A Practical Guide to New Singapore Financial Reporting Standards for 2010

Contents

Introduction

This publication is a practical guide to the new or amended FRS standards and interpretations that come into effect in 2010. For three years there was little change to the body of FRSs, but this period of 'bedding down' is now over. New standards were issued that took effect in 2009; for 2010 there are a number of significant changes that impact companies. These changes include new standards and interpretations, and amendments to existing requirements.

The revised FRS 27, 'Consolidated and separate financial statements', and FRS 103, 'Business combinations', adopt a single consolidation model (the entity model). The revised standards introduce significant changes to the way in which consolidated financial statements are prepared. This has important implications for reported earnings pre- and post-acquisition and for the calculation of goodwill and non-controlling interests (the new name for minority interests); these can now be calculated using a full goodwill or a partial goodwill model.

INT FRS 117, 'Distributions of non-cash assets to owners', requires distributions of assets other than cash made as a dividend to owners to be measured at fair value in the entity making the distribution. INT FRS 118, 'Transfer of assets from customers', impact certain sectors, particularly utilities, as it changes how such assets should be recognised when they are transferred to the entity; it also impacts income recognition. INT FRS 119, 'Extinguishing financial liabilities with equity instruments', clarifies the accounting when an entity renegotiates the terms of its debt when the liability is extinguished by the debtor issuing its own equity.

A number of other specific amendments to standards and the International Accounting Standards Board's (IASB's) 2009 annual improvements project, which have been adopted by the Accounting Standards Council (ASC) in Singapore, have affected many of the standards. Some of the changes address inconsistency in terminology between the standards; others will impact certain entities and hence will need careful consideration.

A number of standards have been issued by the IASB but have not yet been adopted by the ASC. These include IFRS 9, 'Financial instruments' and IFRIC 15, 'Agreements for the construction of real estate'.

IFRS 9 deals with the classification and measurement of financial assets and is the first part of the IASB's project to replace FRS 39, 'Financial instruments: Recognition and measurement'. It applies to 2013 year ends but can be adopted with immediate effect for IFRS preparers.

IFRIC 15 clarifies the contracts that will need to be accounted for in accordance with FRS 18, 'Revenue', and those that will need to apply FRS 11, 'Construction contracts'. This interpretation may have significant earnings implications, as the revenue recognition between the two standards can be quite different and will have wider implications than just for the real estate industry.

Abbreviations used

FRS	Singapore Financial Reporting Standards
INT FRS	Interpretations of Financial Reporting Standards
IFRS	International Financial Reporting Standards
IFRIC	IFRS Interpretations Committee
ASC	Accounting Standards Council
IASB	International Accounting Standards Board

New and amended standards

Business acquisitions and consolidations
– FRS 103 (revised), FRS 27 (revised)

Hedging of portions of financial instruments
– FRS 39 amendment

Classification of rights issues
– FRS 32 amendment

Group cash-settled share-based payment transactions
– FRS 102 amendments

Related-party disclosures
– FRS 24 amendment

Financial instrument disclosures on first-time adoption of Singapore FRS
– FRS 101 amendment

Oil and gas assets and lease classification on first-time adoption of Singapore FRS
– FRS 101 amendment

Business acquisitions and consolidations - FRS 103 (revised) and FRS 27 (revised)

The revised standard on business combinations was released in January 2008, accompanied by a revised standard on consolidated financial statements. They substantially converge IFRS/FRS with US Accounting Standards SFAS 141 (revised), 'Business combinations', and SFAS 160, 'Non-controlling interests in consolidated financial statements', respectively. The new standards are expected to add to earnings volatility, making earnings harder to predict. They are also likely to:

- Influence acquisition negotiations and deal structures in an effort to mitigate unwanted earnings impacts.
- Potentially impact the scope and extent of due diligence and data-gathering exercises prior to acquisition.
- Require new policies and procedures to monitor and determine changes in the fair value of some assets and liabilities.
- Call for valuation expertise.
- Influence the 'how, when and what' of stakeholder communications.

The table below sets out the potential impact for gains and losses on day 1 (combination date), measurement of assets and liabilities in the acquisition balance sheet and income statement volatility on day 2 and beyond (post-acquisition).

	Impact on earnings at combination date	Impact on net assets/goodwill at combination date	Ongoing earnings impact
Share options given to seller		✔	✔
Existing interest held in target	✔	✔	
Earn-out paid in a fixed number of equity shares		✔	
Earn-out paid in cash or shares to a fixed amount		✔	✔
Transaction costs	✔	✔	
Full goodwill		✔	✔
Contingent liabilities		✔	✔
Settlement of pre-existing relationships	✔	✔	✔
Restructuring costs			✔
Indemnity from seller		✔	✔
Buying or selling non-controlling interest			✘[1]

[1] *Transactions with non-controlling interests resulted in income statement effects under FRS 27, depending on an entity's policy. There will be no effect on income under FRS 27 (revised).*

Effective date

Business combinations occurring in annual reporting periods beginning on or after 1 July 2009. Retrospective application to earlier business combinations not permitted.

Questions and answers

1. Scope and applicability
2. Consideration
3. Goodwill and non-controlling interests
4. Asset and liability recognition
5. Other issues
6. FRS 27 (revised) – new proposals on non-controlling interests and disposals

1. Scope and applicability

The business combinations standard represents some significant changes for FRS. FRS 103 (revised) is a further development of the acquisition model. The standard now applies to more transactions, as combinations by contract alone and combinations of mutual entities are brought into the standard's scope. Common control transactions and the formation of joint ventures remain outside the scope of the standard. The definition of a business has been amended slightly. It now states that the elements are 'capable of being conducted' rather than 'are conducted and managed'. This change is supplemented by a significant expansion of the application guidance. This may bring more transactions into acquisition accounting.

1.1 When will the new standard affect the financial statements?

FRS 103 (revised) is applied prospectively to business combinations occurring in the first annual period beginning on or after 1 July 2009. It can be applied early but only to an annual period beginning on or after 30 June 2007. FRS 103 (revised) and FRS 27 (revised) are applied at the same time. Retrospective application to earlier business combinations is not permitted.

1.2 Has the scope of the standard changed?

Yes, it now includes combinations of mutuals and combinations by contract. This change in scope is not significant for many entities.

1.3 What about common control transactions?

Common control transactions remain outside the scope of the new standard. The IASB has a project on accounting for them, but this is currently on hold until staff resources become available. Entities choose a policy for such transactions. The most common are either applying FRS 103 by analogy to other business combinations or using predecessor values by analogy to US and other GAAPs with similar frameworks. In Singapore, common control transactions or restructuring for the purpose of an initial public offering in Singapore should be accounted for using the guidance under Recommended Accounting Practice ("RAP") 12, *'Merger Accounting for Common Control Combinations for financial statements prepared under Part IX of the Fifth Schedule to the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005'*. Entities should continue to use their existing policy for business combinations under common control.

2. Consideration

Consideration is the amount paid for the acquired business. Some of the most significant changes are found in this section of the revised standard. Individual changes may increase or decrease the amount accounted for as consideration. These affect the amount of goodwill recognised and impact the post-acquisition income statement. Transaction costs no longer form a part of the acquisition price; they are expensed as incurred. Consideration now includes the fair value of all interests that the acquirer may have held previously in the acquired business. This includes any interest in an associate or joint venture or other equity interests of the acquired business. If the interests in the target were not held at fair value, they are re-measured to fair value through the income statement.

The requirements for recognising contingent consideration have also been amended. Contingent consideration is now required to be recognised at fair value even if it is not deemed to be probable of payment at the date of the acquisition. All subsequent changes in liability-classified consideration are recognised in the income statement, rather than against goodwill.

2.1 The selling-shareholders will receive some share options. What effect will this have?

An acquirer may wish selling-shareholders to remain in the business as employees. Their knowledge and contacts can help to ensure that the acquired business performs well.

The terms of the options and employment conditions could impact the amount of purchase consideration and also the income statement after the business combination. Share options have a value. The relevant accounting question is whether this value is recorded as part of the purchase consideration, or as compensation for post-acquisition services provided by employees, or some combination of the two. Is the acquirer paying shareholders in their capacity as shareholders or in their capacity as employees for services subsequent to the business combination?

How share options are accounted for depends on the conditions attached to the award and also whether or not the options are replacing existing options held by the employee in the acquired business. Options are likely to be consideration for post-acquisition service where some of the payment is conditional on the shareholders remaining in employment after the transaction. In such circumstances, a charge is recorded in post-acquisition earnings for employee services. These awards are made to secure and reward future services of employees rather than to acquire the existing business.

2.2 Is it true that some business combinations will result in gains in the income statement?

Yes, it is. Any previous stake is seen as being ‘given up’ to acquire the business. A gain or loss is recorded on its disposal. If the acquirer already held an interest in the acquired entity before acquisition, the standard requires the existing stake to be re-measured to fair value at the date of acquisition, taking any movement to the income statement (together with any gains previously recorded in equity that relate to the existing stake). If the value of the stake has increased, there will be a gain to recognise in the income statement of the acquirer at the date of the business combination. A loss would only occur if the existing interest has a book value in excess of the proportion of the fair value of the business obtained – and no impairment had been recorded previously. This loss situation is not expected to occur frequently.

The standard also requires any gain on a ‘bargain purchase’ (negative goodwill) to be recorded in the income statement. This is not a change from the previous requirements.

2.3 Some of the payments for the business are earn-outs. How are these accounted for?

It is common for some of the consideration in a business combination to be contingent on future events. Uncertainty might exist about the value of the acquired business or some of its significant assets. The buyer may want to make payments only if the business is successful. Conversely, the seller wants to receive full value for the business. Earn-outs are often payable based on post-acquisition earnings or on the success of a significant uncertain project.

2.4 Does it make a difference whether contingent consideration (an earn-out) is payable in shares or in cash?

Yes. An earn-out payable in cash meets the definition of a financial liability. It is re-measured at fair value at every balance sheet date, with any changes recognised in profit or loss.

Earn-outs payable in ordinary shares may not require re-measurement through the income statement. This is dependent on the features of the earn-out and how the number of shares to be issued is determined. An earn-out payable in shares where the number of shares varies to give the recipient of the shares a fixed value would meet the definition of a financial liability. As a result, the liability will need to be fair valued through income. Conversely, where a fixed number of shares either will or will not be issued depending on performance, regardless of the fair value of those shares, the earn-out probably meets the definition of equity and so is not re-measured through the income statement.

2.5 A business combination involves fees payable to banks, lawyers and accountants. Can these still be capitalised?

No. Transaction costs are not part of what is paid to the seller of a business. They are also not assets of the purchased business that are recognised on acquisition. Transaction costs are expensed as they are incurred and the related services are received.

The standard requires entities to disclose the amount of transaction costs that have been incurred.

2.6 What about costs incurred to borrow money or issue the shares used to buy the business. Do these also have to be expensed?

No, these costs are not expensed. They are accounted for in the same way as they were under the previous standard.

Transaction costs directly related to the issue of debt instruments are deducted from the fair value of the debt on initial recognition and are amortised over the life of the debt as part of the effective interest. Directly attributable transaction costs incurred issuing equity instruments are deducted from equity.

3. Goodwill and non-controlling interests

The revised standard gives entities the option, on a transaction-by-transaction basis, to measure non-controlling interests (previously minority interest) at the value of their proportion of identifiable assets and liabilities or at full fair value. The first will result in measurement of goodwill little different from previous FRS 103; the second approach will record goodwill on the non-controlling interest as well as on the acquired controlling interest. The ‘bargain purchase’ guidance remains the same with the requirement to recognise ‘negative goodwill’ immediately in profit or loss.

3.1 Does the type of consideration affect how much goodwill is recognised?

No. Regardless of how payments are structured, the consideration is recognised in total at its fair value at the date of the acquisition. Paying the same amount in today’s values in different ways will not make a difference to the amount of goodwill recognised.

The form of the consideration will not affect the amount of goodwill, but the structure of the payments will have a significant effect on the post-acquisition income statement.

Payments that are contingent and deemed to be part of the acquisition price will be measured at fair value and included in the business combination accounting on day one. Equity instruments that are contingent consideration are not subsequently re-measured. Debt instruments are subsequently re-measured through the income statement.

Changes in the carrying amount of contingent consideration will often not be offset by profits and losses of the acquired subsidiary. A substantial payment to the previous owners may be required if an in-process research and development (IPR&D) project meets key approval milestones. The successful IPR&D project may generate substantial profits over 20 years. The increased amounts due under the contingent consideration arrangement are likely to be recognised as an expense in the income statement before the project generates any revenue at all.

3.2 How is goodwill measured?

Goodwill continues to be a residual. It may well be a different residual under FRS 103 (revised) compared to the previous standard. This is partly because all of the consideration, including any previously held interest in the acquired business, is measured at fair value. It is also because goodwill can be measured in two different ways.

The first approach is similar to the method under current FRS: goodwill is the difference between the consideration paid and the purchaser's share of identifiable net assets acquired. This is a 'partial goodwill' method because the non-controlling interest is recognised at its share of identifiable net assets and does not include any goodwill. Goodwill can also be measured on a 'full goodwill' basis, described in the following question.

3.3 What is 'full goodwill'?

Full goodwill means that the non-controlling (minority) interest is measured at fair value, and goodwill is recognised in a business combination. Under previous FRS 103, non-controlling interest was recognised at the non-controlling interest's share of net assets and did not include any goodwill. Full goodwill means that non-controlling interest and goodwill are both increased by the goodwill that relates to the non-controlling interest.

3.4 When can full or partial goodwill be recognised?

The standard gives a choice for each separate business combination. An acquirer may either recognise the non-controlling interest in the subsidiary at fair value, which leads to 100% of goodwill being recognised (full goodwill), or the acquirer can recognise the non-controlling interest measured at the non-controlling interest in net assets excluding goodwill. This leads to goodwill being recognised only for the parent's interest in the entity acquired, the same as under previous FRS 103 (partial goodwill).

This is one of the major differences with the US GAAP standard: under US GAAP, the non-controlling interest must be measured at fair value, and full goodwill is always recognised.

This choice only makes a difference in an acquisition where less than 100% of the acquired business is purchased. Business combinations where the entire business is acquired will result in goodwill being calculated in much the same way as it was under previous FRS 103.

3.5 What is the effect of recognising full goodwill?

Recognising full goodwill will increase reported net assets on the balance sheet. The potential downside is that any future impairment of goodwill will be greater. Impairments of goodwill should not occur with greater frequency.

Measuring non-controlling interest at fair value may prove difficult in practice. However, goodwill impairment testing may be easier under full goodwill, as there is no need to gross-up goodwill for partially owned subsidiaries.

A company planning a cash buy-out of the non-controlling interest in a subsidiary at a future date may want to record the non-controlling interest at fair value and recognise full goodwill in a business combination. If the non-controlling interest is later purchased, there will be a lower difference between the consideration paid for the non-controlling interest and its recorded value, and thus a smaller percentage reduction of equity.

4. Asset and liability recognition

The revised FRS 103 has limited changes to the assets and liabilities recognised in the acquisition balance sheet. The existing requirement to recognise all of the identifiable assets and liabilities of the acquiree is retained. Most assets are recognised at fair value, with exceptions for certain items such as deferred tax and pension obligations.

4.1 Have the recognition criteria changed for intangible assets?

No, there is no change in substance. Acquirers are required to recognise brands, licences and customer relationships, amongst other intangible assets. The IASB has provided additional clarity that may well result in more intangible assets being recognised, including leases that are not at market rates and rights (such as franchise rights) that were previously granted from the acquirer to the acquiree.

4.2 What happens to the contingent liabilities of the acquired business?

Many acquired businesses will contain contingent liabilities – for example, pending lawsuits, warranty liabilities or future environmental liabilities. These are liabilities where there is an element of uncertainty; the need for payment will only be confirmed by the occurrence or non-occurrence of a specific event or outcome. The amount of any outflow and the timing of an outflow may also be uncertain.

There is very little change to previous guidance under FRS. Contingent assets are not recognised, and contingent liabilities are measured at fair value. After the date of the business combination contingent liabilities are re-measured at the higher of the original amount and the amount under the relevant standard, FRS 37, *'Provisions, Contingent Liabilities and Contingent Assets'*.

Measurement of contingent liabilities after the date of the business combination is an area that may be subject to change in the future (see Q&A 5.5).

4.3 If consideration paid and most assets and liabilities are at fair value, what does this mean for the post-combination income statement?

Fair valuation of most things that are bought in a business combination already existed under previous FRS 103. The post-combination results are affected because part of the 'expected profits' is included in the valuation of identifiable assets at the acquisition date and subsequently recognised as an expense in the profit or loss, through amortisation, depreciation or increased costs of goods sold.

A mobile phone company may have a churn rate of three years for its customers. The value of its contractual relationships with those customers, which is likely to be high, will be amortised over that three-year period.

There may be more charges in the post-combination results due to increased guidance in FRS 103 (revised) on separating payments made for the combination from those made for something else. For example, guidance has been included on identifying payments made for post-combination employee services and on identifying payments made to settle pre-existing relationships between the buyer and the acquiree.

With contingent consideration that is a financial liability, fair value changes will be recognised in the profit or loss. This means that the better the acquired business performs, the greater the likely expense in profit or loss.

4.4 Can a provision be made for restructuring the target company in the acquisition accounting?

The acquirer will often have plans to streamline the acquired business. Many synergies are achieved through restructurings such as reductions in head-office staff or consolidation of production facilities. An estimate of the cost savings will have been included in the buyer's assessment of how much it is willing to pay for the acquiree.

The acquirer can seldom recognise a reorganisation provision at the date of the business combination. There is no change from the previous guidance in the new standard: the ability of an acquirer to recognise a liability for terminating or reducing the activities of the acquiree in the accounting for a business combination is severely restricted.

A restructuring provision can be recognised in a business combination only when the acquiree has, at the acquisition date, an existing liability, for which there are detailed conditions in FRS 37.

Those conditions are unlikely to exist at the acquisition date in most business combinations. A restructuring plan that is conditional on the completion of the business combination is not recognised in the accounting for the acquisition. It is recognised post-acquisition, and the expense flows through post-acquisition results.

4.5 What might adjust goodwill and over what period?

An acquirer has a maximum period of 12 months to finalise the acquisition accounting. The adjustment period ends when the acquirer has gathered all the necessary information, subject to the maximum of one year.

4.6 The seller will be giving an indemnity on a tax exposure. How will this be accounted for?

An indemnity is a promise by the seller to reimburse the buyer for liabilities of uncertain amount or likelihood. The indemnity is recognised as an asset and measured in the same way as the indemnified liability. It is limited to the amount of the indemnified liability. This applies to all indemnities for specific contingencies or liabilities.

5. Other issues

There is additional guidance on accounting for employee share-based payments in the revised standard. It provides additional guidance on valuation as well as determining whether replacement share awards are part of the consideration for the business combination or may be compensation for post-combination services.

The revised standard includes additional guidance with regard to contracts and arrangements of the acquired business at the balance sheet date. Leases and insurance contracts are assessed based on the facts at the time they were entered into (or subject to substantial modification). All other contracts are assessed for classification at the date of the acquisition.

Previous FRS 103 required deferred tax assets of the acquired business that were not recognised at the date of the combination but subsequently meet the recognition criteria to be adjusted against goodwill. The revised standard will only allow adjustments against goodwill within the one-year window for finalisation of the purchase accounting.

5.1 Are there any changes to deferred tax accounting?

Yes. The main change relates to the recognition of acquired deferred tax assets after the initial accounting for the business combination is complete; this will have an impact on the post-acquisition results.

Adjustments to deferred tax assets will only affect goodwill if they are made within the 12-month period for finalising the business combinations accounting and if they result from new information about facts and circumstances that existed at the acquisition date. After the 12-month period, adjustments are recorded as normal under FRS 12, through profit or loss or the statement of changes in equity, as appropriate.

5.2 Is there more clarity around classification and reassessment of contracts and other arrangements?

Yes. The previous FRS 103 was silent on what to do with leases, purchase and sale contracts, insurance contracts and hedges. The revised standard clarifies that all assessments such as the determination of embedded derivatives are made based on the facts at the date of the business combination. The only exceptions are leases and insurance contracts. These are generally assessed and classified based on conditions at the inception date of those contracts.

5.3 Will the financial statements grow through additional disclosures?

The financial statements will be longer than before and even more detailed. Some of the new disclosure requirements are:

- The amount of acquisition-related costs expensed and the line item in which that expense is reported;
- The measurement basis selected and the recognised amount of non-controlling interests in the acquiree;
- Where non-controlling interest is measured at fair value, the valuation techniques and key model inputs used for determining that value;
- Details of transactions that are separate from the acquisition of assets and assumption of liabilities in exchange for the acquiree;
- In a step acquisition, disclosure of the fair value of the previously held equity interest in the acquiree and the amount of gain or loss recognised in the profit or loss resulting from re-measurement; and
- Information about receivables (fair value, gross contractual amounts receivable and best estimate of cash flows not expected to be collected at the acquisition date).

5.4 Do previous transactions need to be restated?

No. Business combinations and transactions with non-controlling interest that occurred prior to the adoption of FRS 103 (revised) and FRS 27 (revised) are not restated. The standards are to be applied prospectively to all transactions for which the transaction date is on or after the first annual period beginning on or after 1 July 2009 or the date of early adoption, if elected.

Some accounting related to previous business combinations are changed. Deferred tax assets that are recognised relating to a previously acquired business will be accounted for under the revised standard. Instead of affecting goodwill, they will be recognised in profit or loss (see Q&A 5.1). The purchase or sale of a non-controlling interest that existed at the date of adoption of FRS 103 (revised) and FRS 27 (revised) may also be different (see Q&A 6.4).

5.5 Are there more changes to come?

Possibly, although the timing of any change is uncertain. The IASB has a project on its agenda to address the treatment of business combinations involving entities under common control. Work will begin on this project when staffing resources at the IASB become available.

The Fair Value Measurement Project (an exposure draft was released in May 2009) is still in progress and might affect the definition of fair value as currently contained in FRS 103 (revised). There are other ongoing projects on some standards that are linked to business combinations (notably FRS 37 on provisions and FRS 12 on deferred tax) that may affect either the recognition or measurement at the acquisition date or the subsequent accounting.

6. FRS 27 (revised) – non-controlling interests and disposals

The revised consolidation standard moves FRS to a mandatory adoption of the economic entity model. Current practice under FRS is overwhelmingly the parent company approach. The economic entity approach treats all providers of equity capital as the entity’s shareholders, even when they are not shareholders in the parent company. The parent company approach sees the financial statements from the perspective of the parent company shareholders.

A partial disposal of an interest in a subsidiary in which the parent company retains control does not result in a gain or loss but in an increase or decrease in equity under the economic entity approach. Purchase of some or all of the non-controlling interest is treated as a treasury transaction and accounted for in equity. A partial disposal of an interest in a subsidiary in which the parent company loses control but retains an interest (say an associate) triggers recognition of gain or loss on the entire interest. A gain or loss is recognised on the portion that has been disposed of; a further holding gain is recognised on the interest retained, being the difference between the fair value of the interest and the book value of the interest. Both are recognised in profit or loss.

6.1 What happened to non-controlling interest?

All shareholders of a group – whether they are shareholders of the parent or of a part of the group (non-controlling interest) – are providers of equity capital to that group. All transactions with shareholders are treated in the same way. What was previously the non-controlling interest in a subsidiary is now the non-controlling interest in a reporting entity.

There is no change in presentation of non-controlling interest under the revised standard. Additional disclosures are required to show the effect of transactions with non-controlling interest on the parent-company shareholders.

6.2 What happens if a non-controlling interest is bought or sold?

Any transaction with a non-controlling interest that does not result in a change of control is recorded directly in equity; the difference between the amount paid or received and the non-controlling interest is a debit or credit to equity. This means that an entity will not record any additional goodwill upon purchase of a non-controlling interest nor recognise a gain or loss upon disposal of a non-controlling interest.

6.3 How is the partial sale of a subsidiary with a change in control accounted for?

A group may decide to sell its controlling interest in a subsidiary but retain significant influence in the form of an associate, or retain only a financial asset. If it does so, the retained interest is re-measured to fair value, and any gain or loss compared to book value is recognised as part of the gain or loss on disposal of the subsidiary. Consistent with a 'gain' on a business combination (see Q&A 2.2), the standards take the approach that loss of control involves exchanging a subsidiary for something else rather than continuing to hold an interest.

6.4 How does the new standard affect transactions with previously recognised non-controlling interests?

An entity might have purchased a non-controlling interest recognised as part of a business combination under the previous version of FRS 103 – that is, where only partial goodwill was recognised. Alternatively, an entity might recognise partial goodwill under the new FRS 103 (revised) and might purchase a non-controlling interest at a later date.

In both cases, no further goodwill can be recognised when the non-controlling interest is purchased. If the purchase price is greater than the book value of the non-controlling interest, this will result in a reduction in equity attributable to shareholders of the reporting entity. This reduction may be significant.

Principles of business combinations

Understand the economics
- What does the acquirer think it is buying?
- How much does it think it is paying?
- What does the contract actually say?
- Are there any other linked transactions?

Is the transaction an acquisition of an asset or a business?
Definition of a business. [FRS 103 papa 3; App A; App B paras B7-B12]

Asset acquisition

Group of assets
Allocate cost based on relative fair values at purchase date to assets acquired (including intangibles) and liabilities assumed. [FRS 103 para 2].

Individual assets
Look to the relevant specific standard, eg. FRS 16, 'Property, plant and equipment', for a property (non-investment).

Business acquisition

What constitutes control?
Definition of control [FRS 27 para 4].

Factors influencing control [FRS 27 paras 13-15]
- Equity shareholding.
- Control of the board.
- Potential voting rights.
- Control agreement.
- Joint control [FRS 31 para 3].
- Special purpose entities (SPEs). [INT FRS 12].
- De facto control .

Economic interest is not the same as control.

No control

Business: no control
Look to the relevant specific standard, eg, FRS 28, 'Investment in associates' or FRS 31,'Interests in joint ventures'.

Please note that this flowchart does not cover group reconstructions or common control transactions.

Control

Control exists
FRS 103 (revised) applies

Acquisition method
- Identify acquirer.
- Determine acquisition date.
- Account for elements.

Goodwill
- Goodwill is a residual.
- 'Full' or 'partial' goodwill depends on measurement of NCI.

Bargain purchase
- Re-assess fair values. [FRS 103R para 36].
- Recognise gain in profit or loss. [FRS 103R para 34].

Excluded elements are payments made at the time of the acquisition which do not form part of consideration transferred. Consider (a) reasons for the transactions; (b) who initiated the transaction; (c) timing of the transaction. [FRS 103 App B para B50].

Examples
- Transaction cost. [FRS 103 para 53].
- Settlement of pre-existing relationships. [FRS 103 para 52].
- Remuneration for future employee services. [FRS 103 para 52].
- Reimbursement for paying the acquirer's acquisition costs. [FRS 103 para 52].
- Costs to issue debt or equity. [FRS 103 para 53].
- Payment for indemnifications assets. [FRS 103 para 57].

Excluded elements	
Consideration transferred	Goodwill
Previously held interest	Identifiable assets and liabilities
Non-controlling interest	

Identifiable assets and liabilities assumed are recognised if:
(a) definition of assets and liabilities is met at the acquisition date; and
(b) they are part of what was exchanged in the business combination. [FRS 103 paras 11,12].

Identifiable assets and liabilities assumed are measured at fair value. [FRS 103 para 18].
Exceptions to the recognition and/or measurement:
- Contingent liabilites. [FRS 103 para 22,23].
- Income taxes. [FRS 103 paras 24,25].
- Employee benefits. [FRS 103 para 26].
- Indemnification assets [FRS 103 paras 27,28].
- Reacquired rights. [FRS 103 para 29].
- Share-based payment awards. [FRS 103 para 30].
- Assets held for sale. [FRS 103 para 31].

Areas to watch out for:
- Contracts should be re-assessed except for insurance and leases. [FRS 103 paras 15–17].
- All identifiable intangibles are recognised. [FRS 103 App B paras B31–40].
- Restructuring provisions are rarely recognised. [FRS 103 para 11].
- Measurement period. [FRS 103 paras 45–50].

Components of consideration transferred [FRS 103 para 37].
- Assets transferred.
- Liabilities incurred by acquirer to former owners.
- Equity interests issued by acquirer.
- All consideration is recognised and measured at fair value.

Forms of consideration transferred (examples)
- Cash, other assets, businesses or subsidiaries of the acquirer.
- Contingent consideration. [FRS 103 paras 39,40].
- Equity instruments, options, warrants. [FRS 103 paras 37]. Please consult with ACS in case of put and call options.
- Deferred consideration.
- Replacement share awards. [FRS 103 App B para B56].

Contingent consideration [FRS 103 paras 39,40,58].
- Classify as liability or equity.
- Equity is not remeasured.
- Liability is remeasured through profit or loss

Non-controlling interest (NCI)
- Measure NCI either at fair value or at the NCI's proportionate share of the acquiree's identifiable net assets. [FRS 103R para 19; App B paras B44,45].
- Measurement choice for each combination.
- NCI measurement determines goodwill.

Previously held interest [FRS103 para42].
- Re-measure a previously held equity interest at its acquisition-date fair value.
- Recognise a gain or loss in profit or loss.
- Recycle items of other comprehensive income.

Subsequent measurement
[FRS 103 paras 54-58].
- Reacquired rights.
- Contingent liabilities
- Indemnification assets
- Contingent consideration

Step acquisitions and disposals

Step acquisitions

Investment (10%)
At fair value as an available-for-sale financial asset (or at fair value through profit or loss).

+15% to 25%

Investment (10%) to associate (25%)
[FRS 28 para 20]
- Remeasure investment to fair value.
- Recognise gain/loss in proft or loss and recycle AFS reserve.
- Determine goodwill as follows:
  FV consideration
  + FV previously held investment.
  - FV of total share of net assets.

+10% to 35%

Associate (25%) to associate (35%)
[FRS 28 para 20]
- Determine goodwill at each stage (FV consideration – FV of share of net assets).
- No step up of investment to fair value for previously-owned 25%.

+45% to 80%

Associates (35%) to subsidiary (80%)
[FRS 103 (revised) paras 41–42]
- Remeasure associates to fair value.
- Recognise gain/loss in profit or loss and recycle items of other comprehensive income (if any).
- Determine goodwill as follows:
  FV consideration
  + amount of NCI (fair value or share in net assets)
  + FV previously held investment
  - FV net assets.

+70% to 80%

Investment (10%) to subsidiary (80%)
[FRS 103 (revised) paras 41–42]
- Remeasure investment to fair value.
- Recognise gain/loss in profit or loss and recycle AFS reserve.
- Determine goodwill as follows:
  FV consideration
  + amount of NCI (fair value or share in net assets)
  + FV previously held investment
  - FV net assets.

+10% to 90%

Subsidiary (80%) to subsidiary (90%)
[FRS 27 (revised) paras 30–31]
- No FV exercise.
- Adjust controlling interest and NCI.
- Difference between FV of consideration and amount of NCI adjustment goes to equity (attributed to owners of parent).

30% to 60%

Subsidiary (90%) to subsidiary (60%)
[FRS 27 (revised) paras 30–31]
- No FV exercise.
- Adjust controlling interest and NCI.
- Difference between FV of consideration and amount of NCI adjustment goes to equity (attributed to owners of parent).

Step disposals

-50% to 10%

Subsidiary (60%) to investment (10%)
[FRS 27R paras 34/37]
- Derecognise goodwill, assets, and liabilities.
- Derecognise NCI including other comprehensive income items attributable to them.
- Initially recognise investment at its fair value at the date control is lost.
- Recycle entire AFS reserve and CTA as part of gain/loss on sale.
- Transfer entire FRS 16 revaluation reserve within equity to retained earnings.
- Recognise gain/loss on sale in profit or loss attributable to the parent.

-20% to 40%

Subsidiary (60%) to associate (40%)
[FRS 27 (revised) paras 34–37]
- Derecognise goodwill, assets, and liabilities.
- Derecognise NCI including other comprehensive income items attributable to them.
- Initially recognise investment in associate at its fair value at the date control is lost.
- Recycle entire AFS reserve and CTA as part of gain/loss on sale.
- Transfer entire FRS 16 revaluation reserve within equity to retained earnings.
- Recognise gain/loss on sale in profit or loss attributable to the parent.

+10% to 30%

Associate (40%) to associate (30%) [FRS 28 para 19A]
[FRS 27R paras 34/37]
- Derecognise proportion (25%) of carrying amount of investment.
- Recycle proportion (25%) of associate AFS reserve and CTA as part of gain/loss on sale.
- Transfer share (25%) of FRS 16 revaluation reserve within equity to retained earnings.

-30% to10%

Associate (40%) to investment (10%) [FRS 28 paras 18/19A]
- Derecognise investment in associate.
- Initially recognise investment at its fair value at the date significant influence is lost.
- Recycle entire CTA and AFS reserve of associate as part of gain/loss on sale.
- Transfer entire FRS16 revaluation reserve within equity to retained earnings.
- Recognise gain/loss on sale in profit or loss.

Note: IMoA = PwC’s IFRS Manual of Accounting

Financial instruments

Hedging of portions of financial instruments – FRS 39 amendment

The ASC issued an amendment to FRS 39, 'Eligible hedged items', on 11 December 2008. The amendment makes two changes:

- It prohibits designating inflation as a hedgeable component of a fixed rate debt.
- In a hedge of one-sided risk with options, it prohibits including time value in the hedged risk.

Effective date

Annual periods beginning on or after 1 July 2009. It should be applied retrospectively.

If management issued inflation-linked debt, can it hedge the inflation component?
Yes, the contractually specified inflation component of an inflation-linked debt can be designated as a hedged item in a cash flow or fair value hedge.

If management uses options to hedge forecast sales in foreign currency, can it still designate them as hedges of one-sided risk?
Yes, options may be designated as hedges of one-sided risk – for example, the foreign exchange risk that forecast sales in foreign currency will be worth less in the functional currency of the entity.

Can these options be perfectly effective hedging instruments?
No. The amendment clarified that only the intrinsic value of the purchase options can be designated as a hedging instrument. Changes in the time value of the options will be recognised in profit or loss.

What should management do if it designated the full fair value of the options as hedging instruments in the past?
Management should re-designate such options in new hedge relationships on an intrinsic value basis when the amendment becomes effective.

Classification of rights issues – FRS 32 amendment

'Classification of rights issues – an amendment to FRS 32' was published on 18 November 2009. The amendment recognises that the previous requirement to classify foreign-currency-denominated rights issued to all existing shareholders on a pro rata basis as derivative liabilities is not consistent with the substance of the transaction, which represents a transaction with owners acting in their capacity as such. The amendment therefore creates an exception to the 'fixed for fixed' rule in FRS 32 and requires rights issues within the scope of the amendment to be classified as equity.

Effective date

Annual periods beginning on or after 1 February 2010. It should be applied retrospectively. Early adoption is permitted.

What is a rights issue?
A rights issue is used as a means of capital-raising whereby an entity issues a right, option or warrant to all existing shareholders of a class of equity on a pro rata basis to acquire a fixed number of additional shares at a fixed strike price. The strike price is usually set below current market share price, and shareholders are economically compelled to exercise the rights so that their interest in the entity is not diluted. Rights issues are not used for speculative purposes and are required by laws or regulations in many jurisdictions when raising capital.

Why issue new guidance now?
Rights issues have become popular in the current environment due to liquidity constraints on the markets. Entities listed in different jurisdictions are normally required by laws or regulations to issue rights denominated in respective local currencies. Unfortunately, a fixed strike price in other than the entity's functional currency violates 'fixed for fixed' equity classification criterion in FRS 32 and hence results in the instrument being classified as a derivative liability measured at fair value through profit or loss. Given that rights issues are usually relatively large transactions, this would have a substantial effect on entities' financial results.

What does the amendment require?
It was recognised that classifying foreign-currency-denominated rights issued to all existing shareholders on a pro rata basis as derivative liabilities was not consistent with the substance of the transaction, which represents a transaction with owners acting in their capacity as such. The amendment therefore created an exception to the 'fixed for fixed' rule in FRS 32 and required rights issues within the scope of the amendment to be classified as equity.

What is the scope of the new guidance?
The scope of the amendment is narrow and applies only to pro rata rights issues to all existing shareholders in a class. It does not extend to long-dated foreign currency rights issues or foreign-currency-denominated convertible bonds. For these instruments, the option to acquire the issuer's equity will continue to be accounted for as a derivative liability, with fair value changes recorded in profit or loss.

How will this change current practice?
Rights issues are now required to be classified as equity if they are issued for a fixed amount of cash regardless of the currency in which the exercise price is denominated, provided they are offered on a pro rata basis to all owners of the same class of equity. Unlike derivative liabilities, equity instruments are not subsequently re-measured at fair value through profit or loss. The accounting therefore becomes less complex, and there is less volatility in profit or loss.

Group cash-settled share-based payment transactions – FRS 102 amendments

The ASC issued amendments to FRS 102, 'Group cash-settled share-based payment transactions', in October 2009. The amendments provide a clear basis to determine the classification of share-based payment transactions in consolidated and separate financial statements. The amendments incorporate INT FRS 108, 'Scope of FRS 102', and INT FRS 111, 'FRS 102 – Group and treasury share transactions', into FRS 102. They also expand on the guidance given in INT FRS 111 to address group arrangements that were not considered in that interpretation.

Effective date

Annual periods beginning on or after 1 January 2010. Early adoption is permitted.

What was the reason for the amendments?

The amendments were issued to expand on the guidance in INT FRS 111 on accounting for awards in group situations. FRS 102 now covers cash-settled awards that will be settled by an entity within the group that does not employ the employees who receive the awards.

How does an entity account for group cash-settled share-based payment arrangements?

Where a parent entity issues a cash-settled award to employees of its subsidiary, the amendments confirm that this will be treated as a cash-settled share-based payment transaction in the parent's separate and consolidated financial statements, because the parent entity has granted the award and has the obligation to settle in cash. However, this award is accounted for as an equity-settled transaction in the subsidiary's financial statements, as the subsidiary entity has no obligation to settle the award.

The classification of both cash-settled and equity-settled share-based payment transactions involving entities within a group, in both consolidated and separate financial statements, is summarised in the flow chart below.

What will be the impact of the amendments?

We expect there to be minimal impact on consolidated financial statements because awards should have been correctly accounted for as cash-settled share-based payment arrangements. However, because there is new guidance for group cash-settled awards (historically standards have been silent in this area), subsidiaries may need to account for a change in accounting policy.

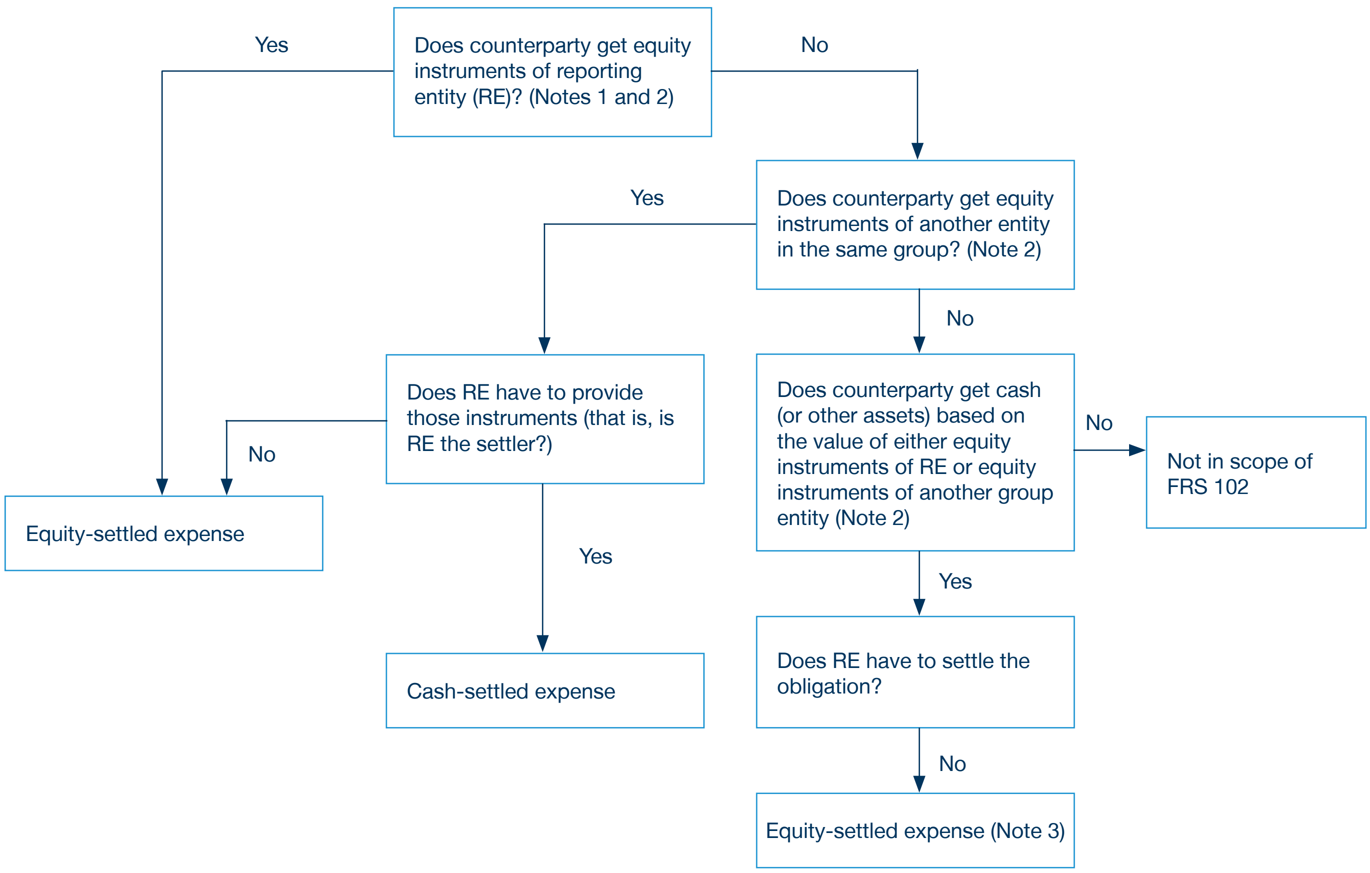
For example, if a subsidiary previously chose to treat an award granted to its employees by its parent as cash-settled to mirror the accounting treatment in the consolidated financial statements, this will now need to be treated as equity-settled. Management will therefore need to measure the fair value of the award at grant date and transfer the credit to equity. This could involve time and effort in order to look back and determine the fair value of the award at grant date.

Will management need to restate their financial statements?

It depends. The amendments require retrospective adoption, and the financial statements need to reflect the amendments as if they had always been applied. The entity's previous accounting policy will determine whether the financial statements of the entity need to be restated.

The amendments to FRS 102 are applicable retrospectively. Accordingly, any changes in accounting policy will require appropriate disclosure in accordance with FRS 8, 'Accounting policies, changes in accounting estimates and errors'.

Classification of cash- and equity-settled transactions



Notes:

1 'Equity instruments of RE', include equity instruments of subsidiaries of RE (non-controlling interests).

2 'Counterparty' includes employees and other suppliers of goods or services even where the goods or services are unidentifiable.

3 For the entity that settles the obligation, treatment will be as equity-settled only if the transaction is settled in equity instruments of that entity (including equity instruments of a subsidiary of that entity). For the entity receiving the goods or services, treatment will be as equity-settled unless there is an obligation to settle in cash or other assets.

Related-party disclosures – FRS 24 amendment

The revised FRS 24 was issued by the Accounting Standards Council (ASC) on 22 January 2010. It removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. It also clarifies and simplifies the definition of a related party.

The previous version of FRS 24 did not contain any specific guidance for government-related entities. They were therefore required to disclose transactions with the government and other government-related entities. This requirement was onerous in territories with pervasive government control; it placed a significant burden on entities to identify related-party transactions and collect the information required for the disclosures. For example, a government-controlled railway was theoretically required to disclose details of its transactions with the post office. This information was not necessarily useful to users of the financial statements and was costly and time-consuming to collect.

The financial crisis widened the range of entities subject to related-party disclosure requirements. The financial support provided by governments to financial institutions in many countries means that the government now controls or significantly influences some of those entities. A government-controlled bank, for example, would be required to disclose details of its transactions, deposits, and commitments with all other government-controlled banks and with the central bank.

Effective date

Annual periods beginning on or after 1 January 2011. Earlier adoption is permitted either for the entire standard or for the reduced disclosures for government-related entities.

What is the definition of a government-related entity?

Government-related entities are now defined as entities that are controlled, jointly controlled, or significantly influenced by a government.

What disclosures are required for government-related entities?

The amendment introduces an exemption from the disclosure requirements of FRS 24 for transactions between government-related entities and the government, and all other government-related entities. Those disclosures are replaced with a requirement to disclose:

- The name of the government and the nature of the relationship.
- The nature and amount of any individually-significant transactions.
- A qualitative or quantitative indication of the extent of any collectively-significant transactions.

What is the impact of the change in disclosure requirements?

This is a significant relaxation of the disclosure requirements and should be of substantial benefit to government-related entities. The complexity and volume of the disclosures in the financial statements and the costs of record-keeping will be reduced. The new disclosures will provide more meaningful information about the nature of an entity's relationship with the government.

Why has the definition of a related party changed?

The previous definition of a related party was complicated and contained a number of inconsistencies. These inconsistencies meant, for example, that there were situations in which only one party to a transaction was required to make related-party disclosures. The definition has been amended to remove such inconsistencies and make it simpler and easier to apply.

What is the impact of the amended definition?
While the new definition will make the definition of a related party easier to apply, some entities will be required to make additional disclosures.

The entities that are most likely to be affected are those that are part of a group that includes both subsidiaries and associates and entities with shareholders that are involved with other entities. For example, a subsidiary is now required to disclose transactions with an associate of its parent. Similarly, disclosure is required of transactions between two entities where both entities are joint ventures (or one is an associate and the other is a joint venture) of a third entity. In addition, an entity that is controlled by an individual that is part of the key management personnel of another entity is now required to disclose transactions with that second entity.

What next steps should management consider?
Management of government-related entities should consider whether they wish to adopt the amendment early. Early adoption is likely to be attractive for many entities, but management intending to adopt early should also consider the revised disclosure requirements and put in place procedures to collect the required information.

Management of all entities should consider the revised definition to determine whether any additional disclosures will be required and put in place procedures to collect that information.

Financial instrument disclosures on first-time adoption of Singapore FRS – FRS 101 amendment

The amended to FRS 101, ‘First-time adoption of FRS’, provides first-time adopters with the same transition relief that existing FRS preparers received in the amendment to FRS 107, ‘Financial instruments: Disclosures’.

Effective date

Annual periods beginning on or after 1 July 2010. Earlier adoption is permitted. Early adoption is required for a first-time adopter that has a first reporting period that begins earlier than 1 July 2010 in order to benefit from the disclosure relief.

What triggered this amendment?

Existing FRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to FRS 107 ‘Financial Instruments: Disclosures’. The relief was provided because the amendments to FRS 107 were issued after the comparative periods had ended, and the use of hindsight would have been required. The Board therefore permitted entities to exclude comparative disclosures in the first year of application. Certain first-time adopters (for example, those with a first reporting period beginning on or after 1 January 2009) would otherwise be required to make the comparative period disclosures, as first-time adopters do not use the transition provisions in other FRSs.

The Board has therefore issued an amendment to FRS 101 to provide first-time adopters with the same transition provisions (and thereby the same relief) as included in the amendment to FRS 107. The Board made a consequential amendment to FRS 107 to remove the wording, ‘In the first year of application’, and to replace it with date-specific relief for comparative information. Any comparative periods ending before 31 December 2009 are exempt from the disclosures required by the amendments to FRS 107. The relief applies to disclosures related to both the statement of comprehensive income and the statement of financial position.

Who is affected?

A first-time adopter may use the relief offered under the amendment to the extent its first FRS financial statements present comparative periods that end before 31 December 2009. This includes any comparative annual periods that end before 31 December 2009 and any year-end comparative statements of financial position as at a date before 31 December 2009. This includes the opening statement of financial position as at the date of transition. Any comparative interim periods (full financial statements and not FRS 34 condensed) that fell within the first annual period for which the amended FRS 107 disclosures were effective are not exempt.

What action do first-time adopters need to take?

First-time adopters should consider the comparative periods that are being presented in their first FRS financial statements and determine whether they should take advantage of the disclosure relief offered by this amendment.

Oil and gas assets and lease classification on first-time adoption of Singapore FRS – FRS 101 amendment

The amended FRS 101, 'First-time adoption of FRS', exempts entities that use the full cost method for oil and gas properties from retrospective application of FRSs; it also exempts entities with existing leasing contracts from reassessing the classification of those contracts in accordance with INT FRS 104, 'Determining whether an arrangement contains a lease'.

Effective date

Annual periods beginning on or after 1 January 2010. Early adoption is permitted.

What relief does this give oil and gas entities?
Some national accounting requirements require exploration and development costs for oil and gas properties in the development or production phases to be accounted for in cost centres that include all properties in a large geographical area (known as the full cost method). Under this exemption, first-time adopters that have used this method previously can elect to measure those assets on transition to FRS on the following basis:

- Exploration and evaluation assets at the amount determined under the entity's previous GAAP; and
- Assets in the development or production phases at the amount determined for the cost centre under the entity's previous GAAP. The entity is then required to allocate this amount to the cost centre's underlying assets pro rata using reserve volumes or reserve values as of that date.

If this exemption is taken, the entity should test those assets for impairment on transition to FRS.

How does the leasing exemption impact first-time adopters?
Where a first-time adopter has determined at an earlier date whether an arrangement contained a lease in accordance with its previous GAAP (equivalent to the requirement in INT FRS 104), the entity is not required under the exemption to undertake a further reassessment on transition to FRS. This exemption can be applied as long as the earlier assessment would have resulted in the same outcome as that resulting from applying FRS 17, 'Leases', and INT FRS 104.

New and amended interpretations

Pre-payments of a minimum funding requirement
– INT FRS 114

Distributions of non-cash assets to owners
– INT FRS 117

Transfer of assets from customers
– INT FRS 118

Extinguishing financial liabilities with equity instruments
– INT FRS 119

Pre-payments of a minimum funding requirement – INT FRS 114

The amendment to INT FRS 114, 'FRS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' removes an unintended consequence of INT FRS 114 relating to voluntary pension pre-payments when there is a minimum funding requirement.

Effective date

Annual periods beginning on or after 1 January 2011; an entity will apply the amendment from the beginning of the earliest comparative period presented. If the entity had previously applied the Interpretation before it applies the amendments, it shall recognise the adjustment resulting from the application of the amendments in retained earnings at the beginning of the earliest comparative period presented. Earlier adoption is permitted.

How does the amendment differ from previous guidance?

Some companies that are subject to a minimum funding requirement may elect to pre-pay their pension contributions. The pre-paid contributions are recovered through lower minimum funding requirements in future years. An unintended consequence of the interpretation, prior to this amendment, was that INT FRS 114 could prevent the recognition of an asset for any surplus arising from such voluntary pre-payment of minimum funding contributions in respect of future service. The interpretation has been amended to require an asset to be recognised in these circumstances.

Who does the amendment affect?

It will have a limited impact, as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan and choose to pre-pay those contributions.

Those affected are companies that:

- have a defined benefit pension plan that is subject to a minimum funding requirement; and
- have prepaid (or expect to prepay) the minimum funding requirement in respect of future employee service, leading to a pension surplus.

What do affected entities need to do?

Such entities should reconsider their accounting in the light of the revised guidance to determine whether an asset for the pre-paid contributions should be recognised. They should assess the impact as early as possible to determine whether the amendment should be adopted before the effective date.

Distributions of non-cash assets to owners – INT FRS 117

INT FRS 117, ‘Distributions of non-cash assets to owners’ was adopted by ASC on 20 January 2009, and clarifies how an entity should measure distributions of assets other than cash made as a dividend to its owners. The current standards do not specifically address this issue.

The four main clarifications are:

- A dividend payable should be recognised when appropriately authorised and no longer at the entity’s discretion.
- Where an owner has a choice of a dividend of a non-cash asset or cash, the dividend payable is estimated considering both the fair value and probability of the owners selecting each option.
- The dividend payable is measured at the fair value of the net assets to be distributed.
- The difference between fair value of the dividend paid and the carrying amount of the net assets distributed is recognised in profit or loss.

Additional disclosures are required if the net assets being held for distribution meet the definition of a discontinued operation under FRS 105, ‘Non-current assets held for sale and discontinued operations’.

Effective date

Annual reporting periods beginning on or after 1 July 2009. Early adoption is permitted. Early adopters would then also be required to early adopt FRS 103 (revised), ‘Business combinations’, FRS 27 (revised), ‘Consolidated and separate financial statements’, and FRS 105 (amended), ‘Non-current assets held for sale and discontinued operations’.

What is the scope of the interpretation?

INT FRS 117 applies to pro rata distributions of non-cash assets, but does not apply to common control transactions.

When does an entity recognise a liability for a dividend payable?

An entity recognises a liability for a dividend payable when the dividend is authorised and no longer at the discretion of the entity. This date will vary by jurisdiction, so IFRIC further clarified this point in the interpretation.

When does an entity recognise a receipt of a dividend?

INT FRS 117 does not deal with the receipt of dividends, but dividend income is recognised when the shareholder’s right to receive payment is established in accordance with FRS 18, ‘Revenue’. Determining when a right to receive payment has been established will vary from one jurisdiction to another. However, the accounting for the receipt of dividends should mirror the accounting in the paying entity. The dividend received is therefore recognised at fair value.

Transfer of assets from customers – INT FRS 118

Introduction

INT FRS 118, 'Transfers of assets from customers' was adopted by ASC on 8 April 2009, and addresses the diversity in practice that has arisen when entities account for assets transferred from a customer in return for connection to a network or ongoing access to goods or services, or both.

Historically some entities have recognised the asset received at its fair value; others at its acquisition cost of nil, or a nominal amount. Entities that recognised the asset at fair value either recognised the related income immediately or over a longer period.

The interpretation requires the transferred assets to be recognised initially at fair value and the related revenue to be recognised immediately; or, if there is a future service obligation, revenue is deferred and recognised over the relevant service period.

Effective date

The guidance applies prospectively to all transfers of assets from customers arising on or after 1 July 2009. Early adoption is permitted provided that the necessary information to apply the interpretation was available at the time assets were transferred.

What transactions are within the scope of INT FRS 118?
INT FRS 118 applies to agreements for the transfer of property, plant and equipment (PPE) from a customer that is to be used to connect the customer to a network or provide the customer with an ongoing supply of goods or services. The guidance also applies where a customer transfers cash to an entity and that cash is to be used to build an asset that connects the customer to a network.

It does not apply to government grants within the scope of FRS 20, 'Accounting for government grants and disclosure of government assistance', or service concessions within the scope of INT FRS 112, 'Service concession arrangements'.

It also does not apply to situations where an entity does not control the transferred asset. In these situations INT FRS 104, 'Determining whether an arrangement contains a lease', and FRS 17, 'Leases', may apply.

What will INT FRS 118 change?
The transferred assets will be recognised initially at fair value; the related revenue will be recognised immediately or, if there is a future service obligation, over the relevant service period. This may be a significant change for some entities, particularly those that have historically recognised these assets at their acquisition cost of nil or at a nominal amount.

To determine when revenue should be recognised, the entity receiving the asset should determine whether the asset has been received in exchange for one or more separately identifiable services. These services include: the connection to the network, ongoing access to the network and/or the supply of goods or services through the network. INT FRS 118 also provides guidance for the separation and recognition of the different components of a transaction.

Is it only utility and IT entities that are affected?
The impact of the guidance may be broader than just the utility and IT outsourcing situations referred to in the examples in the interpretation. Entities in other network industries and other outsourcing entities should also consider whether their accounting is affected by INT FRS 118 for similar transfers of assets.

Extingushing financial liabilities with equity instruments ('debt for equity swaps') – INT FRS 119

INT FRS 119, 'Extinguishing financial liabilities with equity instruments', was published on 22 January 2010. INT FRS 119 clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (referred to as a 'debt for equity swap').

Effective date

Annual periods beginning on or after 1 July 2010. Early adoption is permitted. The interpretation should be applied retrospectively from the beginning of the earliest comparative period presented, as adoption in earlier periods would result only in a reclassification of amounts within equity.

Why new guidance now?

Many entities were compelled to renegotiate their debt as it came due, in the current economic climate. Renegotiations would commonly lead either to modification of debt or settlement of the liability by way of issuing equity instruments to the lender. FRS did not address accounting for such debt for equity swaps before INT FRS 119, and there was diversity in practice. Some recognised the equity instrument at the carrying amount of the financial liability and did not recognise any gain or loss on settlement in profit or loss. Others recognised the equity instruments at their fair value and recorded any difference between that amount and the carrying amount of the financial liability in profit or loss. The financial crisis exacerbated the issue.

What is the scope of new guidance?

INT FRS 119 addresses the accounting by an entity that renegotiates the terms of a financial liability and issues shares to the creditor to extinguish all or part of the financial liability. It does not address the accounting by the creditor; and it does not apply to situations where the liability may be extinguished with equity instruments in accordance with the original terms of the instrument (for example, convertible bonds). The interpretation is further restricted to exclude transactions where the creditor is also a shareholder acting in its capacity as such, or transactions under common control where the transaction in substance represents an equity distribution by, or contribution to, the entity.

What does the interpretation address?

INT FRS 119 addresses the following issues:

- Are equity instruments issued to extinguish a financial liability 'consideration paid'?
- How should an entity initially measure equity instruments issued to extinguish a financial liability?
- How should an entity account for any difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued?

What does the interpretation require?

INT FRS 119 considers that equity instruments issued to settle a liability represent 'consideration paid'. It therefore requires a gain or loss to be recognised in profit or loss when a liability is settled through the issuance of the entity's own equity instruments. This is consistent with the general approach to derecognition of financial liabilities established by FRS 39. The amount of the gain or loss recognised in profit or loss is determined as the difference between the carrying value of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments cannot be reliably measured, the fair value of the existing financial liability is used to measure the gain or loss and to record issued equity instruments.

How will this change current practice?

Entities will no longer be permitted to reclassify the carrying value of the existing financial liability into equity (with no gain or loss being recognised in profit or loss). The amount of the gain or loss should be separately disclosed.

Standards issued globally but not yet issued in Singapore

Classification and measurement of financial assets
– IFRS 9

Agreements for construction of real estate
– IFRIC 15

Classification and measurement of financial assets – IFRS 9

IFRS 9, ‘Financial instruments’, represents the first milestone in the comprehensive IASB project to replace IAS 39, ‘Financial instruments: Recognition and measurement’, on which FRS 39 is based on, by the end of 2010. IASB published IFRS 9 on 12 November 2009 and made it available for immediate early adoption. However, IFRS 9 has not been adopted by ASC and cannot be applied in financial statements that report under FRS.

Effective date under IFRS

Annual periods starting 1 January 2013. Early adoption is permitted from 12 November 2009 (see detail below).

How does IFRS 9 improve financial reporting?

IFRS 9 simplifies accounting for financial assets as requested by many constituents and stakeholders. In particular, it replaces multiple measurement categories in FRS 39 with a single principle-based approach to classification. IFRS 9 removes complex rule-driven embedded derivative guidance in FRS 39 and requires financial assets to be classified in their entirety. IFRS 9 eliminates the need for multiple impairment models, such that only one impairment model for financial assets carried at amortised cost will be required.

What is in the scope?

IFRS 9 applies to all financial assets within the scope of FRS 39, including hybrid financial instruments with financial assets hosts. IFRS 9 does not apply to financial liabilities and hybrid contracts with other than financial asset hosts.

How are financial assets to be measured?

IFRS 9 requires all financial assets to be measured at either amortised cost or full fair value. Amortised cost provides decision-useful information for financial assets that are held primarily to collect cash flows that represent the payment of principal and interest. For all other financial assets, including those held for trading, fair value represents the most relevant measurement basis.

What determines classification?

IFRS 9 introduces a two-step classification approach. First, an entity considers its business model – that is, whether it holds the financial asset to collect contractual cash flows rather than to sell it prior to maturity to realise fair value changes. If the latter, the instrument is measured at fair value through profit or loss. If the former, an entity further considers the contractual cash flow characteristics of the instrument.

What is contractual cash flow characteristics test?

A financial asset within a qualifying business model will be eligible for amortised cost accounting if the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Interest is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time.

Any leverage feature increases the variability of the contractual cash flows with the result that they do not have the economic characteristics of interest. If a contractual cash flow characteristic is not genuine, it does not affect the classification of a financial asset. A cash flow characteristic is not genuine if it affects the instrument’s contractual cash flows only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur.

What are common features that generally would pass the cash flow characteristics test?

- Unleveraged linkage to an inflation index in the currency in which the financial asset is denominated.
- Multiple extension options (for example, a perpetual bond).
- Call and put options if they are not contingent on future events, and the pre-payment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for the early termination of the contract.
- Interest rate caps, floors and collars that effectively switch the interest rate from fixed to variable and vice versa.
- In a variable rate financial asset, a borrower option to choose a rate at each interest rate reset day as long as the rate compensates the lender for the time value of money (for example, an option to pay three-month LIBOR for a three-month term or one-month LIBOR for a one-month term).

What are common features that generally would fail cash flows characteristics test?

- Linkage to equity index, borrower's net income or other variables.
- Inverse floating rate.
- Call option at an amount not reflective of outstanding principal and interest.
- Issuer is required or can choose to defer interest payments and additional interest does not accrue on those deferred amounts.
- In a variable rate financial asset, a borrower option to choose a rate at each interest rate reset day such that the rate does not compensate the lender for the time value of money (for example, an option to pay one-month LIBOR for a three-month term and one-month LIBOR is not reset each month).
- A variable rate that is reset periodically but always reflects a five-year maturity in a five-year constant maturity bond (that is, the rate is disconnected with the term of the instrument except at origination).
- An equity conversion option in a debt host (from a holder perspective).

Are reclassifications permitted?

Classification of financial assets is determined on initial recognition. Subsequent reclassification is permitted only in those rare circumstances when the business model within which the financial asset is held changes. In such cases, reclassification of all affected financial assets is required.

IFRS 9 specifies that changes in business model are expected to be very infrequent, should be determined by the entity's senior management as a result of external or internal changes, should be significant to the entity's operations and demonstrable to external parties.

For example, an entity has a portfolio of commercial loans that it holds to sell in the short term. The entity acquires a company that manages commercial loans and has a business model that holds the loans in order to collect the contractual cash flows. The portfolio of commercial loans is no longer for sale, and the portfolio is now managed together with the acquired commercial loans; all are held to collect the contractual cash flows.

Another example of a change in the business model is where an entity decides to shut down a line of service (for example, a retail mortgage business). The line of service does not accept new business, and the affected portfolio is being actively marketed for sale.

IFRS 9 indicates that changes in intentions with respect to individual instruments, temporary disappearance of a particular market or transfers of instrument between business models do not represent a change in business model.

What does this mean for equity investments?

Equity investments do not demonstrate contractual cash flow characteristics of principal and interest; they are therefore accounted for at fair value. However, IFRS 9 provides an option to designate a non-trading equity investment at fair value though profit or loss or at fair value through other comprehensive income. The designation is available on an instrument-by-instrument basis and only on initial recognition. Once made, the designation is irrevocable.

All realised and unrealised fair value gains and losses follow the initial designation, and there is no recycling of fair value gains and losses recognised in other comprehensive income to profit or loss. Dividends that represent a return on investment from equity investments will continue to be recognised in profit or loss regardless of the designation.

Can an equity investment be measured at cost where no reliable fair value measure is available?

IFRS 9 removes the cost exemption for unquoted equities and derivatives on unquoted equities but stipulates that, in certain circumstances, cost may be an appropriate estimate of fair value. This may be the case where insufficient recent information is available or where there is a wide range of possible fair value measurements. Cost will not be an appropriate estimate of fair value if there are changes in investee circumstances, markets or wider economy, or if there is evidence from external transactions or for investments in quoted equity instruments. To the extent factors exist that indicate cost might not be representative of fair value, the entity should estimate fair value.

What does this mean for hybrid contracts?

IFRS 9 requires financial assets to be classified in their entirety. Hybrid contracts are those instruments that contain a financial or non-financial host and an embedded derivative. Hybrid contracts within the scope of IFRS 9 – that is, hybrid contracts with financial asset hosts – are assessed in their entirety against the two classification criteria. Hybrid contracts outside of scope of IFRS 9 are assessed for bifurcation under FRS 39. In many cases, hybrid contracts may fail the contractual cash flow characteristic test and should therefore be measured at fair value through profit or loss.

Is fair value option available?

Two of the existing three fair value option criteria currently in FRS 39 become obsolete under IFRS 9, as a fair value driven business model requires fair value accounting, and hybrid contracts are classified in their entirety. The remaining fair value option condition in FRS 39 is carried forward to the new standard – that is, management may still designate a financial asset as at fair value through profit or loss on initial recognition if this significantly reduces recognition or measurement inconsistency, commonly referred to as ‘an accounting mismatch’. The designation at fair value through profit or loss will continue to be irrevocable.

What are transition requirements?

IFRS 9 is effective for annual periods starting 1 January 2013 and is available for early adoption from 12 November 2009. The standard generally applies retrospectively, with some exceptions. Comparative information is not required to be adjusted retrospectively for adoptions before 2012.

If an entity early adopts IFRS 9, it will not be required to early adopt subsequent stages in the FRS 39 replacement project – that is, impairment and hedging. This is to facilitate early adoption of IFRS 9. However, if an entity chooses to early adopt any of the subsequent stages, it will be required to early adopt all preceding stages from the same date.

What happens next?

The IASB has issued an exposure draft on amortised cost and impairment, which proposes an expected cash flow approach (expected loss model) to impairment of financial assets carried at amortised cost. It is the second stage in the replacement of FRS 39. The IASB has also established an Expert Advisory Panel, which will advise on operational aspects of the expected loss model.

The IASB has also issued an ED on classification and measurement of financial liabilities and an ED on hedging in second half of 2010. The IASB is also expected to seek comments on the FASB’s financial instrument’s ED. The two Boards are expected to deliberate the comment letters together and to finalise the new converged accounting guidance for financial instruments by the end of 2010.

Agreements for construction of real estate – IFRIC 15

IASB issued IFRIC 15 in July 2008 in response to concerns over diversity in practice regarding revenue recognition for real estate construction agreements. IFRIC 15 has not been adopted by ASC and cannot be applied by preparers reporting under FRS.

The interpretation provides guidance on determining whether an agreement is within the scope of IAS 11, 'Construction contracts', or is for the sale of goods under IAS 18, 'Revenue'.

Effective date under IFRS

Annual reporting periods beginning on or after 1 January 2009. Early adoption is permitted.

Will the interpretation only impact the real estate industry?
No. Many entities might assume that the interpretation will not apply or will have minimal impact on their current revenue recognition model.

The interpretation clearly does apply directly to entities that enter into agreements for the construction of real estate. However, as the basis for conclusions indicates, the guidance may be applied by analogy to industries other than real estate.

Other industries in which entities apply IAS 11 to the construction of complex machinery and equipment may be affected.

When might this interpretation have an impact?
Entities that have previously recognised revenue from construction activities under IAS 11 will be most significantly affected if IFRIC 15 clarifies that their arrangements are more appropriately accounted for under IAS 18, 'Revenue'.

How does an entity determine whether to apply IAS 11 or IAS 18?
This will depend on the terms of the agreement and the surrounding facts and circumstances. Judgement will be required with respect to each agreement. The interpretation sets out the following guidance in determining which standard would apply:

- **IAS 11:** IAS 11 applies when an agreement meets the definition of a construction contract. The interpretation clarifies that when a buyer is able to specify the major structural elements of design, either before or during construction, the agreement meets the definition of a construction contract.

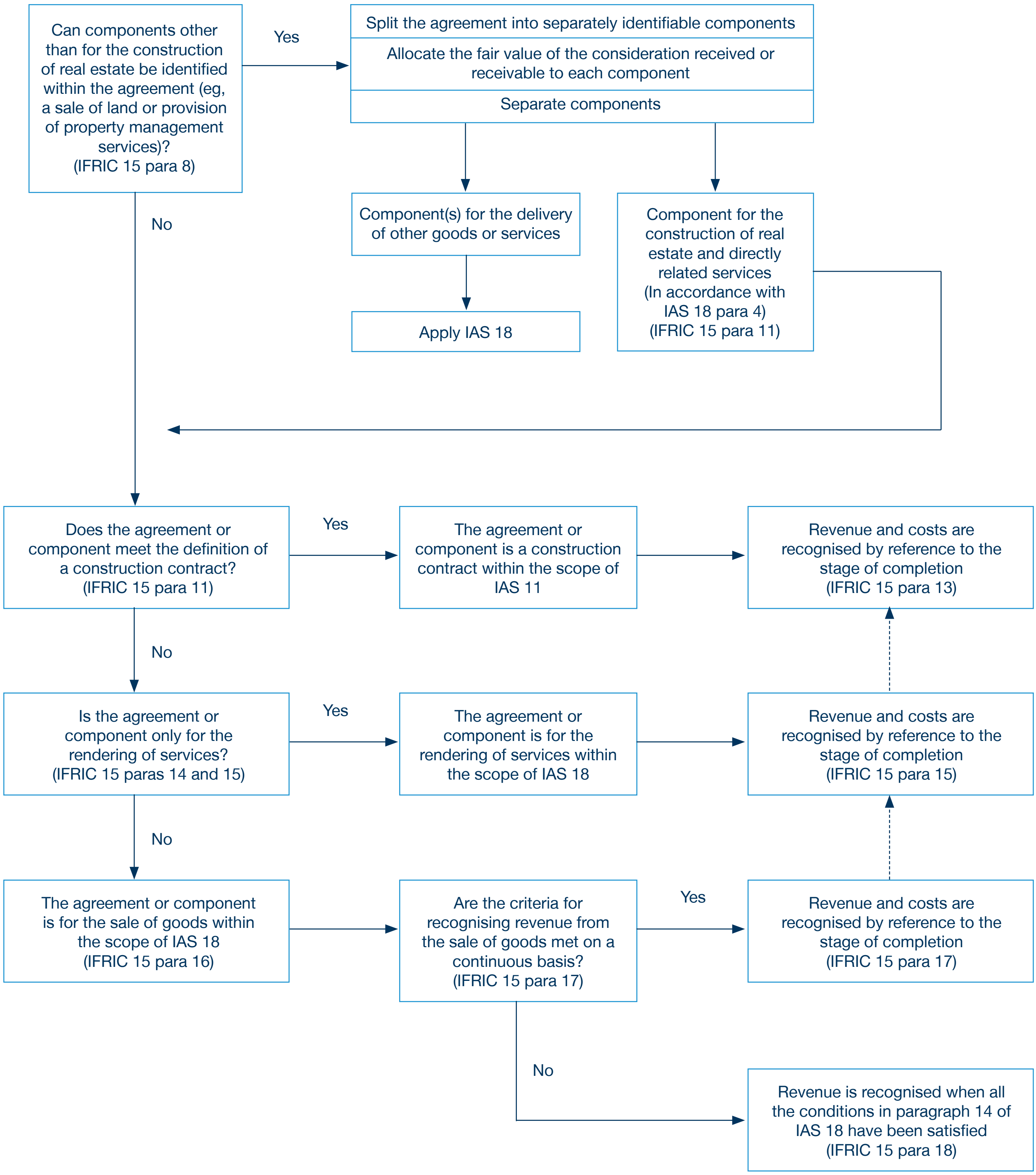
- **IAS 18:** An agreement is for the sale of goods when the buyer has only limited ability to influence the major structural elements of design, either before or during construction. In addition, an entity that is responsible only for the assembly of materials supplied by a customer, but not the acquisition of the related materials, generally applies the guidance in IAS 18 for sale of services. Conversely, if an entity is responsible for assembly and the related acquisition of materials, the guidance in IAS 18 for the sale of goods would apply.

What will the accounting be if the contract is within IAS 18's scope?
Where applying IFRIC 15 causes an entity to conclude that IAS 18 is the appropriate revenue recognition guidance to follow, further consideration is necessary.

The interpretation introduces a 'continuous transfer' revenue recognition concept for the sale of goods where, provided certain criteria are met, revenue may be recognised using the percentage-of-completion method.

Key criteria in applying the continuous transfer model include whether the entity can demonstrate that the significant risks and rewards of ownership transfer to the buyer on a continuous basis and that the entity retains neither continuing managerial involvement nor effective control over the goods sold. The interpretation's basis for conclusions makes it clear that such agreements might not be encountered frequently in practice.

Analysis of a single agreement for the construction of real estate



Summary of key changes on Singapore FRS

Summary of Key Changes on Singapore Financial Reporting Standards (FRS)

Standard/ Interpretation	Significant changes on: Scope and Definition	Measurement and Recognition	Presentation and Disclosures
Effective for annual periods beginning on or after 1 July 2009			
FRS 27 (Revised) *Consolidated and separate financial statements*	None.	The standard has been revised to require the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control ("economic entity model"). PwC Observation The equity impacts when buying-out non-controlling interests or purchasing additional interests will be of different magnitude depending on whether the non-controlling interest was accounted for at fair value or based on its proportionate share at the time of the business combination (refer to FRS 103 (revised) below). When control over a previous subsidiary is lost, any investment retained in the entity is re-measured to fair value and the resulting gain or loss is recognised in profit or loss. Total comprehensive income is attributed to the group and to the non-controlling interest based on their respective interests in the subsidiary even if this results in the non-controlling interest having a deficit balance. This differs from the previous FRS 27, which requires losses that create a deficit non-controlling interest to be allocated against the majority interest, except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. When the subsidiary subsequently made profits, profits were allocated to the non-controlling interests only when the losses previously absorbed by the controlling shareholder were made good. PwC Observation This change is applied prospectively and there are no specific transition provisions. As a result, no adjustment is made to make up for the non-controlling interest's share of losses that were absorbed by the controlling shareholder under the previous FRS 27.	The standard has been revised to require the following disclosures: • Presentation of a schedule that shows the effect on group equity of transactions with non-controlling interests that do not result in a loss of control. • When control over a subsidiary is lost, the following disclosures are required: - the gain or loss recognized, the line item in which it is included in the statement of comprehensive income - the portion of the gain/loss relating to re-measuring any investment retained.

<table>
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<tr><td colspan="4">Effective for annual periods beginning on or after 1 July 2009</td></tr>
<tr><td>Amendments to FRS 38 Intangible Assets</td><td>None.</td><td>Now includes specific references to the more commonly used methods of valuing intangible assets: market comparisons using multiples, discounted cash flow (including the relief from royalty method) and the replacement cost approach.</td><td>None.</td></tr>
<tr><td>Amendments to FRS 39 Financial Instruments: Recognition and Measurement</td><td>None.</td><td>Amended to give additional guidance on the designation of a hedged item. The amendment describes how hedge accounting should be applied in two particular situations:

<u>A one-sided risk in a hedged item:</u>
The amendment effectively prohibits including changes in the time value of an option within a hedging relationship.

<u>PwC Observation</u>
The prohibition on the use of option time values in a hedging relationship may result in certain hedging relationships becoming unable to meet the FRS 39 hedging criteria. The amendment is applied retrospectively, and as such, may have significant impact on both current and comparative results.

<u>Inflation component of a hedged item:</u>
Usually, inflation is not a separately identifiable and reliably measurable component of a financial instrument. As such, it cannot be designated as a risk or a portion of a financial instrument for hedging purposes. An exception is made for a recognised inflation-linked bond. The contractually specified inflation portion of the cash flows of such a bond (assuming there is no requirement to account for an embedded derivative separately) can be separately identifiable and reliably measurable as long as other cash flows of the instrument are not affected by the inflation portion.</td><td>None.</td></tr>
</table>

Summary of Key Changes on Singapore Financial Reporting Standards (FRS)

As at 30 June 2010

Standard/ Interpretation	Significant changes on: Scope and Definition	Measurement and Recognition	Presentation and Disclosures
Effective for annual periods beginning on or after 1 July 2009			
Amendments to FRS 102 *Share-Based Payment*	The scope of FRS 102 has been amended to exclude assets acquired via business combinations that are either common control transactions or the contribution of businesses on the formation of joint ventures even though shares are issued for these transactions.		
FRS 103 (Revised) *Business Combinations*	• The definition of a business is amended. An integrated set of activities and assets need only to be capable of being conducted and managed for the purpose of providing a return, in order to qualify as a business. • Business combinations achieved by contract alone (i.e. without obtaining an ownership interest) and business combinations involving mutual entities are now in the scope of the revised standard.	• The amendment entails several changes in the application of the acquisition method. • All transaction costs will be expensed. • There is a choice to account for non-controlling interest at time of a business combination either at fair value (i.e. incl. goodwill) or based on their proportionate share of the net assets (i.e. excl. goodwill). • A step acquisition will result in re-measurement of the previously held investment to fair value, through profit or loss. • Additional guidance is provided on the initial measurement of certain assets and liabilities acquired. • Contingent consideration (adjustments to the purchase price which depend on future events) is recognised at fair value at the acquisition date. Subsequent changes in the fair value are recognised in profit or loss (when the contingent consideration meets the definition of a liability) instead of goodwill.	The FRS requires the acquirer to disclose information that enables users of its financial statements to evaluate the nature and financial effect of business combinations that occurred during the current reporting period or after the reporting date but before the financial statements are authorised for issue. Key disclosures include: • Name and description of the acquiree • Acquisition date • Percentage of voting interests acquired • Primary reasons for the business combinations and description of how control was obtained • Qualitative description of the factors that make up goodwill recognized. If the acquisition results in a bargain purchase, disclose the gain and the reasons behind it • Fair value at acquisition date of the total consideration transferred with a breakdown by major type of consideration • Several information on contingent consideration and indemnification assets • Amounts recognized at acquisition date for each major class of assets and liabilities

Standard/ Interpretation	Significant changes on: Scope and Definition	Measurement and Recognition	Presentation and Disclosures
Effective for annual periods beginning on or after 1 July 2009			
		<u>PwC Observation</u> The new standards are expected to add to earnings volatility and making earnings harder to predict (as of the date of acquisition and afterwards). The standards are also likely to: • influence acquisition negotiations and deal structures in an effort to mitigate unwanted earnings impacts; • potentially impact the scope and extent of due diligence and data-gathering exercises prior to acquisition; • require new policies and procedures to monitor and determine changes in fair value of some assets and liabilities; and • call for the early input of accountants and lawyers, and expand the call for valuation expertise.	• Several information on acquired receivables and contingent liabilities • Information on transactions recognized separately from the business combination • For acquisitions less than 100%, information on the amount of non-controlling interest that was recognized, how it was measured, and the valuation techniques and key inputs used if it was measured at fair value • For acquisitions achieved in stages, fair value of the previously held equity interest and resulting gain or loss recognised • Amount of revenue and profit or loss of acquiree since acquisition date and of combined entity if acquisition had occurred at the beginning of the current period. After a business combination, the acquirer must disclose any adjustments recognised in the current reporting period that relate to business combinations that occurred in the current or previous reporting periods in accordance with FRS 103.59 -63. Key disclosures include: • Information as to whether the accounting for the acquisition is provisional or not, the reasons and the items that are provisional, and the adjustments recognized during the period on those provisional items • Changes in recognised contingent consideration (including changes in range of outcomes, valuation techniques and key inputs used to measure contingent consideration) • Reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period • Information on any gain or loss recognized in the current period relating to the assets and/or liabilities acquired.

Standard/ Interpretation	Significant changes on: Scope and Definition	Measurement and Recognition	Presentation and Disclosures
Effective for annual periods beginning on or after 1 July 2009			
Amendments to INT FRS 109 *Reassessment of Embedded Derivatives*	The amendment excludes certain embedded derivatives from the scope of INT FRS 109. These include embedded derivatives in contracts acquired in: • business combinations (as defined in FRS 103, as revised in 2008); • combination of entities or businesses under common control; and • formation of joint ventures as defined in FRS 31.	None.	None.
Amendments to INT FRS 116 *Hedges of a Net Investment in a Foreign Operation*	None.	The amendments allow a net investment in a foreign operation to be hedged by a hedging instrument that is held within the foreign operation that is being hedged. Previously, the hedging instrument cannot be held within the hedged foreign operation.	None.
INT FRS 117 *Distributions of Non-cash Assets to Owners*	This Interpretation applies to the following types of non-reciprocal distributions of assets by an entity to its owners acting in their capacity as owners: (a) distributions of non-cash assets (eg. items of property, plant and equipment, businesses as defined in FRS 103, ownership interests in another entity or disposal groups as defined in FRS 105); and (b) distributions that give owners a choice of receiving either non-cash assets or a cash alternative.	It clarifies that: • a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity. • an entity should measure the dividend payable at the fair value of the net assets to be distributed. • an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. PwC Observation The amendment would standardise the current practices whereby distributions are also measured at the book value.	• An entity shall present the difference between the carrying amount of assets distributed and the carrying amount of the dividend payable as a separate line item in profit or loss. • An entity shall disclose the following information, if applicable: - the carrying amount of the dividend payable at the beginning and end of the period; and - the increase or decrease in the carrying amount of the dividend payable as a result of a change in the fair value of the assets to be distributed.

Standard/ Interpretation	Significant changes on: Scope and Definition	Measurement and Recognition	Presentation and Disclosures
Effective for annual periods beginning on or after 1 July 2009			
	This Interpretation applies only to distributions in which all owners of the same class of equity instruments are treated equally. This Interpretation does not apply to a distribution of a non-cash asset that is ultimately controlled by the same party or parties before and after the distribution. This exclusion applies to the separate, individual and consolidated financial statements of an entity that makes the distribution. This Interpretation addresses only the accounting by an entity that makes a non-cash asset distribution. It does not address the accounting by shareholders who receive such a distribution.		If, after the end of a reporting period but before the financial statements are authorised for issue, an entity declares a dividend to distribute a non-cash asset, it shall disclose: • the nature of the asset to be distributed; • the carrying amount of the asset to be distributed as of the end of the reporting period; and • the estimated fair value of the asset to be distributed as of the end of the reporting period, if it is different from its carrying amount, and the information about the method used to determine that fair value required by FRS 107 paragraph 27(a) and (b).
INT FRS 118 *Transfer of Assets from Customers*	• INT FRS 118 clarifies the accounting for arrangements where an item of property, plant and equipment (or in some cases cash which must be used to acquire or construct an item of PPE) which is provided by the customer, is used to provide an ongoing service. • Agreements within the scope of this	The interpretation clarifies that: • All access providers would be required to assess whether the contributed resource qualifies for recognition as an asset (i.e. whether the access provider controls the asset), and if so, recognise that asset as property, plant and equipment at fair value.	None.

Standard/ Interpretation	Significant changes on: Scope and Definition	Measurement and Recognition	Presentation and Disclosures
Effective for annual periods beginning on or after 1 July 2009			
	Interpretation are agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both. • This Interpretation does not apply to agreements in which the transfer is either a government grant as defined in FRS 20 or infrastructure used in a service concession arrangement that is within the scope of INT FRS 112.	• The resulting credit would be recognised as revenue over the period in which access to goods or services is provided. This requires the entity to identify what are the separately identifiable services rendered under the agreement in exchange of the asset transferred. If the access provider has the obligation to render more than one separately identifiable service in exchange for the asset transferred, the credit arising from the transfer of the asset by the customer should be allocated to each service rendered and recognised in line with the revenue recognition for each service. • For cash contributions, all access providers would be required to assess whether the acquired or constructed item of PPE qualifies for recognition as an asset (i.e. the access provider has control over that resource), and if so, recognise that asset as property, plant and equipment at cost. Revenue will be recognised in the same manner as for the transfer of an item of PPE, at the amount of cash received.	
Effective for annual periods beginning on or after 1 January 2010			
Amendments to FRS 1 *Presentation of Financial Statements*	None.	None.	Clarifies that when a counterparty can opt to require settlement of the liability by the issue of equity instruments, such an option does not affect the classification of the liability as current/ non-current.
Amendments to FRS 7 *Cash Flow Statements*	None.	None.	The amendment requires that expenditures can be classified as investing cash flows only if they result in a recognised asset in the statement of financial position.
Amendments to FRS 36 *Impairment of Assets*	None.	Clarifies that the level at which goodwill is tested for impairment cannot be larger than an operating segment before aggregation.	None.

Summary of Key Changes on Singapore Financial Reporting Standards (FRS)

As at 30 June 2010

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<tr><td>Amendments to FRS 39 Financial Instruments: Recognition and Measurement</td><td>The scope of FRS 39 is changed. Previously, any contracts between an acquirer and a vendor to buy or sell an acquiree at a future date are excluded from FRS 39. With the amendment, only forward contracts that result in a business combination at a future acquisition date are exempted. The term of the forward contract should not exceed a reasonable period normally necessary to obtain any required approvals and to complete the transaction.</td><td>• Clarify that for cash flow hedges of forecast transactions, the hedging reserve is reclassified to profit or loss when the hedged cash flows affect profit or loss. Previously, FRS 39 specified that the reclassification was done when the hedged asset or liability affects profit or loss.

• The amendments specify that a call, put or prepayment option embedded in a host debt contract or host insurance contract is closely related to the host contract if the exercise price of a prepayment option reimburses the lender for an amount up to the approximate present value of lost interest for the remaining term of the host contract. Previously, such options were not closely related.</td><td>None.</td></tr>
<tr><td>Amendments to FRS 101 First time adoption of FRS</td><td>None.</td><td>The amendment provides additional exemptions from retrospective application of FRSs for first-time adopters of FRSs.

• A ‘deemed cost’ exemption was added such that entities are exempt from full retrospective application of FRSs for certain oil and gas assets. However, the entity should test exploration and evaluation assets and assets in the development and production phases for impairment on the date of transition to FRSs.

• An exemption was added such that entities are exempt from reassessing whether an arrangement contains a lease in accordance with INT FRS 104, ‘Determining whether an arrangement contains a lease’ when the application of their national accounting requirements produced the same result.

• Guidance is provided for measuring decommissioning liabilities incurred in the cost of property, plant and equipment when the ‘deemed cost’ exemption is used for oil and gas assets in the development or production phases.</td><td>None.</td></tr>
</table>

Standard/ Interpretation	Significant changes on: Scope and Definition	Measurement and Recognition	Presentation and Disclosures
Effective for annual periods beginning on or after 1 January 2010			
Amendments to FRS 102 *Group Cash-settled share-based payment transaction*	None.	The amendments to FRS 102 provide a clear basis to determine the classification of share-based payment transactions in consolidated and separate financial statements. They incorporate INT FRS 108 and INT FRS 111 into the standard, and expand on the guidance given in INT FRS 111 to address group arrangements that were not considered in that interpretation previously. FRS 102 now covers cash-settled awards that will be settled by an entity within the group that does not employ the employees who receive the awards. Where a parent entity issues a cash-settled award to employees of a subsidiary, the amendments confirm that this will be treated as an equity-settled transaction in the subsidiary's financial statements, as the subsidiary has no obligation to settle the award. PwC Observation There should be minimal impact on consolidated financial statements because awards should have been correctly accounted for as cash-settled share-based payment arrangements. However, because there is new guidance for group cash-settled awards (historically, the standard was silent in this area), subsidiaries may need to account for a change in accounting policy. As the amendments are fully retrospective, any changes in accounting policy will require appropriate disclosure in accordance with FRS 8.	None.
Amendments to FRS 105 *Non-current Assets Held for Sale and Discontinued Operations*	None.	None.	Clarifies that disclosures required for non-current assets or disposal groups classified as held for sale or discontinued operations are those specified in FRS 105. Disclosures required by other standards for such non-current assets are not applicable, unless they relate specifically to non-current assets held for sale, or they relate to the measurement of non-current assets that are excluded from the measurement scope of FRS 105.

Standard/ Interpretation	Significant changes on: Scope and Definition	Measurement and Recognition	Presentation and Disclosures
Effective for annual periods beginning on or after 1 January 2010			
Amendments to FRS 108 *Operating Segments***	None.	None.	Previously, a measure of total assets is required for each reportable segment. With the amendment, a measure of total assets is required only if such amounts are regularly provided to the chief operating decision maker.
Effective for annual periods beginning on or after 1 February 2010			
Amendments to FRS 32 *Financial Instruments: Presentation*	The scope of the amendment is narrow and does not extend to foreign-currency-denominated convertible bonds. For these instruments, the embedded option to acquire the issuer's equity may continue to be accounted for as a derivative liability with fair value changes recorded in profit or loss.	Rights issues are now required to be classified as equity if they are issued for a fixed amount of cash regardless of the currency in which the exercise price is denominated, provided they are offered on a pro rata basis to all owners of the same class of equity. Entities will no longer classify rights issues, for which the exercise price is denominated in a foreign currency, as derivative liabilities with fair value changes being recorded in profit or loss. Rather, entities will be able to classify these rights in equity with no re-measurement. PwC Observation: This will result in less income volatility.	

Summary of Key Changes on Singapore Financial Reporting Standards (FRS)

As at 30 June 2010

Standard/ Interpretation	Significant changes on: Scope and Definition	Measurement and Recognition	Presentation and Disclosures
Effective for annual periods beginning on or after 1 July 2010			
Amendments to FRS 101 *First time adoption of FRS*		The amendment provides first-time adopters of FRSs with the same transition provisions as those included in the amendment to FRS 107 (effective for annual periods beginning on or after 1 January 2009) relating to enhanced disclosures about fair value measurements and liquidity risk. A first time adopter is exempted from such disclosures for any comparative periods that ends before 31 December 2009.	
INT FRS 119 *Extinguishing Financial Liabilities with Equity Instruments*		The interpretation clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (referred to as a "debt for equity swap"). It requires a gain or loss to be recognised in profit or loss when a liability is settled through the issuance of the entity's own equity instruments. The amount of the gain or loss recognised in profit or loss will be the difference between the carrying value of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments cannot be reliably measured then the fair value of the existing financial liability is used to measure the gain or loss. Entities will no longer be permitted to reclassify the carrying value of the existing financial liability into equity (with no gain or loss being recognised in the profit or loss). The amount of the gain or loss should be separately disclosed on the face of the statement of comprehensive income or in the notes.	

Standard/ Interpretation	Significant changes on: Scope and Definition	Measurement and Recognition	Presentation and Disclosures
Effective for annual periods beginning on or after 1 January 2011			
Amendments to FRS 24 *Related party disclosures*	The amendments clarify and simplify the definition of a related party. Previously, the definition of a related party was complicated and contained a number of inconsistencies. These inconsistencies meant, for example, that there were situations in which only one party to a transaction was required to make related-party disclosures. The definition has been amended to remove the inconsistencies and to make it easier to apply.		The amendment removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. Government-elated entities are now defined as entities that are controlled, jointly controlled or significantly influenced by the government. With the amendment, all the disclosure requirements of FRS 24 for transactions between government-related entities and the government, and all other government-related entities are exempted. Those disclosures are replaced with a requirement to disclose: (a) the name of the government and the nature of their relationship (b) (i) the nature and amount of any individually-significant transactions (ii) the extent of any collectively-significant transactions qualitatively or quantitatively.
Amendments to INT FRS 114 *FRS 19 The asset ceiling: availability of economic benefits and minimum funding requirements*		The amendment to INT FRS 114 removes an unintended consequence of the previous interpretation relating to voluntary pension pre-payments when there is a minimum funding requirement. Some entities that are subject to minimum funding requirement may elect to pre-pay their pension contributions and recover them through lower minimum funding requirements in the future. An unintended consequence prior to this amendment was that the interpretation could prevent the recognition of an asset for any surplus arising from voluntary pre-payment in respect of future service. The interpretation has been amended to require an asset to be recognised in these circumstances. <u>PwC Observation</u> It will have a limited impact, as it only applies to companies that are required to make minimum funding contributions to a defined benefit pension plan and choose to pre-pay those contributions.	

Summary of Key Changes on Singapore Financial Reporting Standards (FRS)

As at 30 June 2010

Standard/ Interpretation	Significant changes on Scope and Definition	Measurement and Recognition	Presentation and Disclosures
IFRS Amendments and Interpretations not yet adopted in Singapore (As at 30 June 2010)			
Amendments to IAS 1 *Presentation of Financial Statements* (effective for annual periods beginning on or after 1 January 2011)	None.	None.	Clarifies that the analysis of the components of other comprehensive income by item can be presented either in the statement of changes in equity or within the notes.
Amendments to IAS 27 *Consolidated and Separate Financial Statements* (effective for annual periods beginning on or after 1 July 2010)	None.	Clarifies that the consequential amendments to IAS 21, IAS 28 and IAS 31 resulting from the 2008 revisions to IAS 27 (effective from 1 July 2009) are to be applied prospectively.	None.
Amendments to IAS 34 *Interim Financial Reporting* (effective for annual periods beginning on or after 1 January 2011)	None.	None.	Greater emphasis has been placed on the disclosure principles in IAS 34 involving significant events and transactions, including changes to fair value measurements, and the need to update relevant information from the most recent annual report.

Standard/ Interpretation	Significant changes on: Scope and Definition	Measurement and Recognition	Presentation and Disclosures
IFRS Amendments and Interpretations not yet adopted in Singapore (As at 30 June 2010)			
Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* (effective for annual periods beginning on or after 1 January 2011)	None.	None.	A first-time adopter that changes its accounting policies or its use of IFRS 1 exemptions after publishing a set of IAS 34 interim financial information should explain those changes and include the effects of such changes in its opening reconciliations within the first annual IFRS financial statements.
	None.	First-time adopters that have revalued some or all of their assets and liabilities at one particular date prior to IFRS adoption, because of an event such as a privatization or initial public offering, are currently allowed to use such event-driven fair value measurements as deemed cost under IFRS. This exemption has been extended to revaluations that occur during the period covered by the first IFRS financial statements. In such cases, the resulting adjustments are recognized directly in equity at the measurement date.	None.
	None.	Entities subject to rate regulation are allowed to use previous GAAP carrying amounts of property, plant and equipment or intangible assets as deemed cost at the date of transition to IFRS on an item-by-item basis. Entities that use this exemption are required to test each item for impairment under IAS 36 at the date of transition.	Entities that use this exemption should disclose the use of this exemption and the basis on which carrying amounts were determined under previous GAAP.
Amendments to IFRS 3 *Business Combinations* (effective for annual periods beginning on or after 1 July 2010)	None.	The amendment clarifies that: • Contingent consideration arrangements arising from business combinations with acquisition dates preceding the application of IFRS 3 Revised (2008) are to be accounted for in accordance with the guidance in the previous version of IFRS 3 (as issued in 2004).	None.

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		<u>PwC Observation</u> This means that such contingent consideration arrangements are recognised only when payment becomes probable and subsequent changes in estimate of the amounts payable will continue to be adjusted against goodwill. • The choice of measuring non-controlling interests at fair value or at the proportionate share of the acquiree's net assets applies only to instruments that represent present ownership interests and entitle their holders to a proportionate share of the net assets in the event of liquidation. All other components of non-controlling interest are measured at fair value unless another measurement basis is required by IFRS. • The application guidance in IFRS 3 applies to all share-based payment transactions that are part of a business combination, including un-replaced and voluntarily replaced share-based payment awards.	
Amendments to IFRS 7 *Financial Instruments: Disclosures* (effective for annual periods beginning on or after 1 January 2011)	None.	None.	Key amendments include: • Removal of requirement to disclose carrying amount of renegotiated financial assets that would be past due or impaired if not for the renegotiation • Clarification that disclosure of amount that best represents maximum exposure to credit risk is not required when this amount is represented by the carrying amount of the financial instrument • Requirement to disclose fair value of collateral and other credit enhancements is replaced with a description to disclose the financial effect of collateral and other credit enhancements

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			• Clarification that entities are only required to disclose the amount of foreclosed collateral held at the reporting date. Previously it was not clear whether entities were required to disclose all collateral obtained during the year.
IFRS 9 *Financial Instruments* (effective for annual periods beginning on or after 1 January 2013, with earlier adoption permitted)	IFRS 9 applies to all financial assets within the scope of FRS 39, including hybrid financial instruments with financial assets hosts. IFRS 9 does not apply to financial liabilities and hybrid contracts with hosts that are not financial assets.	Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss. All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognize unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.	IFRS 9 resulted in consequential amendments to IFRS 7 to align IFRS 7 disclosures with the new accounting requirements. Key disclosures include: • Amounts of equity investments held at fair value through other comprehensive income, the reason for using this presentation alternative, the fair value of such investments, dividends recognised and equity transfers in relation to such investments. If there are any disposals of such investments, the reasons for such disposals, fair values at disposal date and cumulative gain/loss on such disposals. • For any assets reclassified from fair value to amortised cost or vice versa, the date of reclassification, a detailed explanation of the change in business model and a qualitative description of its effect on the financial statements, the cumulative amounts reclassified, the effective interest rates upon reclassification, interest income/ expense recognised on reclassified amounts, fair value at reporting date of financial assets reclassified to fair value, etc. • For financial assets at amortised cost that are derecognised, gains and losses arising from derecognition, as well as reasons for derecognition. • Disclosures upon transition such as the original category under IAS 39 versus the new category in IFRS 9, etc.

Standard/ Interpretation	Significant changes on: Scope and Definition	Measurement and Recognition	Presentation and Disclosures
IFRS Amendments and Interpretations not yet adopted in Singapore (As at 30 June 2010)			
Amendments to IFRIC 13 *Customer Loyalty Programmes* (effective for annual periods beginning on or after 1 January 2011)	None.	The meaning of the term 'fair value' is clarified in the context of measuring award credits under customer loyalty programs. It is clarified that the fair value of such award credits is not necessarily equal to the fair value of redemption awards, but it should also take account of expected forfeitures as well as discounts or incentives that would otherwise be offered to customers who have not earned award credits from an initial sale.	None.
IFRIC 15 *Agreements for the Construction of Real Estate* (effective for annual periods beginning on or after 1 January 2009)	Provides guidance on how and when revenue from the construction of real estate should follow IAS 11 *Construction Contracts* or IAS 18 *Revenue*.	• The interpretation clarifies that an agreement for the construction of real estate meets the definition of a construction contract and will be able to use percentage-of-completion accounting only when the buyer is able to: - specify the major structural elements of the design of the real estate before construction begins; and/or - specify major structural changes once construction is in progress (whether or not it exercises that ability). • If the agreement is not a construction contract, it may be an agreement for the rendering of services if the entity is not required to acquire and supply the construction materials required for the construction. In this situation, the entity may still be able to use percentage-of-completion accounting. • If the agreement is neither a construction contract nor a service contract, it is a contract to supply goods for which IAS/FRS 18 should be applied. In this case, the percentage-of-completion accounting can only be applied if the entity transfers to the buyer control and the significant risks and rewards of ownership of the work in progress in its current state as construction progresses.	None.

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IFRS Amendments and Interpretations not yet adopted in Singapore (As at 30 June 2010)			
		PwC Observation Entities that have previously recognised revenue from the sale of real estate under IAS 11/FRS 11 (i.e. revenue recognised over the period of construction) will be most significantly affected if their arrangements do not meet the definition of a construction contract (e.g. entities that build residential houses or apartments for sale to individuals) or it does not satisfy the criteria for continuous transfer of control, risks and rewards of the construction in progress. Such entities will recognise the revenue when the criteria for the sale of goods and/or services under FRS 18, as appropriate, have been satisfied. The impact of the interpretation may not be restricted to real estate entities. It can also be applicable to other entities that build and sell other assets that take significant time to build, such as ships.	

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