

# Corporate Watch

Developments on Corporate Reporting and Governance\*  
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\*connectedthinking

PRICEWATERHOUSECOOPERS 

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## Acronyms

CEO	Chief Executive Officer
CODM	Chief Operating Decision Maker
CW	Corporate Watch
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation
FASB	Financial Accounting Standards Board
FRS	Financial Reporting Standards
FY	Financial Year
IFRS	International Financial Reporting Standards
INT FRS	Interpretations of Financial Reporting Standards
SFAS	Statements of Financial Accounting Standards
US GAAP	Generally Accepted Accounting Principles in United States

# PwC Illustrative Annual Report 2007: A guide to drafting your 2007 Annual Report

Our annual flagship publication provides a sample annual report of a fictitious group. It illustrates the financial statements disclosures required by the following regulations that are applicable for financial year commencing on or after January 2007:

- Singapore Companies Act;
- Singapore Exchange Securities Trading Listing Manual; and
- Singapore Financial Reporting Standards and Interpretations.

It also includes selected global best practice disclosures.

This publication also includes an Illustrative Directors' Report, a sample corporate governance report, a listing of Financial Reporting Standards and Interpretations, a comparison between FRS and IFRS as of July 2007, as well as a summary of the key changes that are effective from January 2007.

A copy of this publication can be downloaded from our website ([www.pwc.com/sg](http://www.pwc.com/sg)).

# Changes in your FY 2007 Annual Report

In this issue of Corporate Watch, we highlight the changes in corporate reporting in the financial year 2007. These arise from changes primarily in the Financial Reporting Standards. Most of these new or revised FRS have been covered in detail in earlier issues of Corporate Watch. The first section highlights the FRS effective in FY 2007 and provides a brief summary of standards not yet covered in Corporate Watch. This is followed by the FRS issued but not effective and the implications of these standards on the FY 2007 annual report.

## Changes effective in FY 2007 Annual Report

New or revised standards that are effective in FY 2007 comprise:

- Amendments to FRS 1 *Presentation of Financial Statements*
- FRS 40 *Investment Property*
- FRS 107 *Financial Instruments: Disclosures*
- INT FRS 107 *Applying the Restatement Approach under FRS 29 Financial Reporting in Hyperinflationary Economies*
- INT FRS 108 *Scope of FRS 102*
- INT FRS 109 *Reassessment of Embedded Derivatives*
- INT FRS 110 *Interim Financial Reporting and Impairment*

The new standards in FY 2007 are few but the implications on the disclosure and measurement requirements are fairly extensive. This is mainly due to the many new quantitative disclosures on financial risks required by FRS 107 and the whole new standard FRS 40 which sets out many new measurement and disclosure requirements for investment property. Indeed this should warrant the attention of companies to start early in preparing for the changes to the 2007 Annual Report.

Table 1 below provides a brief summary of these standards and identifies the coverage in earlier issues of Corporate Watch.

**Table 1 Summary of Standards that are effective in FY 2007**

Standard	Summary
Amendments to FRS 1 <i>Presentation of Financial Statements</i>	Effective for FY commencing 1 January 2007.  This amendment requires an entity to disclose, with respect to its capital, the following: <ul style="list-style-type: none"><li>• what an entity regards as capital;</li><li>• whether the entity has complied with externally-imposed capital requirements and the consequences of the non-compliance; and</li><li>• qualitative information on the entity's objectives, policies and processes for managing its capital and external capital requirements.</li></ul>

**Table 1 Summary of Standards that are effective in FY 2007** (continued)

Standard	Summary
<p>FRS 40 <i>Investment Property</i></p>	<p>Effective for FY commencing 1 January 2007.</p> <p>FRS 40 sets out the criteria for identifying an investment property where a property is partly used for rental and partly owner-occupied, split accounting of the property is required if certain conditions are met. Investment property may be held at fair value or at cost. Under the fair value model, the gain or loss arising from a change in fair value is recognised in income statement, instead of through the asset revaluation reserve. The standard also deals with accounting for transfers to or from investment property arising from a change in use of a property and enhances the disclosure requirements in respect of investment property.</p> <p>Refer to CW Volume 1 2005.</p>
<p>FRS 107 <i>Financial Instruments: Disclosures</i></p>	<p>Effective for FY commencing 1 January 2007 for listed companies and 1 January 2008 for non-listed companies.</p> <p>This new standard supersedes disclosure requirements of FRS 32 <i>Financial Instruments: Disclosure and Presentation</i>. The presentation requirements in FRS 32 remain unchanged. The way and information on financial risks that are disclosed are significantly different under FRS 107.</p> <p>Refer to CW Volume 1 2006.</p>
<p>INT FRS 107 <i>Applying the Restatement Approach under FRS 29 Financial Reporting in Hyperinflationary Economies</i></p>	<p>Effective for FY commencing March 2006.</p> <p>This interpretation provides guidance on the application of FRS 29 in the reporting period in which the entity identifies the existence of hyperinflation in the economy of its functional currency. It sets out the restatement basis of non-monetary items and deferred tax during that reporting period and subsequent reporting periods.</p>

**Table 1 Summary of Standards that are effective in FY 2007** *(continued)*

Standard	Summary
<p>INT FRS 108 <i>Scope of FRS 102</i></p>	<p>Effective for FY commencing May 2006.</p> <p>The interpretation clarifies that share-based transactions for some or all of the goods or services received which cannot be identified specifically are within the scope of FRS 102 and therefore the entity should:</p> <ul style="list-style-type: none"> <li>• measure the unidentifiable goods or services received (or to be received) as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received) at grant date; and</li> <li>• for cash-settled transactions, liability is remeasured at each reporting date until it is settled.</li> </ul>
<p>INT FRS 109 <i>Reassessment of Embedded Derivatives</i></p>	<p>Effective for FY commencing June 2006.</p> <p>The interpretation requires an assessment of whether embedded derivative is required to be separated from host contract and accounted for as a derivative when the entity first becomes a party to the contract and prohibits subsequent reassessment unless there is change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract.</p>
<p>INT FRS 110 <i>Interim Financial Reporting and Impairment</i></p>	<p>Effective for FY commencing November 2006.</p> <p>This interpretation clarifies that any impairment losses on goodwill and equity investments classified as available-for-sale recognised in an interim financial statements shall not be reversed in subsequent interim or annual financial statements.</p> <p>Refer to CW Volume 2 2006.</p>

## Changes effective after FY 2007

Several standards and amendments to standards that are effective after FY 2007 have been issued. Table 2 below provides a brief summary of the above standards that are effective after FY 2007 and identifies the coverage in earlier issues of Corporate Watch.

**Table 2 Summary of Standards that are effective after FY 2007**

Standard	Summary
Amendments to FRS 23 <i>Borrowing Costs</i>	Effective for FY commencing January 2009.  This amendment removes the option to recognise borrowing costs immediately in the income statement that are directly attributable to qualifying assets. Such borrowing costs must now be capitalised.
FRS 108 <i>Operating segments</i>	Effective for FY commencing January 2009.  This new standard supersedes FRS 14 <i>Segment Reporting</i> and requires reporting of the financial performance of operating segments to be based on the information used internally by management for evaluating segment performance and deciding on allocation of resources. Such information may be different from the information included in the financial statements, and the basis of its preparation and reconciliation to the amounts recognised in the financial statements shall be disclosed.  Refer to article in this volume of CW.
INT FRS 111 <i>Group and Treasury Transactions</i>	Effective for FY commencing March 2007.  This interpretation clarifies that the arrangement where an entity receives goods or services as consideration for its own equity-instruments shall be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments needed are obtained. It also provides guidance on whether group share-based payment arrangements shall be classified as equity-settled or cash-settled share-based payment arrangements.

**Table 2 Summary of Standards that are effective after FY 2007** *(continued)*

Standard	Summary
INT FRS 112 <i>Service Concession Arrangements</i>	<p>Effective for FY commencing January 2008.</p> <p>This interpretation provides guidance to operators for public-to-private service concession arrangements. It addresses how operators shall account for rights and obligations arising from service concession arrangements, where control of the infrastructure assets remains in public hands but the operator is responsible for construction activities, as well as for operating and maintaining the public sector infrastructure.</p> <p>The infrastructure assets are not recognised in the books of the operator. Rather, the right to the cashflows under the concession may be recognised as financial asset and/or intangible asset. Application of INT FRS 112 is expected to be complicated.</p>

FRS 8 (revised 2004) requires companies to disclose the expected financial effect of standards and amendments that have been issued but not effective. Companies are therefore required to disclose the effect of applying these standards.

Looking ahead, the International Accounting Standards Board currently has 31 topics for amendments or new International Financial Reporting Standards on its active agenda. More than half of these are expected to have an impact on preparation of financial statements from 2009. The topics expected to demand significant time to understand and implement include Operating Segments, Customer Loyalty Programmes, Insurance Contracts, Business Combinations, Service Concession and Income Taxes. For many companies, getting ready for 2009 would be challenging. It is worthwhile to evaluate these changes and consider early adoption of some of them so as to spread out the burden of implementing new standards in a big bang manner.

# FRS 108 *Operating Segments*

## **Introduction**

From financial years beginning on or after 1 January 2009, segment reporting will be governed by FRS 108 *Operating Segments* which will replace FRS 14 *Segment Reporting*. FRS 108 is another step towards convergence with US GAAP as the wording of the standard is closely aligned with FASB Statement No.131 Disclosures about Segments of an Enterprise and Related Information (SFAS 131).

FRS 108 requires disclosure of information used by management to make decisions and aims to reduce the information gap between investors and management. FRS 108 introduces the concept of “chief operating decision maker”, who can be a person (e.g. CEO) or a department (e.g. a group of executive directors) whose chief function is to allocate resources and assess the performance of the entity’s operating segments. FRS 108 disclosures are based on information reviewed by the CODM.

When FRS 108 becomes effective on 1 January 2009, it requires the disclosure of prior year comparative information based on FRS 108 requirements; hence, financial reporters should start capturing FRS 108 information from 1 January 2008 and not wait till 1 January 2009. FRS 108 can also be early adopted.

## **How to segment?**

Unlike FRS 14, which prescribes fixed segmentation by businesses and geography for all companies, FRS 108 requires only a single segmentation. The segmentation criterion may be a mix of business lines, geography, and other factors. The main requirement is that the information used by the CODM for allocating resources and assessing performance should be based on the same segmentation. A segment is separately reported when its reported measure of revenue (including inter-segment sales), profit, loss or assets exceeds 10% of that for all operating segments. The financial report should describe the factors used to identify segments. Segments under FRS 108 do not need to generate external sales. Accordingly, vertically-integrated businesses may report significantly differently under FRS 108.

## **How to measure segment information**

FRS 108 does not prescribe measurement rules for the segment measures disclosed (revenue, profit, assets, liabilities, etc.). For example, a company reporting under FRS may report US GAAP profit or EBITDA as segment profit. However computed, the segment measures disclosed should be the same measures used by the CODM for allocating resources and assessing performance. The financial report should describe how segment measures are computed. FRS 108 does not preclude the inclusion of tax liabilities/assets and borrowings in segment assets/liabilities. Under FRS 14, these are specifically excluded.

## **What to disclose?**

For each segment, a measure of profit/loss and total assets should be disclosed. Other segment measures such as segment liabilities, revenue, interest income/expense, etc. should be shown if they are regularly reviewed by the CODM.

A reconciliation of each segmental measurement to the corresponding measure reported under FRS (e.g. total segment revenue to total revenue in the income statement) should be shown in the financial report.

Finally, FRS 108 requires the disclosure of certain information that does not depend on the segmentation criterion. Key disclosure requirements include:

- revenues from external customers for each product and service
- revenues from external customers by country from which the revenue is derived
- non-current assets by country in which the asset is located

A key new disclosure to note is information about the extent of reliance on major customers, including whether any single external customer accounts for 10% or more of total revenues

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