the annual improvements process which are intended to deal with non-urgent but necessary amendments to Standards. These amendments focus on areas of inconsistency in Standards or where clarification of wording is required. A summary of the key amendments is set out in the table below. Unless otherwise stated, the proposed effective dates are for annual periods beginning on or after 1 January 2014.

Standard	Topic	Amendment
FRS 102 *Share based Payments*	Definition of vesting condition	The proposals clarify the definitions of "performance conditions" and "service conditions". The proposals also address the following concerns relating to these definitions: • the correlation of the employee's responsibility and the performance target; • whether a share market index target may constitute a performance condition or a non-vesting condition; • whether a performance target that refers to a longer period than the required service period may constitute a performance condition; and • whether the employee's failure to complete a required service period is considered to be a failure to satisfy a service condition.
FRS 103 *Business Combinations*	Accounting for contingent consideration in a business combination	The proposal clarifies that contingent consideration in a business combination is assessed either as a liability or equity only on the basis of the requirements of FRS 32. Currently, FRS 103 refers to not only FRS 32 but also to "other applicable FRSs" – the latter reference is proposed to be deleted as it is unclear as to when it can ever be applicable. Also clarifies that contingent consideration that is financial asset/liability can only be measured at fair value. The proposed effective date for the amendment is for annual periods beginning on or after 1 January 2015.
FRS 108 *Operating Segments*	Aggregation of operating segments	The proposals require entities to disclose factors used to identify the entity's reportable segments when operating segments have been aggregated. This includes judgments applied in evaluating the aggregation criteria and a description of the operating segments that have been aggregated.

Standard	Topic	Amendment
FRS 108 *Operating Segments*	Reconciliation of the total of the reportable segments' assets to the entity's assets	It is proposed that a reconciliation of the total reportable segments' assets to the entity's assets be shown if regularly provided to the chief operating decision maker.
FRS 113 *Fair Value Measurements*	Short-term receivables and payables	The proposal clarifies that short-term receivables and payables with no stated interest rate may be measured at invoiced amounts without discounting. The consequential amendments to FRS 39 from FRS 113 appeared to have indicated otherwise.
FRS 1 *Presentation of Financial Statements*	Current/non-current classification of liabilities	The proposal clarifies that for an entity to classify a liability as non-current, the entity must expect to and is able to refinance or roll over the obligation for at least twelve months after the reporting period under an existing loan facility with the lender on the same or similar terms. If the terms of any rollover rights are substantially different from the original terms, then the classification as non-current is inappropriate.
FRS 7 *Cash Flow Statements*	Interest paid that is capitalised	The proposal clarifies that the classification of interest paid will follow the classification of the underlying asset to which those payments were capitalised.
FRS 12 *Income Taxes*	Recognition of deferred tax assets for unrealised losses	The proposals clarify that: a) an entity assesses recognition of a deferred tax asset in combination with other deferred tax assets if the tax laws restrict the sources of profit against which the entity can utilise a deferred tax asset, the assessment is made only in combination with other tax assets of the same type; b) the taxable profit against which an entity assesses a deferred tax asset for recognition is the amount before any reversal of deductible temporary differences; and c) an action that results only in the reversal of existing deductible temporary difference is not a tax planning opportunity. To qualify as tax planning opportunity, the action needs to create or increase taxable profit.

Standard	Topic	Amendment
FRS 16 *Property Plant and Equipment* FRS 38 *Intangible Assets*	Revaluation method—proportionate restatement of accumulated depreciation	The proposal clarifies the treatment of carrying amount and accumulated depreciation when an asset is measured using the revaluation model in FRS 16 and FRS 38 as follows: The accumulated depreciation not necessarily restated proportionately with the change in gross carrying amount. It is the difference between the gross and the net carrying amounts. The gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the net carrying amount. The other alternative is that the accumulated depreciation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.
FRS 24 *Related Party Disclosures*	Key management personnel	The proposal extends the definition of related party to include management entities appointed to perform key management roles.
FRS 36 *Impairment of Assets*	Harmonisation of disclosures for value in use and fair value less costs of disposal	The proposal clarifies that the disclosure requirements in FRS 36 applicable to value in use are also applicable to fair value less costs of disposal when there has been a material impairment loss/ reversal in the period.

Draft Interpretation on *Put Options Written on Non-controlling Interests*

Background

Parent entities often write put options on subsidiary shares, allowing non-controlling interest holders to demand that the parent purchase those shares in the future. In the parent's consolidated financial statements, the put option is an obligation to purchase the group's own equity and therefore creates a financial liability. In accordance with paragraph 23 of FRS 32 *Financial Instruments: Presentation*, the liability is initially measured at the present value of the option redemption amount.

However, FRSs are less clear with respect to the subsequent measurement of the financial liability. FRS 32 states that financial liabilities of this type are to be measured subsequently in accordance with FRS 39 *Financial Instruments: Recognition and Measurement* which, in turn, require all changes in the measurement of financial liabilities to be recognised through profit or loss. However, FRS 27 *Consolidated and Separate Financial Statements* and FRS 110 *Consolidated Financial Statements* require that changes in a parent's ownership interest in a subsidiary which do not result in a loss of control of the subsidiary would be considered a transaction with owners in their capacity as owners and therefore accounted for as an equity transaction.

The proposals

The draft Interpretation proposes to clarify that the financial liability for a put option written on non-controlling interests would subsequently be measured in accordance with FRS 39 which would require changes in the measurement of the financial liability to be recognised in profit or loss. In reaching this tentative decision, it was indicated that changes in the measurement of the financial liability do not change the relative interests in the subsidiary held by either the parent or the non-controlling interest holders and therefore are not equity transactions with owners in their capacity as owners.

The profit or loss impact of non-controlling interest puts will be more pronounced for those with a variable exercise price (e.g., one based on a multiple of earnings before interest, taxes, depreciation and amortisation (EBITDA)) as remeasurements of these liabilities will reflect changes in that exercise price. Put options of this type are often designed to ensure that the parent acquires the non-controlling interests at a price approximating their fair value when the put is exercised.

Profit or loss volatility arising from a future acquisition of non-controlling interests at fair value has proved challenging for preparers to explain to investors.

Scope

The draft Interpretation applies to a parent's consolidated financial statements when that parent has written a put option which requires it to purchase subsidiary shares held by non-controlling interest holders. However, a written put that was accounted for as contingent consideration in accordance with FRS 103(2004) *Business Combinations* would not be in the scope of the draft Interpretation as FRS 103(2009) *Business Combinations* did not change the accounting for contingent consideration that arose from a business combination that occurred before the application of FRS 103(2009).

Effective date and transition

The comment period on the proposals ended on 1 October 2012. The draft Interpretation does not specify an effective date. The effective date will be determined after considering the comments they receive on the draft Interpretation.

The draft Interpretation will require retrospective application in accordance with FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Draft Interpretation on *Levies Charged by Public Authorities on Entities that Operate in a Specific Market*

Background

The draft Interpretation was developed in response to a request to clarify when a liability should be recognised for levies that are conditional on an entity participating in an activity on a specified date.

The draft Interpretation addresses the following questions.

- What is the obligating event that gives rise to a liability to pay a levy?
- Does the economic compulsion to continue to operate in a future period create a constructive obligation to pay a levy that will arise from operating in that future period?
- Does the going concern principle imply that an entity has a present obligation to pay a levy that will arise from operating in a future period?

Scope

The draft Interpretation addresses the accounting for levies that are not within the scope of FRS 12 *Income Taxes*. Furthermore, the scope of the draft Interpretation is limited to levies that are non-exchange transactions (i.e., transactions in which the entity paying the levy does not receive any specific asset or service directly in exchange for the payment of the levy) and does not address the accounting for levies that are due only if a minimum revenue threshold is achieved, fines or other penalties imposed for breaches of legislation or contracts between a public authority and a private entity.

The proposal

The draft Interpretation proposes certain underlying principles associated with recognition of a liability. Namely:

- the obligating event that gives rise to recognition of a liability is the activity that triggers the payment of the levy as identified by the legislation;
- a constructive obligation to pay a levy that arises from operating in a future period is not created even if an entity is economically compelled to continue operating in that future period;
- the going concern principle would not affect whether an entity recognises a liability at a reporting date for levies that arise from operating in future periods;
- an obligating event arises progressively if the activity that creates the present obligation occurs over a period of time (e.g., if the obligating event as identified by the legislation is the generation of revenues over a period of time); and
- an entity would recognise an expense upon recognition of the liability for those levies within the scope of the draft Interpretation.

The recognition principles outlined above would be applied to both the annual and interim financial statements. As a result, interim financial statements would not include any anticipated levy expense if there is no present obligation to pay the levy at the end of the interim reporting period, nor would the levy expense be deferred if a present obligation to pay the levy exists at the end of the interim period.

Effective date and comment period

The draft Interpretation does not specify an effective date. The effective date will be determined after considering the comments they receive on the draft Interpretation.

Entities would be required to apply the draft Interpretation retrospectively in accordance with FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

The comment period on the proposals ended on 5 September 2012.

Summary of differences between FRS and IAS/IFRS

The FRSs and INT FRSs issued by the Accounting Standards Council ("ASC") are largely aligned with the standards and interpretations under IAS/IFRS, except for certain modifications e.g. to effective dates and transitional provisions, and differences in timing of adoption. 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	Small Entities	IFRS for SMEs	The IFRS for SMEs provides an alternative framework that can be applied by eligible entities in place of the full set of IFRSs in issue. It is effective immediately on issue. SFRS for Small Entities is based on the IFRS for SMEs and includes additional eligibility criteria specific to local context. This Standard is available for eligible entities to apply for financial periods beginning on or after 1 Jan 2011.
FRS 16	Property, Plant and Equipment	IAS 16	FRS 16 exempts regular revaluation for assets on which any one-off revaluation is performed between 1 January 1984 and 31 December 1996 (both dates inclusive) or for assets that have been revalued prior to 1 January 1984, whereas IAS 16 does not give such an exemption.
FRS 27(2009), 28(2009) and FRS 31	Consolidated Financial Statements and Accounting for Investments in Subsidiaries, Associates and Joint Ventures	IAS 27(2008), IAS 28(2008) and IAS 31	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 whereas 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. Similar exemptions apply to equity accounting of associates in FRS 28(2009) and equity accounting or proportionate consolidation of jointly controlled entities in FRS 31.

FRS	Content	IAS /IFRS	Comments
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)	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. 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.
FRS 110, FRS 28(2012)	Consolidated Financial Statements and Accounting for Investments in Associates and Joint Ventures	IFRS 10, IAS 28(2011)	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, whereas under IFRS 10, such an exemption applies only if the holding company produces consolidated financial statements available for public use that comply with IFRS. Similar exemptions apply to equity accounting of associates and joint ventures in FRS 28(2012)
FRS 102	Share-based Payment	IFRS 2	The cut-off grant date for retrospective treatment of equity-settled share-based payment upon initial adoption of the standard is 7 November 2002 under IFRS 2 and 22 November 2002 under FRS 102.
ED Investment Entities	Investment Entities	IFRS 10, IFRS 12, IAS 27(2011)	The amendments to IFRS 10 and IFRS 12 on Investment Entities are effective for annual periods beginning on or after 1 January 2014. The amendments have not been adopted in Singapore yet.

FRS	Content	IAS /IFRS	Comments
ED Financial Instruments	Financial Instruments	IFRS 9	IFRS 9 is effective for annual periods beginning on or after 1 January 2015. 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.
ED INT FRS	Members' Shares in Co-operative Entities and Similar Instruments	IFRIC 2	IFRIC 2 is effective for annual periods beginning on or after 1 January 2005. This Interpretation has not been adopted in Singapore.
INT FRS 115	Agreements for the Construction of Real Estate	IFRIC 15	IFRIC 15 is effective for annual periods beginning on or after 1 January 2009 whereas INT FRS 115 is effective from 1 January 2011. In addition, INT FRS 115 contains an Accompanying Note that takes into account the legal framework in Singapore that is directly relevant to the application of INT FRS 115 in Singapore and summarises the ASC's considerations in reaching its consensus on the accounting treatment for a specific type of sale of uncompleted residential properties.
RAP 8	Foreign Income Not Remitted to Singapore	IAS 12	IAS 12.39 provides an exception to tax effect accounting in the case of profits that are retained in subsidiaries, branches, associates and joint ventures that would be taxable if these were to be distributed to the investor. The exception applies provided the parent, investor or venturer is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. IAS 12 does not extend this exception to other types of temporary differences e.g. foreign-sourced income not remitted to Singapore that would be taxable if remitted. RAP 12 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 investments in subsidiaries etc.

Section 2: Other Financial Reporting Matters

Update on convergence to International Financial Reporting Standards ("IFRS") for Singapore incorporated companies listed on the SGX

In 2009, the ASC had set the aim of working towards full convergence of Singapore FRSs with IFRSs for Singapore incorporated companies listed on the SGX ("Singapore listed companies") by 2012. The ASC has completed its review of the plans for the full convergence and has concluded that full convergence will not be implemented in 2012.

In completing its review of the status of full convergence, the ASC has identified a few key outstanding issues that need to be resolved before full convergence can be implemented. The timeline for full convergence will be adjusted in tandem with international developments, and will depend on the progress of several key projects undertaken by the International Accounting Standards Board (the "IASB"). These key IASB projects are still in progress and are not expected to take effect before 1 January 2015. The revised timeline will be announced at an appropriate juncture.

The ASC is also of the view that full convergence is not expected to result in significant cost and effort for Singapore listed companies that are currently using the SFRSs.

More details can be obtained from the ASC website http://www.asc.gov.sg/.

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.

This booklet has been prepared by Deloitte Singapore for general information purposes. Users of the information may wish to contact the Corporate Communications Department for further information:

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