



# ***A Practical Guide to New Singapore Financial Reporting Standards for 2012***



---

# Introduction

This publication is a practical guide to the new FRS standards and interpretations that come into effect for 2012 year ends. The Accounting Standards Council (ASC) is working on a number of significant projects that are likely to affect 2015 year ends, but there are relatively few amendments to standards for 2012 and a number of small changes coming from the annual improvements process. Eight new and revised standards are not yet mandatory but can be early adopted.

There are three amendments to standards that apply to December 2012 year ends. The amendment to FRS 101, “First-time adoption”, deals with an exemption for severe hyperinflation and removes some fixed dates noted in the standard. The amendment to FRS 107, “Financial instruments: Disclosures”, introduces some additional disclosures that apply to the transfer of financial assets.

The amendment to FRS 12, “Income taxes”, introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value.

An amendment to FRS 1, “Presentation of financial statements”, applies from 1 July 2012 and changes the disclosure of items presented in other comprehensive income.

The revisions made to FRS 19, “Employee benefits”, are significant and will impact most entities when it comes into effect from 1 January 2013. The revisions change the recognition and measurement of defined benefit pensions expense and termination benefits and the disclosures required. In particular, actuarial gains and losses can no longer be deferred using the “corridor” approach.

A number of current FRSs require entities to measure or disclose the fair value of assets, liabilities or their own equity instruments. The fair value measurement requirements and the disclosures about fair value in those standards do not always articulate a clear measurement or disclosure objective. Hence FRS 113, “Fair value measurement”, was published in May 2011, to deal with this issue. The new requirements apply from 1 January 2013 but can be adopted with immediate effect.

A group of five new and revised standards were published in September 2011, dealing with control and the scope of the reporting entity. FRS 110, “Consolidated financial statements”, changes the definition of control. FRS 111, “Joint arrangements”, reduces the types of joint arrangements to joint operations and joint ventures, and prohibits the use of proportional consolidation. FRS 112, “Disclosure of interests in other entities”, brings together in one standard the disclosure requirements that apply to investments in subsidiaries, associates, joint ventures, structured entities and unconsolidated structured entities. As part of this overhaul of the consolidation standards, FRS 27 (revised 2011) now deals only with separate financial statements, and FRS 28 (revised 2011) covers equity accounting for joint ventures as well as associates. These new standards have to be implemented together and apply from 1 January 2014. They can be adopted with immediate effect but only if they are all applied at the same time.

IFRS 9, “Financial instruments”, was reissued in 2010 and includes guidance on the classification and measurement of financial assets and financial liabilities and the derecognition of financial instruments. The standard is being added to as the ASC endorses different phases of the project to replace FRS 39. The reissued IFRS 9 applies to 2015 year ends but can be adopted with immediate effect.

Only one interpretation – INT FRS 120, “Stripping costs in the production phase of a surface mine” – was published in 2011. It sets out the accounting for overburden waste removal costs in the production phase of a mine. It applies from 1 January 2013 but can be early adopted.

The 2011 improvements project contains seven amendments affecting five standards.



# New/revised standards and interpretations

Standards and Interpretations	Significant changes in			
	Scope and Definition	Measurement and Recognition	Presentation and Disclosures	Details (Page)
<b>Effective for annual periods beginning on or after 1 July 2011</b>				
• Amendments to FRS 101 <i>Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i>	✓		✓	4
• Amendments to FRS 107 <i>Disclosures – Transfers of Financial Assets</i>			✓	6
<b>Effective for annual periods beginning on or after 1 January 2012</b>				
• Amendments to FRS 12 <i>Deferred Tax – Recovery of Underlying Assets</i>		✓		7
<b>Effective for annual periods beginning on or after 1 July 2012</b>				
• Amendments to FRS 1 <i>Presentation of Items of Other Comprehensive Income</i>			✓	8
<b>Effective for annual periods beginning on or after 1 January 2013</b>				
• FRS 19 (revised 2011) <i>Employee Benefits</i>		✓	✓	9
• FRS 113 <i>Fair Value Measurement</i>	✓	✓	✓	11
• Annual Improvements 2011				
- Amendment to FRS 1 <i>Presentation of Financial Statements and consequential amendment to FRS 101 First-time Adoption of Financial Reporting Standards</i>			✓	13
- Amendment to FRS 16 <i>Property, Plant and Equipment</i>	✓			13
- Amendment to FRS 32 <i>Financial Instruments: Presentation</i>		✓		13
- Amendment to FRS 34 <i>Interim Financial Reporting</i>			✓	14
- Amendments to FRS 101 <i>First-time Adoption of Financial Reporting Standards</i>	✓			14
• Amendments to FRS 101 <i>First-time Adoption of Financial Reporting Standards</i>	✓			15
- <i>Government Loans</i>				
• Amendments to FRS 107 <i>Disclosures – Offsetting Financial Assets and Financial Liabilities</i>			✓	16

Standards and Interpretations	Significant changes in			
	Scope and Definition	Measurement and Recognition	Presentation and Disclosures	Details (Page)
<b>Effective for annual periods beginning on or after 1 January 2013 (continued)</b>				
• INT FRS 120 <i>Stripping Costs in the Production Phase of a Surface Mine</i>	✓	✓		18
<b>Effective for annual periods beginning on or after 1 January 2014</b>				
• FRS 27 (revised 2011) <i>Separate Financial Statements</i>	✓			20
• FRS 28 (revised 2011) <i>Investments in Associates and Joint Ventures</i>	✓			22
• FRS 110 <i>Consolidated Financial Statements</i>	✓	✓	✓	20
• FRS 111 <i>Joint Arrangements</i>	✓	✓	✓	22
• FRS 112 <i>Disclosure of Interests in Other Entities</i>	✓		✓	24
• Amendments to FRS 32 <i>Offsetting Financial Assets and Financial Liabilities</i>			✓	16
<b>IFRS Amendments and Interpretations not yet adopted in Singapore (As at 31 August 2012)</b>				
• IFRS 9 <i>Financial Instruments – Classification of Financial Assets and Financial Liabilities</i>	✓	✓	✓	26
• Amendments to IFRS 10 <i>Consolidated Financial Statements</i> , IFRS 11 <i>Joint Arrangements</i> , and IFRS 12 <i>Disclosure of Interests in Other Entities</i>	✓		✓	31
<b>Differences between Singapore Financial Reporting Standards and International Financial Reporting Standards (as at 31 August 2012)</b>				32

#### Abbreviations used

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

## Amendments to FRS 101 *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*

The ASC made two amendments to FRS 101, “First-time adoption of FRS” on 17 March 2011:

- an exemption for severe hyperinflation; and
- removal of fixed dates.

### Effective date

Annual periods beginning on or after 1 July 2011. Earlier adoption is permitted.

## *Severe hyperinflation*

### What is the issue?

The amendment creates an additional exemption when an entity that has been subject to severe hyperinflation resumes presenting, or presents for the first time, financial statements in accordance with FRSs. The exemption allows an entity to elect to measure certain assets and liabilities at fair value; and to use that fair value as the deemed cost in the opening FRS statement of financial position.

An entity might be unable to prepare financial statements in accordance with FRSs for a period of time because it could not comply with FRS 29, “Financial reporting in hyperinflationary economies”, due to severe hyperinflation. The exemption applies where the entity is able to begin reporting in accordance with FRS.

### What are the key provisions?

The amendment states that the currency of a hyperinflationary economy is subject to severe hyperinflation when:

- a reliable general price index is not available to all entities with transactions and balances in the currency; and
- exchangeability between the currency and a relatively stable foreign currency does not exist.

An entity’s functional currency ceases to be subject to severe hyperinflation on the functional currency normalisation date, which occurs:

- when one or both of the characteristics of severe hyperinflation no longer exist; or
- when the first-time adopter changes its functional currency to a currency that is not subject to severe hyperinflation.

The exemption applies to entities that were subject to severe hyperinflation and are adopting FRS for the first time or have previously applied FRS.

When an entity’s date of transition to FRS is on or after the functional currency normalisation date, it may elect to measure assets and liabilities acquired before that date at fair value and use that fair value as deemed cost in the opening FRS statement of financial position.

FRS 101 defines the date of transition as the beginning of the earliest period for which an entity presents comparative information under FRS in its first FRS financial statements. When the functional currency normalisation date falls within the comparative period, that period may be less than 12 months, provided that a complete set of financial statements (as required by FRS 1) is provided for that shorter period.

The entity cannot comply with FRS due to the severe hyperinflation in periods before the date of transition to FRS, so the comparative information for this period cannot be prepared in accordance with FRS. The entity should therefore consider whether disclosure of non-FRS comparative information and historical summaries in accordance with FRS 101 would provide useful information to the users of the financial statements.

If an entity applies the new exemption to comply with FRS, it should explain the transition to FRS, and why and how the entity ceased to have a functional currency subject to severe hyperinflation.

#### **Who is affected?**

The amendment is expected to have a limited impact, as it is only available to entities whose functional currency was subject to severe hyperinflation. The Zimbabwean economy has been identified as an economy that was subject to severe hyperinflation until early 2009; the amendment is unlikely to apply in other territories at the time of print.

The amendment would not change or allow any additional FRS 101 exemptions for a reporting entity that has control, joint control or significant influence over an entity subject to severe hyperinflation, except to the extent that the reporting entity is also a first-time adopter.

#### **What do affected entities need to do?**

Management of entities in Zimbabwe and first-time adopters that have interests in Zimbabwe should consider:

- their functional currency normalisation date;
- their proposed date of transition to FRS;
- whether the comparative period will be presented for a period shorter than 12 months; and
- the assets and liabilities they wish to measure at fair value on transition to FRS.

### ***Removal of fixed dates requirement***

#### **What is the issue?**

The ASC amended FRS 101 to eliminate references to fixed dates for one exception and one exemption, both dealing with financial assets and liabilities.

The first change requires first-time adopters to apply the derecognition requirements of FRS prospectively from the date of transition, rather than from 1 January 2004.

The second amendment relates to financial assets or liabilities at fair value on initial recognition where the fair value is established through valuation techniques in the absence of an active market. The amendment allows the guidance in FRS 39 AG76 and FRS 39 AG76A to be applied prospectively from the date of transition to FRS rather than from 25 October 2002 or 1 January 2004. This means that a first-time adopter does not need to determine the fair value of financial assets and liabilities for periods prior to the date of transition. FRS 39 has also been amended to reflect these changes.

#### **Who is affected?**

Entities that had derecognised financial assets or liabilities before the date of transition to FRS will need to apply the derecognition guidance from the date of transition, as it is a mandatory exception. The second change will only be relevant for entities that elect to use the exemption for fair value established by valuation techniques.

## Amendments to FRS 107 Disclosures – Transfers of Financial Assets

The ASC issued an amendment to FRS 107 on 8 October 2010. The amendment requires greater disclosure of transferred financial assets.

### Effective date

Annual periods beginning on or after 1 July 2011. Comparative information is not needed in the first year of adoption.

### What are the new requirements?

The new disclosure requirements apply to transferred financial assets. An entity transfers a financial asset when it transfers the contractual rights to receive cash flows of the asset to another party – for example, on the legal sale of a bond. Alternatively, a transfer takes place when the entity retains the contractual rights of the financial asset but assumes a contractual obligation to pay the cash flows on to another party, as is often the case when factoring trade receivables.

The amendment has different requirements for:

- transferred assets that are not derecognised in their entirety (for example, in a typical sale and repurchase (“repo”) of a security for a fixed price, or on the transfer of assets to securitisation vehicles that are consolidated by the transferor); and
- certain transferred assets that are derecognised in their entirety (for example, factoring of trade receivables with no recourse).

The amendment requires only minor additional disclosure for the first category; however, the new disclosure requirements for the second category could be extensive.

### What are the disclosure requirements for the transferred assets that are not derecognised?

The required disclosures for these financial assets add to those already in FRS 107. There are only two new requirements:

- a description of the nature of the relationship between the transferred assets and the associated liabilities should be provided, including restrictions arising from the transfer on the reporting entity’s use of the transferred assets; and
- when the counterparty to the associated liabilities has recourse only to the transferred assets, a schedule should be given that sets out the fair value of the transferred assets, the fair value of the associated liabilities and the net position.

### What are the disclosure requirements for transferred assets that are derecognised in their entirety?

The new disclosure requirements for derecognised financial assets apply only where the entity has a “continuing involvement”, which may not occur frequently in practice. This is where, as part of the transfer, the entity retains any of the contractual rights or obligations inherent in the derecognised financial asset or obtains any new contractual rights or obligations relating to the transferred financial asset.

The new disclosures are mainly about the continuing involvement. They include:

- the carrying amount and fair value of the continuing involvement;
- the maximum exposure to loss from the continuing involvement;
- any future cash outflows to repurchase the derecognised assets (for example, the strike price in an option agreement) and a maturity analysis of those cash outflows;
- a description of the nature and purpose of the continuing involvement and the risk the entity remains exposed to;
- the gain or loss at date of derecognition;
- the income and expense recognised from the continuing involvement (current and cumulative); and
- whether transfer activity is unevenly distributed in the period.



## Amendments to FRS 12 *Deferred Tax – Recovery of Underlying Assets*

The ASC amended FRS 12, “Income taxes”, to introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value.

### **Effective date**

Annual periods beginning on or after 1 January 2012. Early adoption is permitted.

### **Why was this amendment needed?**

The current principle in FRS 12 requires the measurement of deferred tax assets or liabilities to reflect the tax consequences that would follow from the way that management expects to recover or settle the carrying amount of the entity’s assets or liabilities. For example, management may expect to recover an asset by using it, by selling it or by a combination of use and sale. Management’s expectations can affect the measurement of deferred taxes when different tax rates or tax bases apply to the profits generated from using and selling the asset.

The ASC believes that entities holding investment properties that are measured at fair value sometimes find it difficult or subjective to estimate how much of the carrying amount will be recovered through rental income (that is, through use) and how much will be recovered through sale, particularly when there is no specific plan for disposal at a particular time.

### **Key provisions**

The ASC has added another exception to the principles in FRS 12: the rebuttable presumption that investment property measured at fair value is recovered entirely by sale. The rebuttable presumption also applies to the deferred tax liabilities or assets that arise from investment properties acquired in a business combination, if the acquirer subsequently uses the fair value model to measure those investment properties.

The presumption of recovery entirely by sale is rebutted if the investment property is depreciable (for example, buildings, and land held under a lease) and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The presumption cannot be rebutted for freehold land that is an investment property, because land can only be recovered through sale.

The amendments also incorporate SIC 21, “Income taxes – Recovery of revalued non-depreciable assets”, into FRS 12, although this guidance will not be applied to investment property measured at fair value. The SIC 21 guidance has been included because it is applied by analogy in a number of situations.

### **What are the transition implications?**

The amendment is effective for annual periods beginning on or after 1 January 2012. Management can elect to early adopt the amendment for financial years ending 31 December 2010. Entities should apply the amendment retrospectively in accordance with FRS 8, “Accounting policies, changes in accounting estimates and errors”.

### **Who is affected?**

All entities holding investment properties measured at fair value in territories where there is no capital gains tax or where the capital gains rate is different from the income tax rate (for example, Singapore, New Zealand, Hong Kong and South Africa) will be significantly affected. The amendment is likely to reduce significantly the deferred tax assets and liabilities recognised by these entities. It will also mean that, in jurisdictions where there is no capital gains tax, there will often be no tax impact of changes in the fair value of investment properties. It might be necessary for management to reconsider recoverability of an entity’s deferred tax assets because of the changes in the recognition of deferred tax liabilities on investment properties, and to consider the impact of the amendment on previous business combinations.

---

## **Amendments to FRS 1 *Presentation of Items of Other Comprehensive Income***

The Accounting Standards Council (ASC) has issued an amendment to FRS 1, “Presentation of financial statements”. The amendment changes the disclosure of items presented in other comprehensive income (OCI) in the statement of comprehensive income.

The ASC originally proposed that all entities should present profit or loss and OCI together in a single statement of comprehensive income. The proposal has been withdrawn, and FRS 1 will still permit profit or loss and OCI to be presented in either a single statement or in two consecutive statements.

The amendment does not address which items should be presented in OCI and the option to present items of OCI either before tax or net of tax has been retained.

### **Effective date**

Annual periods beginning on or after 1 July 2012. Early adoption is permitted.

### **What are the key provisions?**

The amendment requires entities to separate items presented in OCI into two groups, based on whether or not they may be recycled to profit or loss in the future. Items that will not be recycled – such as revaluation gains on property, plant and equipment – will be presented separately from items that may be recycled in the future – such as deferred gains and losses on cash flow hedges. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately.

The title used by FRS 1 for the statement of comprehensive income has changed to “statement of profit or loss and other comprehensive income”. However, FRS 1 still permits entities to use other titles.

### **Who is affected?**

All entities with gains and losses presented in OCI are affected by the change to the presentation of OCI items.

### **What do affected entities need to do?**

Management should confirm that reporting systems can capture the information needed to implement the revised presentation of OCI items, and update the systems where necessary.

## FRS 19 (revised 2011) *Employee Benefits*

### What is the issue?

The ASC has revised FRS 19, “Employee benefits”, making significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The changes will affect most entities that apply FRS 19. They could significantly change a number of performance indicators and might also significantly increase the volume of disclosures.

### Effective date

The revisions are effective for periods beginning on or after 1 January 2013. Early adoption is permitted. The amendment should be applied retrospectively in accordance with FRS 8, “Accounting policies, changes in accounting estimates and errors”, except for changes to the carrying value of assets that include employee benefit costs in the carrying amount.

The key changes are as follows:

- **Recognition of actuarial gains and losses (remeasurements):** “Actuarial gains and losses” are renamed “remeasurements” and will be recognised immediately in “other comprehensive income” (OCI). Actuarial gains and losses will no longer be deferred using the “corridor” approach or recognised in profit or loss; this is likely to increase balance sheet and OCI volatility. Remeasurements recognised in OCI will not be recycled through profit or loss in subsequent periods.
- **Recognition of past-service cost/curtailment:** Past-service costs will be recognised in the period of a plan amendment; unvested benefits will no longer be spread over a future-service period. A curtailment now occurs only when an entity reduces the number of employees significantly. Curtailment gains/losses are accounted for as past-service costs.
- **Measurement of pension expense:** Annual expense for a funded benefit plan will include net interest expense or income, calculated by applying the discount rate to the net defined benefit asset or liability. This will replace the finance charge and expected return on plan assets, and will increase benefit expense for most entities. There will be no change in the discount rate, which remains a high-quality corporate bond rate where there is a deep market in such bonds, and a government bond rate in other markets.
- **Presentation in the income statement:** There will be less flexibility in income statement presentation. Benefit costs will be split between (i) the cost of benefits accrued in the current period (service cost) and benefit changes (past-service cost, settlements and curtailments); and (ii) finance expense or income. This analysis can be in the income statement or in the notes.

- **Disclosure requirements:** Additional disclosures are required to present the characteristics of benefit plans, the amounts recognised in the financial statements, and the risks arising from defined benefit plans and multi-employer plans. The objectives and principles underlying disclosures are provided; these are likely to require more extensive disclosures and more judgement to determine what disclosure is required.
- **Distinction between “short-term” and “other long-term” benefits:** The distinction between short-term and long-term benefits for measurement purposes is based on when payment is expected, not when payment can be demanded. However, the amendment does not alter the balance sheet classification of the liabilities recorded in respect of the benefit obligation. Such classification is determined in accordance with FRS 1 and reflects whether an entity has the unconditional ability to defer payment for more than a year, regardless of when the obligation is expected to be settled.
- **Treatment of expenses and taxes relating to employee benefit plans:** Taxes related to benefit plans should be included either in the return on assets or the calculation of the benefit obligation, depending on their nature. Investment management costs should be recognised as part of the return on assets; other costs of running a benefit plan should be recognised as period costs when incurred. This should reduce diversity in practice but might make the actuarial calculations more complex.
- **Termination benefits:** Any benefit that has a future-service obligation is not a termination benefit. This will reduce the number of arrangements that meet the definition of termination benefits. A liability for a termination benefit is recognised when the entity can no longer withdraw the offer of the termination benefit or recognise any related restructuring costs. This might delay the recognition of voluntary termination benefits.
- **Risk or cost sharing features:** The measurement of obligations should reflect the substance of arrangements where the employer’s exposure is limited or where the employer can use contributions from employees to meet a deficit. This might reduce the defined benefit obligation in some situations. Determining the substance of such arrangements will require judgement and significant disclosure.

#### Who is affected?

These changes will affect most entities that apply FRS 19. The changes could significantly change a number of performance indicators, including EBITDA, EPS and balance sheet ratios. They might also significantly increase the volume of disclosures.

#### What do affected entities need to do?

Management should determine the impact of the revised standard and, in particular, any changes in benefit classification and presentation.

Management should consider the effect of the changes on any existing employee benefit arrangements and whether additional processes are needed to compile the information required to comply with the new disclosure requirements.

Management should also consider the choices that remain within FRS 19 (revised 2011), including the possibility of early adoption, the possible effects of these changes on key performance ratios and how to communicate these effects to analysts and other users of the accounts.

---

## FRS 113 *Fair Value Measurement*

FRS 113, “Fair value measurement”, explains how to measure fair value and aims to enhance fair value disclosures; it does not say when to measure fair value or when additional fair value measurements are required.

The project converges FRS and US GAAP on how to measure fair value, but there will continue to be differences in certain respects, including when fair value measurements are required and when gains and losses can be recognised.

### **Effective date**

Annual periods beginning on or after 1 January 2013. Early adoption is permitted.

### **What are the key provisions?**

The guidance in FRS 113 does not apply to transactions within the scope of FRS 102, “Share-based payment”, or FRS 17, “Leases”, or to certain other measurements that are required by other standards and are similar to, but are not, fair value (for example, value in use in FRS 36, “Impairment of assets”).

### *Definition of fair value*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The fair value of a liability therefore reflects non-performance risk (that is, own credit risk).

### *Principal or most advantageous market*

A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal market is the market with the greatest volume and level of activity for the asset or liability that can be accessed by the entity.

### *Market participant assumptions*

Fair value is measured using the same assumptions and taking into account the same characteristics of the asset or liability as market participants would. Fair value is a market-based, not entity-specific measurement.

### *Highest and best use*

For non-financial assets only, fair value is determined based on the highest and best use of the asset as determined by a market participant.

### *Bid and ask prices*

The use of bid prices for asset positions and ask prices for liability positions is permitted if those prices are most representative of fair value in the circumstances, but it is not required.



### *Fair value hierarchy*

Fair value measurements are categorised into a three-level hierarchy, based on the type of inputs to the valuation techniques used, as follows:

- Level 1 inputs are quoted prices in active markets for items identical to the asset or liability being measured. Consistent with current FRS, if there is a quoted price in an active market (that is, a Level 1 input), an entity uses that price without adjustment when measuring fair value;
- Level 2 inputs are other observable inputs; and
- Level 3 inputs are unobservable inputs, but that nevertheless must be developed to reflect the assumptions that market participants would use when determining an appropriate price for the asset or liability.

Each fair value measurement is categorised based on the lowest level input that is significant to it.

### *Disclosures*

The guidance includes enhanced disclosure requirements that could result in significantly more work for reporting entities. These requirements are similar to those in FRS 107, “Financial instruments: Disclosures”, but apply to all assets and liabilities measured at fair value, not just financial ones.

The required disclosures include:

- information about the hierarchy level into which fair value measurements fall;
- transfers between Levels 1 and 2;
- methods and inputs to the fair value measurements and changes in valuation techniques; and
- additional disclosures for Level 3 measurements that include a reconciliation of opening and closing balances, quantitative information about unobservable inputs and assumptions used, a description of the valuation processes in place, and qualitative discussion about the sensitivity of recurring Level 3 measurements.

### *Who is affected?*

Almost all entities use fair value measurements and will therefore be subject to the new requirements. Some changes may be required (for example, bid/ask spread and inclusion of own credit risk) to those fair value measurements today, which will largely affect financial institutions and investment entities. However, there are enhanced disclosure requirements that will be required by all entities.

### *What do affected entities need to do?*

Preparers should begin by evaluating the nature and extent of the fair value measurements that they are currently required to make under FRS. Management will need to determine which, if any, of the measurement techniques used will have to change as a result of the new guidance, and what additional disclosures will be necessary.

## Annual Improvements 2011

The table below identifies the significant changes to the standards arising from the 2009 to 2011 annual improvements project and the implications for management.

### Effective date

See final column in table below.

Standard/ interpretation	Amendment	Practical implications	Effective date
Amendment to FRS 1, "Presentation of financial statements"	<p>The amendment clarifies the disclosure requirements for comparative information when an entity provides a third balance sheet either:</p> <ul style="list-style-type: none"> <li>as required by FRS 8, "Accounting policies, changes in accounting estimates and errors"; or</li> <li>voluntarily.</li> </ul>	<ul style="list-style-type: none"> <li>When an entity produces an additional balance sheet as required by FRS 8, the balance sheet should be as at the date of the beginning of the preceding period – that is, the opening position. No notes are required to support this balance sheet.</li> <li>When management provides additional comparative information voluntarily – for example, statement of profit and loss, balance sheet – it should present the supporting notes to these additional statements.</li> </ul>	Applies retrospectively for annual periods beginning on or after 1 January 2013. Early adoption is permitted.
Amendment to FRS 101 as a result of the above amendment to FRS 1	The consequential amendment clarifies that a first-time adopter should provide the supporting notes for all statements presented.	<ul style="list-style-type: none"> <li>A first-time adopter should provide supporting notes for its transition balance sheet.</li> </ul>	Applies retrospectively for annual periods beginning on or after 1 January 2013. Early adoption is permitted.
Amendment to FRS 16, "Property, plant and equipment"	The amendment clarifies that spare parts and servicing equipment are classified as property, plant and equipment rather than inventory when they meet the definition of property, plant and equipment.	<ul style="list-style-type: none"> <li>The previous wording of FRS 16 indicated that servicing equipment should be classified as inventory, even if it was used for more than one period. Following the amendment, this equipment used for more than one period is classified as property, plant and equipment.</li> </ul>	Applies retrospectively for annual periods beginning on or after 1 January 2013. Early adoption is permitted.
Amendment to FRS 32, "Financial instruments: Presentation"	The amendment clarifies the treatment of income tax relating to distributions and transaction costs.	<ul style="list-style-type: none"> <li>Prior to the amendment, FRS 32 was ambiguous as to whether the tax effects of distributions and the tax effects of equity transactions should be accounted for in the income statement or in equity.</li> <li>The amendment clarifies that the treatment is in accordance with FRS 12. Hence, income tax related to distributions is recognised in the income statement, and income tax related to the costs of equity transactions is recognised in equity.</li> </ul>	Applies retrospectively for annual periods beginning on or after 1 January 2013. Early adoption is permitted.

Standard/ interpretation	Amendment	Practical implications	Effective date
Amendment to FRS 34, "Interim financial reporting"	The amendment clarifies the disclosure requirements for segment assets and liabilities in interim financial statements.	<ul style="list-style-type: none"> <li>The amendment brings FRS 34 in line with the requirements of FRS 108, "Operating segments".</li> <li>A measure of total assets and liabilities is required for an operating segment in interim financial statements if such information is regularly provided to the CODM and there has been a material change in those measures since the last annual financial statements.</li> </ul>	Applies retrospectively for annual periods beginning on or after 1 January 2013. Early adoption is permitted.
Amendment to FRS 101, "First-time adoption of FRS"	The amendment clarifies that an entity may apply FRS 101 more than once under certain circumstances.	<ul style="list-style-type: none"> <li>An entity that previously applied FRS but stopped subsequently is permitted but not required to apply FRS 101 when it recommences applying FRS.</li> <li>The FRS 101 provisions are designed to ease the process of transition to FRS. For an entity that was previously an FRS 10 preparer, applying FRS 101 as if no FRS financial statements had ever been prepared may be more burdensome than simply resuming the preparation of FRS financial statements. The amendment permits a choice of whether to apply FRS 101.</li> <li>To avoid abuse, the amendment requires management to disclose why it stopped preparing FRS financial statements and why it has resumed.</li> </ul>	Applies retrospectively for annual periods beginning on or after 1 January 2013. Early adoption is permitted.
Amendment to FRS 101, "First-time adoption of FRS"	The amendment clarifies that an entity can choose to adopt FRS 23, "Borrowing costs", either from its date of transition or from an earlier date.	<p>From whichever date the entity chooses to adopt FRS 23:</p> <ul style="list-style-type: none"> <li>Borrowing costs under previous GAAP are not restated; and</li> <li>FRS 23 applies to borrowing costs on qualifying assets that were under construction at the date of transition, irrespective of whether borrowing costs were capitalised under previous GAAP.</li> </ul>	Applies retrospectively for annual periods beginning on or after 1 January 2013. Early adoption is permitted.

## Amendments to FRS 101 *First-time adoption of Financial Reporting Standards - Government Loans*

The ASC has amended FRS 101, “First-time adoption of Financial Reporting Standards”, to provide relief from the retrospective application of FRSs in relation to government loans.

The new exception requires first-time adopters to apply the requirements in IFRS 9, “Financial instruments”, and FRS 20, “Accounting for government grants and disclosure of government assistance”, prospectively to government loans that exist at the date of transition to FRS. This will give first-time adopters the same relief as existing preparers.

### **Effective date**

Annual periods beginning on or after 1 January 2013. Early adoption is permitted.

### **What is the issue?**

The amendment aligns FRS 101 with the FRS 20 requirements (after its revision in 2008) to prospectively fair value government loans with a below-market rate of interest.

The general requirement in FRS 101 for first-time adopters to apply FRS retrospectively at the date of transition to FRSs could mean some entities have to measure such government loans at fair value at a date before the date of transition to FRS. This might mean management has to apply hindsight in order to derive a fair value that has significant unobservable inputs. So the Board has added an exception that allows a first-time adopter to use its previous GAAP carrying amount for such loans on transition to FRS. The exception applies to recognition and measurement only. Management should use the requirements of FRS 32, “Financial instruments: Presentation”, to determine whether government loans are classified as equity or as financial liabilities.

### **Who is affected?**

The amendment affects first-time adopters with government loans with a below-market rate of interest.

### **What do affected entities need to do?**

- First-time adopters should classify all government loans as financial liabilities or an equity instrument in accordance with FRS 32. They should apply the IFRS 9 and FRS 20 requirements prospectively to government loans existing at the date of transition to FRS; they should not recognise the corresponding benefit of the government loan at a below- market rate of interest as a government grant.
- Management may apply the IFRS 9 and FRS 20 requirements retrospectively to any government loan originated before the date of transition to FRS, provided that the information needed to do so had been obtained at the time of initially accounting for that loan. This is available on a loan-by-loan basis.
- Management can use the exemptions in FRS 101, paragraphs D19-D19D relating to the designation of previously recognised financial instruments at fair value through profit or loss in conjunction with the government loan exception.

## **Amendments to FRS 107 *Disclosures – Offsetting Financial Assets and Financial Liabilities* and Amendments to FRS 32 *Offsetting Financial Assets and Financial Liabilities* (effective for annual periods beginning on or after 1 January 2014)**

The ASC has issued an amendment to the application guidance in FRS 32, “Financial instruments: Presentation”, to clarify some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position. However, the clarified offsetting requirements for amounts presented in the statement of financial position continue to be different from US GAAP. As a result, the ASC has also published an amendment to FRS 107, “Financial instruments: Disclosures”, reflecting the joint requirements with the FASB to enhance current offsetting disclosures. These new disclosures are intended to facilitate comparison between those entities that prepare FRS financial statements to those that prepare financial statements in accordance with US GAAP.

### **Effective date**

FRS 107: annual periods beginning on or after 1 January 2013, retrospectively applied. Early adoption is permitted.

FRS 32: annual periods beginning on or after 1 January 2014, retrospectively applied. Early adoption is permitted.

### **What is the issue?**

The amendments do not change the current offsetting model in FRS 32, which requires an entity to offset a financial asset and financial liability in the statement of financial position only when the entity currently has a legally enforceable right of set-off and intends either to settle the asset and liability on a net basis or to realise the asset and settle the liability simultaneously.

The amendments clarify that the right of set-off must be available today – that is, it is not contingent on a future event. It also must be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy.

The amendments also clarify that gross settlement mechanisms (such as through a clearing house) with features that both

- (i) eliminate credit and liquidity risk, and
- (ii) process receivables and payables in a single settlement process,

are effectively equivalent to net settlement; thus satisfying the FRS 32 criterion.



Master netting agreements where the legal right of offset is only enforceable on the occurrence of some future event, such as default of the counterparty, continue not to meet the offsetting requirements.

### **Disclosures**

The amendments require more extensive disclosures than are currently required under FRS and US GAAP. The disclosures focus on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset.

### **Who is affected?**

These amendments primarily affect financial institutions, as they will be required to provide additional disclosures described above. However, other entities that hold financial instruments that may be subject to offsetting rules will also be affected.

### **What do affected entities need to do?**

Management should begin gathering the information necessary to prepare for the new disclosure requirements. They will also need to investigate whether the clarifications of the offsetting principle in FRS 32 result in any changes to what they offset in the statement of financial position today. Management may need to work with the clearing houses they use to determine whether their settlement processes comply with the new requirements.

---

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

INT FRS 120, “Stripping costs in the production phase of a surface mine”, sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine. The interpretation may require mining entities reporting under FRS to write off existing stripping assets to opening retained earnings if the assets cannot be attributed to an identifiable component of an ore body.

### **Effective date**

Annual periods beginning on or after 1 January 2013. Early adoption is permitted. An entity that has been expensing all production period stripping will begin capitalising from the date of adoption of the interpretation. INT FRS 120 also amends FRS 101, “First-time adoption of FRS”. First-time adopters would be allowed to apply the transition provisions with an effective date of the later of 1 January 2013 and the transition date.

### **What is the objective and scope?**

Stripping costs incurred once a mine is in production often provide benefits for current production and access to future production. The challenge has always been how to allocate the benefits and then determine what period costs are versus an asset that will benefit future periods. The INT FRS was developed to address current diversity in practice. Some entities have judged all stripping costs as a cost of production, and some entities capitalise some or all stripping costs as an asset.

INT FRS 120 applies only to stripping costs that are incurred in surface mining activity during the production phase of the mine. It does not address underground mining activity or oil and natural gas activity. Oil sands, where extraction activity is seen by many as closer to that of mining than traditional oil and gas extraction, are also outside the scope of the interpretation.

The transition requirements of the interpretation may have a significant impact on a mining entity that has been using a general capitalisation ratio to record deferred stripping. Existing asset balances that cannot be attributed to an identifiable component of the ore body will need to be written off to retained earnings.

### **What are the key provisions?**

INT FRS 120 addresses the following issues:

#### *Is the definition of an asset met?*

Stripping activity may create two types of benefits: (i) inventory produced and (ii) improved access to the ore. An entity should assess whether the benefits of the stripping activity fall within either of those categories. The benefit of improved access to the ore will qualify as a non-current asset only when:

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

### *When should the asset be recognised?*

Stripping costs relating to inventory produced should be accounted for as current production cost in accordance with FRS 2, "Inventories". Stripping costs that generate a benefit of improved access and meet the above definition of an asset should be accounted for as an addition to or enhancement of an existing asset (stripping activity asset); it is not an asset in its own right. The capitalised costs are classified as tangible or intangible according to the nature of the existing asset.

### *How should the stripping activity asset be measured initially?*

The stripping activity asset should initially be measured at the direct costs incurred. These costs include haulage, waste transportation, materials consumed, costs of machinery employed, labour and fuel. An allocation of directly attributable overhead costs may also be made.

It may be difficult to separate the costs incurred that create the future benefit (stripping activity asset) and the costs related to current period inventory production. Entities will allocate total costs between the inventory produced and the stripping activity asset using a relevant production measure. The production measure is calculated for the identified component of the ore body and used to identify the extent to which the additional activity has created an asset. INT FRS 120 provides examples of such measures, including volumes of waste extracted compared with expected volumes for given production levels.

Entities currently using "stripping ratios" may find the new requirements similar to their existing approach, although the basis of the ratio will be the identified component and not the full life-of-mine.

### *How should the stripping activity asset be measured subsequently?*

The stripping activity asset is carried at cost or revalued amount (per FRS 16, "Property, plant and equipment") less depreciation or amortisation and impairment losses. It is depreciated or amortised in a rational and systematic manner over the useful life of the relevant identified component of the ore body. This is expected to be shorter than the useful life of the mine in most cases. The units-of-production method is applied unless another method is more appropriate.

### *Who is affected?*

All surface mining companies applying FRS will be affected by the interpretation. An entity that has been expensing all production period stripping will begin capitalising from the date of adoption of the interpretation.

Any existing stripping cost asset balances at the date of transition are written off to opening retained earnings unless they relate to an identifiable component of the ore body.

INT FRS 120 also amends FRS 101, "First-time adoption of FRS". First-time adopters would be allowed to apply the transition provisions with effective date at the later of 1 January 2013 or the transition date.

### *What do affected entities need to do?*

Existing FRS preparers may be most interested in the transition provisions in the interpretation.

## FRS 27 (revised 2011) *Separate Financial Statements* and FRS 110 *Consolidated Financial Statements*

The ASC has issued FRS 110, “Consolidated financial statements”, as part of the group of five new standards that address the scope of the reporting entity. FRS 110 replaces all of the guidance on control and consolidation in FRS 27, “Consolidated and separate financial statements”, and SIC12, “Consolidation – special purpose entities”. FRS 27 is renamed “Separate financial statements”; it continues to be a standard dealing solely with separate financial statements. The existing guidance for separate financial statements is unchanged.

The rest of the package includes FRS 111, “Joint arrangements” (see pg22); FRS 112, “Disclosure of interests in other entities” (see pg24); and consequential amendments to FRS 28, “Investments in associates”.

### **Effective date**

Annual periods beginning on or after 1 January 2014. Early adoption is permitted.

### **What are the key provisions?**

FRS 110 changes the definition of control so that the same criteria to determine control are applied to all entities. This definition is supported by extensive application guidance that addresses the different ways in which a reporting entity (investor) might control another entity (investee). The changed definition and application guidance is not expected to result in widespread change in the consolidation decisions made by FRS 10 reporting entities, although some entities could see significant changes.

All entities will need to consider the new guidance. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single entity remains unchanged, as do the mechanics of consolidation.

FRS 110 excludes guidance specifically for investment companies, as the ASC continues to work on a project on accounting by investment companies for controlled entities.

The revised definition of control focuses on the need to have both power and variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both.

The determination of power is based on current facts and circumstances and is continuously assessed. The fact that control is intended to be temporary does not obviate the requirement to consolidate any investee under the control of the investor. Voting rights or contractual rights may be evidence of power, or a combination of the two may give an investor power. Power does not have to be exercised. An investor with more than half the voting rights would meet the power criteria in the absence of restrictions or other circumstances.

The application guidance includes examples illustrating when an investor may have control with less than half of the voting rights. When assessing if it controls the investee, an investor should consider potential voting rights, economic dependency and the size of its shareholding in comparison to other holdings, together with voting patterns at shareholder meetings. This last consideration will bring the notion of “de facto” control firmly within the consolidation standard.

FRS 110 also includes guidance on participating and protective rights. Participating rights give an investor the ability to direct the activities of an investee that significantly affect the returns. Protective rights (often known as veto rights) will only give an investor the ability to block certain decisions outside the ordinary course of business.

The new standard includes guidance on agent/principal relationships. An investor (the agent) may be engaged to act on behalf of a single party or a group of parties (the “principals”). Certain power is delegated to the agent – for example, to manage investments. The investor may or may not have control over the pooled investment funds. FRS 110 includes a number of factors to consider when determining whether the investor has control or is acting as an agent.

The revised definition of control and associated guidance replaces not only the definition and guidance in FRS 27 but also the four indicators of control in SIC12.

#### **Who is affected?**

FRS 110 has the potential to affect all reporting entities (investors) that control one or more investees under the revised definition of control. The determination of control and consolidation decisions may not change for many entities. However, the new guidance will need to be understood and considered in the context of each investor’s business.

#### **What do affected entities need to do?**

Management should consider whether FRS 110 will affect their control decisions and consolidated financial statements.



## FRS 28 (revised 2011) *Investments in Associates and Joint Ventures* and FRS 111 *Joint Arrangements*

The ASC has issued the long awaited FRS 111, “Joint arrangements”, as part of a “package” of five new standards that address the scope of the reporting entity (see pg20 and pg24).

Changes in the definitions have reduced the “types” of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. Entities that participate in joint operations will follow accounting much like that for joint assets or joint operations today.

### **Effective date**

Annual periods beginning on or after 1 January 2014. Early adoption is permitted.

### **What are the key provisions?**

#### *Underlying principles*

A joint arrangement is defined as being an arrangement where two or more parties contractually agree to share control. Joint control exists only when the decisions about activities that significantly affect the returns of an arrangement require the unanimous consent of the parties sharing control.

All parties to a joint arrangement should recognise their rights and obligations arising from the arrangement. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. The structure and form of the arrangement is only one of the factors to consider in assessing each party’s rights and obligations. The terms and conditions agreed by the parties (for example, agreements that may modify the legal structure or form of the arrangement) and other relevant facts and circumstances should also be considered.

If the facts and circumstances change, a venturer needs to reassess:

- whether it has joint control; and/or
- the type of joint arrangement in which it is involved.

#### *Types of joint arrangement and their measurement*

FRS 111 classifies joint arrangements as either joint operations or joint ventures. The “jointly controlled assets” classification in FRS 31, “Interests in joint ventures”, has been merged into joint operations, as both types of arrangements generally result in the same accounting outcome.

A joint operation is a joint arrangement that gives parties to the arrangement direct rights to the assets and obligations for the liabilities. A joint operator will recognize its interest based on its involvement in the joint operation (that is, based on its direct rights and obligations) rather than on the participation interest it has in the joint arrangement.

A joint operator in a joint operation will therefore recognise in its own financial statements:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output of the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

A joint venture, in contrast, gives the parties rights to the net assets or outcome of the arrangement. A joint venturer does not have rights to individual assets or obligations for individual liabilities of the joint venture. Instead, joint venturers share in the net assets and, in turn, the outcome (profit or loss) of the activity undertaken by the joint venture. Joint ventures are accounted for using the equity method in accordance with FRS 28 (revised 2011), “Investments in Associates and Joint Ventures”. Entities can no longer account for an interest in a joint venture using the proportionate consolidation method.

The standard also provides guidance for parties that participate in joint arrangements but do not have joint control.

### **Who is affected?**

Entities with existing joint arrangements or that plan to enter into new joint arrangements will be affected by the new standard. These entities will need to assess their arrangements to determine whether they have invested in a joint operation or a joint venture upon adoption of the new standard or upon entering into the arrangement.

Entities that have been accounting for their interest in a joint venture using proportionate consolidation will no longer be allowed to use this method; instead they will account for the joint venture using the equity method or account for their share of assets and liabilities if it is assessed as a joint operation. In addition, there may be some entities that previously equity-accounted for investments that may need to account for their share of assets and liabilities now that there is less focus on the structure of the arrangement.

The transition provisions of FRS 111 require entities to apply the new rules at the beginning of the earliest period presented upon adoption. When transitioning from the proportionate consolidation method to the equity method, entities should recognise their initial investment in the joint venture as the aggregate of the carrying amounts that were previously proportionately consolidated. In transitioning from the equity method to accounting for assets and liabilities, entities should recognise their share of each of the assets and liabilities in the joint operation, with specific rules detailing how to account for any difference from the previous carrying amount of the investment.

### **What do affected entities need to do?**

Management of entities that are party to joint arrangements should evaluate how the requirements of the new standard will affect the way they account for their existing or new joint arrangements. The accounting may have a significant impact on entities’ financial results and financial position, which should be clearly communicated to stakeholders as soon as possible.

Management should also carefully consider the planned timing of their adoption. If they wish to retain the current accounting for existing arrangements, now is the time to consider how the terms of these arrangements can be reworked or restructured to achieve this.

## FRS 112 *Disclosure of Interests in Other Entities*

The ASC has issued FRS 112, “Disclosure of interests in other entities”, as part of the group of five new standards that address the scope of the reporting entity (see pg20 and pg22).

FRS 112 sets out the required disclosures for entities reporting under the two new standards, FRS 110, “Consolidated financial statements”, and FRS 111, “Joint arrangements”; it replaces the disclosure requirements currently found in FRS 28, “Investments in associates”. FRS 27 is renamed “Separate financial statements” and now deals solely with separate financial statements. The existing guidance and disclosure requirements for separate financial statements are unchanged.

### **Effective date**

Annual periods beginning on or after 1 January 2014. Early adoption is permitted.

### **What are the key provisions?**

FRS 112 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity’s interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities.

To meet this objective, disclosures are required in the following areas.

### *Significant judgements and assumptions*

Significant judgements and assumptions made in determining whether the entity controls, jointly controls, significantly influences or has some other interests in other entities include:

- an assessment of principal-agent relationships in consolidation;
- determination of the type of joint arrangement; and
- any override of presumptions of significant influence and control when voting rights range from 20% to 50%, and exceed 50%, respectively.

### *Interests in subsidiaries*

This includes information about:

- group composition;
- interests of non-controlling interests (NCI) in group activities and cash flows, and information about each subsidiary that has material NCI, such as name, principal place of business and summarised financial information;
- significant restrictions on access to assets and obligations to settle liabilities;
- risks associated with consolidated structured entities, such as arrangements that could require the group to provide financial support;
- accounting for changes in the ownership interest in a subsidiary without a loss of control – a schedule of the impact on parent equity is required;
- accounting for the loss of control – detail of any gain/loss recognised and the line item in the statement of comprehensive income in which it is recognised; and
- subsidiaries that are consolidated using different year ends.

### *Interests in joint arrangements and associates*

Detailed disclosures include:

- the name, country of incorporation and principal place of business;
- proportion of ownership interest and measurement method;
- summarised financial information;
- fair value (if published quotations are available);
- significant restrictions on the ability to transfer funds or repay loans;
- year ends of joint arrangements or associates if different from the parent's; and
- unrecognised share of losses, commitments and contingent liabilities.

### *Interests in unconsolidated structured entities*

Detailed disclosures include:

- the nature, purpose, size, activities and financing of the structured entity;
- the policy for determining structured entities that are sponsored;
- a summary of income from structured entities;
- the carrying amount of assets transferred to structured entities;
- the recognised assets and liabilities relating to structured entities and line items in which they are recognised;
- the maximum loss arising from such involvement; and
- information on financial or other support provided to such entities, or current intentions to provide such support.

### **Who is affected?**

All entities that have interests in subsidiaries, associates, joint ventures or unconsolidated structured entities are likely to face increased disclosure requirements.

### **What do affected entities need to do?**

Management should consider whether it needs to implement additional processes to be able to compile the required information.

## **IFRS 9 Financial Instruments – Classification of Financial Assets and Financial Liabilities**

IFRS 9, “Financial instruments”, replaces FRS 39, “Financial instruments: Recognition and measurement”. It 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.

### **Effective date**

Annual periods starting 1 January 2015. Early adoption is permitted from 12 November 2009 (see details below). However, the IASB is consulting – at the time of going to print – on the effective dates of a number of standards. The effective date of IFRS 9 may therefore change.

## **Classification and measurement of financial assets**

### **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 is 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 (FVTPL). If the former, an entity further considers the contractual cash flow characteristics of the instrument.

### **What is a 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 would generally 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 would generally fail the cash flow 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 there is a change to the business model within which the financial asset is held. In such cases, all affected financial assets are reclassified.

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.

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 FVTPL 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 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 the 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 FVTPL.

### **Is a 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 FVTPL on initial recognition if this significantly reduces recognition or measurement inconsistency, commonly referred to as “an accounting mismatch”. The designation at FVTPL continues to be irrevocable.

## **Classification and measurement of financial liabilities**

### **How are financial liabilities to be measured?**

Financial liabilities are measured at amortised cost unless they are required to be measured at fair value through profit or loss or an entity has chosen to measure a liability at fair value through profit or loss.

### **What determines classification?**

The classification and measurement of financial liabilities under IFRS 9 remains unchanged from the guidance in FRS 39 except where an entity has chosen to measure a liability at fair value through profit or loss. There continues to be two measurement categories for financial liabilities: fair value and amortised cost. Certain liabilities are required to be at fair value through profit or loss, such as liabilities held for trading and derivatives. Other liabilities are measured at amortised cost unless the entity elects the fair value option; however, if the liability contains embedded derivatives, the embedded derivatives might be required to be separated and measured at fair value through profit or loss.

### **What is the accounting treatment for financial liabilities that are required to be measured at fair value through profit or loss?**

Financial liabilities that are required to be measured at fair value through profit or loss (as distinct from those that the entity has chosen to measure at fair value through profit or loss) continue to have all fair value movements recognised in profit or loss, with none of the fair value movement recognised in “other comprehensive income” (OCI). This includes all derivatives (such as foreign currency forwards or interest rate swaps), or an entity’s own liabilities that are “held for trading”. Similarly, financial guarantees and loan commitments that entities choose to measure at fair value through profit or loss will have all fair value movements recognised in profit or loss.

### **What is the accounting treatment for financial liabilities that an entity chooses to account for at fair value?**

IFRS 9 changes the accounting for financial liabilities that an entity chooses to account for at fair value through profit or loss, using the fair value option. For such liabilities, changes in fair value related to changes in own credit risk are presented separately in OCI.

However, if presenting the changes in own credit risk of a financial liability in OCI would create an accounting mismatch in profit or loss, all fair value movements are recognised in profit or loss.

The accounting mismatch must arise due to an economic relationship between the financial liability and a financial asset that results in the liability’s credit risk being offset by a change in the fair value of the asset.

The accounting mismatch:

- is required to be determined when the liability is first recognised;
- is not reassessed subsequently; and
- must not be caused solely by the measurement method that an entity uses to determine the changes in a liability’s credit risk.

Use of this exemption from the requirement to present movements in the own credit risk of a liability in OCI is expected to be rare.

#### **What are the eligibility criteria for the fair value option?**

The eligibility criteria for the fair value option remains the same; they are based on whether:

- the liability is managed on a fair value basis; or
- electing fair value will eliminate or reduce an accounting mismatch; or
- the instrument is a hybrid contract (that is, it contains a host contract and an embedded derivative) for which separation of an embedded derivative would be required.

#### **What might be a common reason for electing the fair value option?**

A common reason is where entities have embedded derivatives that they do not wish to separate from the host liability. In addition, entities may elect the fair value option for liabilities that give rise to an accounting mismatch with assets that are required to be held at fair value through profit or loss.

#### **Have there been any changes in the accounting for embedded derivatives?**

The existing guidance in FRS 39 for embedded derivatives has been retained in this new part of IFRS 9. Entities are still required to separate derivatives embedded in financial liabilities where they are not closely related to the host contract – for example, a structured note where the interest is linked to an equity index. The separated embedded derivative continues to be measured at fair value through profit or loss, and the residual debt host is measured at amortised cost. The accounting for embedded derivatives in non-financial host contracts also remains unchanged.

#### **Is the treatment of derivatives embedded in financial liabilities symmetrical to the treatment of derivatives embedded in financial assets?**

No. The existing embedded derivative guidance in FRS 39 is retained in IFRS 9 for financial liabilities and non-financial instruments. This results in some embedded derivatives still being separately accounted for at fair value through profit or loss. However, embedded derivatives are no longer separated from financial assets. Instead, they are part of the contractual terms that are considered in determining whether the entire financial asset meets the contractual cash flow test (that is, the instrument has solely payments of principal and interest) to be measured at amortised cost or whether it should be measured at fair value through profit or loss.

#### **How are financial liabilities at fair value to be measured?**

Entities will need to calculate the amount of the fair value movement that relates to the credit risk of the liability. FRS 107 already requires disclosure of the amount of fair value changes that are attributable to own credit risk for liabilities designated at fair value through profit or loss. The existing guidance on how to calculate own credit risk in FRS 107 is retained but has been relocated to IFRS 9, and some aspects have been clarified.

#### **How can own credit risk be determined?**

This can be determined as either:

- the amount of fair value change not attributable to changes in market risk (for example, benchmark interest rates) – this is often referred to as the default method; or
- an alternative method that the entity believes more faithfully represents the changes in fair value due to “own credit” (for example, a method that calculates credit risk based on credit default swap rates).

IFRS 9 clarifies that if the changes in fair value arising from factors other than changes in the liability’s credit risk or changes in observed interest rates (that is, benchmark rates such as LIBOR) are significant, an entity is required to use an alternative method and may not use the default method. For example, changes in the fair value of a liability might arise due to changes in value of a derivative embedded in that liability rather than changes in benchmark interest rates. In that situation, changes in the value of the embedded derivative should be excluded in determining the amount of own credit risk that is presented in OCI.

The expanded guidance in IFRS 9 confirms that the credit risk of a liability with collateral is likely to be different from the credit risk of an equivalent liability without collateral issued by the same entity.

It also clarifies that unit-linking features usually give rise to asset performance risk rather than credit risk – that is, the value of the liability changes due to changes in value of the linked asset(s) and not because of changes in the own credit risk of the liability. This means that changes in the fair value of a unit-linked liability due to changes in the fair value of the linked asset will continue to be recognised in the income statement; they are not regarded as being part of the own credit risk of the liability that is recognised in OCI.

#### **What is the impact of the changes on the presentation of financial liabilities?**

Elements of the fair value movement of the liability are presented in different parts of the performance statement; changes in own credit risk are presented in OCI, and all other fair value changes are presented in profit or loss. This means that the amount of the overall fair value movement does not change, but it is presented in separate sections of the statement of comprehensive income.

Amounts in OCI relating to own credit risk are not recycled to the income statement even when the liability is derecognised and the amounts are realised. However, the standard does allow for transfers within equity.

## Amendments to IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities

The IASB has issued “Consolidated financial statements, joint arrangements and disclosure of interests in other entities: transition guidance (amendments to IFRS 10, IFRS 11 and IFRS 12)”. The amendments clarify the transition guidance in IFRS 10. They also provide additional transition relief in IFRSs 10, 11 and 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. For disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied.

### Effective date

Annual periods beginning on or after 1 January 2013, aligned with the effective date of IFRSs 10, 11 and 12.

### What is the issue?

The IASB has issued an amendment to the transition requirements in IFRS 10, “Consolidated financial statements”, IFRS 11, “Joint Arrangements”, and IFRS 12, “Disclosure of interests in other entities”.

It clarifies that the date of initial application is the first day of the annual period in which IFRS 10 is adopted – for example, 1 January 2013 for a calendar-year entity that adopts IFRS 10 in 2013. Entities adopting IFRS 10 should assess control at the date of initial application; the treatment of comparative figures depends on this assessment.

The amendment also requires certain comparative disclosures under IFRS 12 upon transition.

The key changes in the amendment are:

- If the consolidation conclusion under IFRS 10 differs from IAS 27/SIC 12 as at the date of initial application, the immediately preceding comparative period (that is, 2012 for a calendar-year entity that adopts IFRS 10 in 2013) is restated to be consistent with the accounting conclusion under IFRS 10, unless impracticable.
- Any difference between IFRS 10 carrying amounts and previous carrying amounts at the beginning of the immediately preceding annual period is adjusted to equity.
- Adjustments to previous accounting are not required for investees that will be consolidated under both IFRS 10 and the previous guidance in IAS 27/SIC 12 as at the date of initial application, or investees that will be unconsolidated under both sets of guidance as at the date of initial application.
- Comparative disclosures will be required for IFRS 12 disclosures in relation to subsidiaries, associates, and joint arrangements. However, this is limited only to the period that immediately precedes the first annual period of IFRS 12 application. Comparative disclosures are not required for interests in unconsolidated structured entities.

The amendment is effective for annual periods beginning on or after 1 January 2013, consistent with IFRS 10, 11 and 12.

### Who is affected?

The amendment will affect all reporting entities (investors) who need to adopt IFRSs 10, 11 or 12.

### What do affected entities need to do?

The amendment is effective for annual periods beginning on or after 1 January 2013; earlier application is required if the underlying standards (IFRSs 10, 11 and 12) are early-adopted.

IFRS preparers should start considering the transition amendment, and how they can use the exemptions granted to minimise implementation costs of IFRSs 10, 11 and 12. IFRS preparers should also start collating the comparative disclosure information required by the amendment.

## Differences between Singapore Financial Reporting Standards and International Financial Reporting Standards

As at 31 August 2012

(A) FINANCIAL REPORTING STANDARDS					
Effective from 1 January; unless otherwise specified	Singapore Financial Reporting Standards		International Financial Reporting Standards		Overall comparison
2009	FRS 1 (revised)	Presentation of Financial Statements	IAS 1 (revised)	Presentation of Financial Statements	FRS 1 (revised) is consistent with IAS 1 in all material aspects.
2009	FRS 2 (revised)	Inventories	IAS 2 (revised)	Inventories	FRS 2 is consistent with IAS 2 in all material aspects.
2009	FRS 7 (revised)	Cash Flow Statements	IAS 7 (revised)	Statement of Cash Flows	FRS 7 is consistent with IAS 7 (effective from 1994) in all material aspects.
2009	FRS 8 (revised)	Accounting Policies, Changes in Accounting Estimates and Errors	IAS 8 (revised)	Accounting Policies, Changes in Accounting Estimates and Errors	FRS 8 is consistent with IAS 8 in all material aspects.
2007	FRS 10	Events after the Balance Sheet Date	IAS 10	Events after the Reporting Period	FRS 10 is consistent with IAS 10 in all material aspects.
2009	FRS 11 (revised)	Construction Contracts	IAS 11 (revised)	Construction Contracts	FRS 11 is consistent with IAS 11 (effective from 1995) in all material aspects.
2007	FRS 12	Income Taxes	IAS 12	Income Taxes	<p>FRS 12 is consistent with IAS 12 (effective from 1998) in all material aspects, except for accounting for unremitted foreign income.</p> <p>Under Recommended Accounting Practice (RAP) 8 issued by the Institute of Certified Public Accountants of Singapore (ICPAS), no deferred tax is accounted for temporary difference arising from foreign income not yet remitted to Singapore if:</p> <ul style="list-style-type: none"> <li>(a) the entity is able to control the timing of the reversal of the temporary difference; and</li> <li>(b) it is probable that the temporary difference will not reverse in the foreseeable future.</li> </ul> <p>Under IAS 12, deferred tax is required to be accounted for temporary difference arising from such unremitted foreign income.</p>

## Differences between Singapore Financial Reporting Standards and International Financial Reporting Standards

As at 31 August 2012

(A) FINANCIAL REPORTING STANDARDS					
Effective from 1 January; unless otherwise specified	Singapore Financial Reporting Standards		International Financial Reporting Standards		Overall comparison
2009	FRS 16 (revised)	Property, Plant and Equipment (PPE)	IAS 16 (revised)	Property, Plant and Equipment (PPE)	<p>FRS 16 is consistent with IAS 16 in all material aspects, except that FRS 16 gives the following exemption:</p> <p>“For an enterprise which had: revalued its PPE before 1 January 1984 (in accordance with the prevailing accounting standard at the time); or performed any one-off revaluation on its PPE between 1 January 1984 and 31 December 1996 (both dates inclusive), there will be no need for the enterprise to revalue its assets in accordance with paragraph 29 of FRS 16”.</p> <p>“One-off revaluation” means any instance where an item of PPE was revalued only once between 1 January 1984 and 31 December 1996 (both dates inclusive).</p> <p>Where an item of PPE has been revalued more than once during this period, the company should:</p> <ul style="list-style-type: none"> <li>(a) explain why the particular item of PPE should be exempted; and</li> <li>(b) obtain the auditor’s concurrence of the explanation.</li> </ul> <p>IAS 16 does not include the above exemption.</p>
2007	FRS 17	Leases	IAS 17	Leases	FRS 17 is consistent with IAS 17 in all material aspects.
2005	FRS 18	Revenue	IAS 18	Revenue	<p>FRS 18 is consistent with IAS 18 (effective from 1995) in all material aspects except for revenue recognition of pre-sold uncompleted properties.</p> <p>INT FRS 115 prescribes the accounting treatment for sale of uncompleted properties. Please refer to section B below on Interpretations for details.</p> <p>Under IFRS, such revenue is generally recognised after the properties are completed and handed over to the buyers.</p>



## Differences between Singapore Financial Reporting Standards and International Financial Reporting Standards

As at 31 August 2012

(A) FINANCIAL REPORTING STANDARDS					
Effective from 1 January; unless otherwise specified	Singapore Financial Reporting Standards		International Financial Reporting Standards		Overall comparison
2013	FRS 19 (revised)	Employee Benefits	IAS 19 (revised)	Employee Benefits	FRS 19 is consistent with IAS 19 in all material aspects.
2005	FRS 20	Accounting for Government Grants and Disclosure of Government Assistance	IAS 20	Accounting for Government Grants and Disclosure of Government Assistance	FRS 20 is consistent with IAS 20 (effective from 1984) in all material aspects.
2006	FRS 21	The Effects of Changes in Foreign Exchange Rates	IAS 21	The Effects of Changes in Foreign Exchange Rates	FRS 21 is consistent with IAS 21 in all material aspects.
2009	FRS 23 (revised)	Borrowing Costs (revised)	IAS 23 (revised)	Borrowing Costs (revised)	FRS 23 is consistent with IAS 23 in all material aspects.
2011	FRS 24 (revised)	Related Party Disclosures	IAS 24 (revised)	Related Party Disclosures	FRS 24 is consistent with IAS 24 in all material aspects.
2005	FRS 26	Accounting and Reporting by Retirement Benefit Plans	IAS 26	Accounting and Reporting by Retirement Benefit Plans	FRS 26 is consistent with IAS 26 (effective from 1990) in all material aspects.
2014	FRS 27 (revised)	Separate Financial Statements	IAS 27 (revised)	Separate Financial Statements	FRS 27 is consistent with IAS 27 in all material aspects, except in: <ul style="list-style-type: none"> <li>• one of the conditions for exemption from consolidation. This dissimilarity is as identified in FRS 110.</li> <li>• effective dates; IAS 27 (revised) is effective for annual periods beginning on or after 1 January 2013.</li> </ul>
2014	FRS 28 (revised)	Investments in Associates and Joint Ventures	IAS 28 (revised)	Investments in Associates and Joint Ventures	FRS 28 is consistent with IAS 28 in all material aspects, except in: <ul style="list-style-type: none"> <li>• one of the conditions for exemption from consolidation. This dissimilarity is as identified in FRS 110.</li> <li>• effective dates; IAS 28 (revised) is effective for annual periods beginning on or after 1 January 2013.</li> </ul>
2005	FRS 29	Financial Reporting in Hyperinflationary Economies	IAS 29	Financial Reporting in Hyperinflationary Economies	FRS 29 is consistent with IAS 29 (effective from 1990) in all material aspects.

## Differences between Singapore Financial Reporting Standards and International Financial Reporting Standards

As at 31 August 2012

(A) FINANCIAL REPORTING STANDARDS					
Effective from 1 January; unless otherwise specified	Singapore Financial Reporting Standards		International Financial Reporting Standards		Overall comparison
2005	FRS 31	Interests in Joint Ventures	IAS 31	Interests in Joint Ventures	FRS 31 is consistent with IAS 31 in all material aspects, except in one of the conditions for exemption from proportionate consolidation or equity accounting. The dissimilarity is as identified in FRS 27.  Note that IAS 31 is being replaced by IFRS 11, which is effective for annual periods beginning on or after 1 January 2013 and has been adopted locally.
2007 – for listed companies  2008 – for non-listed companies	FRS 32	Financial Instruments: Presentation	IAS 32	Financial Instruments: Presentation	FRS 32 is consistent with IAS 32 (effective from 2007) in all material aspects.
2009	FRS 33 (revised)	Earnings per Share	IAS 33 (revised)	Earnings per Share	FRS 33 is consistent with IAS 33 in all material aspects.
2009	FRS 34 (revised)	Interim Financial Reporting	IAS 34 (revised)	Interim Financial Reporting	FRS 34 is consistent with IAS 34 in all material aspects.
2009	FRS 36 (revised)	Impairment of Assets	IAS 36 (revised)	Impairment of Assets	FRS 36 is consistent with IAS 36 in all material aspects.
2006	FRS 37	Provisions, Contingent Liabilities and Contingent Assets	IAS 37	Provisions, Contingent Liabilities and Contingent Assets	FRS 37 is consistent with IAS 37 (effective from 1999) in all material aspects.
2009	FRS 38 (revised)	Intangible Assets	IAS 38 (revised)	Intangible Assets	FRS 38 is consistent with IAS 38 in all material aspects.
2007	FRS 39	Financial Instruments: Recognition and Measurement	IAS 39	Financial Instruments: Recognition and Measurement	FRS 39 is consistent with IAS 39 in all material aspects except for the effect of difference in transition dates.
2007	FRS 40	Investment property	IAS 40	Investment Property	FRS 40 is consistent with IAS 40 (effective from 2005) in all material aspects.
2005	FRS 41	Agriculture	IAS 41	Agriculture	FRS 41 is consistent with IAS 41 in all material aspects.
1 Jul 2009	FRS 101 (revised)	First-time Adoption of Financial Reporting Standards	IFRS 1 (revised)	First-time Adoption of International Financial Reporting Standards	FRS 101 is consistent with IFRS 1 in all material aspects.

## Differences between Singapore Financial Reporting Standards and International Financial Reporting Standards

As at 31 August 2012

(A) FINANCIAL REPORTING STANDARDS					
Effective from 1 January; unless otherwise specified	Singapore Financial Reporting Standards		International Financial Reporting Standards		Overall comparison
2005 – for listed companies	FRS 102	Share-based Payment	IFRS 2	Share-based Payment	FRS 102 is consistent with IFRS 2 in all material aspects, except for their effective dates for non-listed companies. For non-listed companies, FRS 102 is effective for annual periods beginning on or after 1 January 2006, whilst IFRS 2 is effective for annual periods beginning on or after 1 January 2005.
2006 – for other companies					
					<p>Additionally, IFRS 2 will apply to:</p> <p>(a) share-based payment transactions that were granted on or after 7 November 2002 and had not yet vested by 1 January 2005; and</p> <p>(b) share-based payment transactions made before 7 November 2002, which were subsequently modified.</p> <p>FRS 102 replaces “7 November 2002” with “22 November 2002”.</p>
1 Jul 2009	FRS 103 (revised)	Business Combinations	IFRS 3 (revised)	Business Combinations	FRS 103 is consistent with IFRS 3 in all material aspects.
2007	FRS 104	Insurance Contracts	IFRS 4	Insurance Contracts	FRS 104 is consistent with IFRS 4 in all material aspects.
2009	FRS 105 (revised)	Non-current Assets Held-for-Sale and Discontinued Operations	IFRS 5 (revised)	Non-current Assets Held-for-Sale and Discontinued Operations	FRS 105 is consistent with IFRS 5 in all material aspects.
2009	FRS 106 (revised)	Exploration for and Evaluation of Mineral Resources	IFRS 6 (revised)	Exploration for and Evaluation of Mineral Resources	FRS 106 is consistent with IFRS 6 in all material aspects.
2007 – for listed companies	FRS 107	Financial Instruments: Disclosures	IFRS 7	Financial Instruments: Disclosures	FRS 107 is consistent with IFRS 7 in all material aspects, except for their effective dates for non-listed companies.
2008 – for non-listed companies					For non-listed companies, FRS 107 is effective for annual periods beginning on or after 1 January 2008, whilst IFRS 7 is effective for annual periods beginning on or after 1 January 2007.

## Differences between Singapore Financial Reporting Standards and International Financial Reporting Standards

As at 31 August 2012

(A) FINANCIAL REPORTING STANDARDS					
Effective from 1 January; unless otherwise specified	Singapore Financial Reporting Standards		International Financial Reporting Standards		Overall comparison
2009	FRS 108	Operating Segments	IFRS 8	Operating Segments	FRS 108 is consistent with IFRS 8 in all material aspects.
–	–	–	IFRS 9	Financial Instruments	IFRS 9, effective for annual periods beginning on or after 1 January 2015 has not been adapted locally.
2014	FRS 110	Consolidated Financial Statements	IFRS 10	Consolidated Financial Statements	<p>FRS 110 is consistent with IFRS 10 in all material aspects, except in:</p> <ul style="list-style-type: none"> <li>one of the conditions for exemption from consolidation.</li> </ul> <p>FRS 110 requires the ultimate holding company or any intermediate parent of a company that seeks exemption from consolidation to produce consolidated financial statements that are available for public use. These consolidated financial statements need not comply with any specific accounting framework.</p> <p>IFRS 10 requires the ultimate holding company or any intermediate parent of a company that seeks exemption from consolidation to produce consolidated financial statements that are available for public use and comply with IFRS.</p> <ul style="list-style-type: none"> <li>effective dates; IFRS 10 is effective for annual periods beginning on or after 1 January 2013.</li> </ul>
2014	FRS 111	Joint Arrangements	IFRS 11	Joint Arrangements	<p>FRS 111 is consistent with IFRS 11 in all material aspects, except in:</p> <ul style="list-style-type: none"> <li>one of the conditions for exemption from proportionate consolidation or equity accounting. The dissimilarity is as identified in FRS 110.</li> <li>effective dates; IFRS 11 is effective for annual periods beginning on or after 1 January 2013.</li> </ul>
2014	FRS 112	Disclosure of Interests in Other Entities	IFRS 12	Disclosure of Interests in Other Entities	FRS 112 is consistent with IFRS 12 in all material aspects except for the effective dates. IFRS 12 is effective for annual periods beginning on or after 1 January 2013.
2013	FRS 113	Fair Value Measurement	IFRS 13	Fair Value Measurement	FRS 113 is consistent with IFRS 13 in all material aspects.

## Differences between Singapore Financial Reporting Standards and International Financial Reporting Standards

As at 31 August 2012

(B) INTERPRETATIONS					
Effective from 1 January; unless otherwise specified	Singapore Financial Reporting Standards		International Financial Reporting Standards		Overall comparison
2005	INT FRS 7	Introduction of the Euro	SIC 7	Introduction of the Euro	INT FRS 7 is consistent with SIC 7 (effective from 1998) in all material aspects.
2005	INT FRS 10	Government Assistance – No Specific Relation to Operating Activities	SIC 10	Government Assistance – No Specific Relation to Operating Activities	INT FRS 10 is consistent with SIC 10 (effective from 1998) in all material aspects.
2005	INT FRS 12	Consolidation – Special Purpose Entities	SIC 12	Consolidation – Special Purpose Entities	INT FRS 12 is consistent with SIC 12 (effective from 1999) in all material aspects.  Note that SIC 12 has been incorporated into IFRS 10, which is effective for annual periods beginning on or after 1 January 2013 and has been adopted locally.
2005	INT FRS 13	Jointly Controlled Entities – Non-Monetary Contributions by Venturers	SIC 13	Jointly Controlled Entities – Non-Monetary Contributions by Venturers	INT FRS 13 is consistent with SIC 13 (effective from 1999) in all material aspects.  Note that SIC 13 has been incorporated into IAS 28 (revised), which is effective for annual periods beginning on or after 1 January 2013 and has been adopted locally.
2005	INT FRS 15	Operating Leases - Incentives	SIC 15	Operating Leases - Incentives	INT FRS 15 is consistent with SIC 15 (effective from 1999) in all material aspects.
2005	INT FRS 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets	SIC 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets	INT FRS 21 is consistent with SIC 21 (effective from 2000) in all material aspects.  Note that INT FRS 21 has been incorporated into FRS 12, which is effective for annual periods beginning on or after 1 January 2012.
2005	INT FRS 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets	SIC 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets	INT FRS 21 is consistent with SIC 21 (effective from 2000) in all material aspects.  Note that INT FRS 21 has been incorporated into FRS 12, which is effective for annual periods beginning on or after 1 January 2012.

## Differences between Singapore Financial Reporting Standards and International Financial Reporting Standards

As at 31 August 2012

(B) INTERPRETATIONS					
Effective from 1 January; unless otherwise specified	Singapore Financial Reporting Standards		International Financial Reporting Standards		Overall comparison
2005	INT FRS 25	Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders	SIC 25	Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders	INT FRS 25 is consistent with SIC 25 (effective from 2000) in all material aspects.
2005	INT FRS 27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	SIC 27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	INT FRS 27 is consistent with SIC 27 (effective from 2001) in all material aspects.
2008	INT FRS 29	Service Concession Arrangements: Disclosures	SIC 29	Disclosure – Service Concession Arrangements	INT FRS 29 is consistent with SIC 29 (effective from 2001) in all material aspects.
2005	INT FRS 31	Revenue – Barter Transactions Involving Advertising Services	SIC 31	Revenue – Barter Transactions Involving Advertising Services	INT FRS 31 is consistent with SIC 31 (effective from 2001) in all material aspects.
2005	INT FRS 32	Intangible Assets – Web Site Costs	SIC 32	Intangible Assets – Web Site Costs	INT FRS 32 is consistent with SIC 32 (effective from 2002) in all material aspects.
2009	INT FRS 101 (revised)	Changes in Existing Decommissioning, Restoration and Similar Liabilities	IFRIC 1 (revised)	Changes in Existing Decommissioning, Restoration and Similar Liabilities	INT FRS 101 is consistent with IFRIC 1 (effective from 2004) in all material aspects.
–	–	–	IFRIC 2	Members' Shares in Co-operative Entities and Similar Instruments	IFRIC 2, effective for annual periods beginning on or after 1 January 2005 has not been adopted locally.
2008	INT FRS 104	Determining whether an Arrangement contains a Lease	IFRIC 4	Determining whether an Arrangement contains a Lease	INT FRS 104 is consistent with IFRIC 4 in all material aspects.
2007	INT FRS 105	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	INT FRS 105 is consistent with IFRIC 5 in all material aspects.
1 Dec 2005	INT FRS 106	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment	IFRIC 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment	INT FRS 106 is consistent with IFRIC 6 in all material aspects.

## Differences between Singapore Financial Reporting Standards and International Financial Reporting Standards

As at 31 August 2012

(B) INTERPRETATIONS					
Effective from 1 January; unless otherwise specified	Singapore Financial Reporting Standards		International Financial Reporting Standards		Overall comparison
1 Mar 2006	INT FRS 107	Applying the Restatement Approach under FRS 29	IFRIC 7	Applying the Restatement Approach under IAS 29	INT FRS 107 is consistent with IFRIC 7 in all material aspects.
1 Jun 2006	INT FRS 109	Reassessment of Embedded Derivatives	IFRIC 9	Reassessment of Embedded Derivatives	INT FRS 109 is consistent with IFRIC 9 in all material aspects.
1 Nov 2006	INT FRS 110	Interim Financial Reporting and Impairment	IFRIC 10	Interim Financial Reporting and Impairment	INT FRS 110 is consistent with IFRIC 10 in all material aspects.
2009	INT FRS 112 (revised)	Service Concession Arrangements	IFRIC 12 (revised)	Service Concession Arrangements	INT FRS 112 is consistent with IFRIC 12 in all material aspects.
1 Jul 2008	INT FRS 113	Customer Loyalty Programmes	IFRIC 13	Customer Loyalty Programmes	INT FRS 113 is consistent with IFRIC 13 in all material aspects.
2008	INT FRS 114	FRS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	INT FRS 114 is consistent with IFRIC 14 in all material aspects.
2011	INT FRS 115	Agreements for the Construction of Real Estate	IFRIC 15	Agreements for the Construction of Real Estate	<p>INT FRS 115 is consistent with IFRIC 15 in all material aspects except for effective dates. IFRIC 15 is effective for annual periods beginning on or after 1 January 2009.</p> <p>Based on IFRIC 15, an agreement for the construction of real estate meets the definition of a construction contract, and percentage-of-completion accounting can be used, only when the buyer is able to:</p> <ul style="list-style-type: none"> <li>• specify the major structural elements of the design of the real estate before construction begins; and/or</li> <li>• specify major structural changes once construction is in progress (whether or not it exercises that ability).</li> </ul>



# Differences between Singapore Financial Reporting Standards and International Financial Reporting Standards

As at 31 August 2012

## (B) INTERPRETATIONS

Effective from 1 January; unless otherwise specified	Singapore Financial Reporting Standards		International Financial Reporting Standards		Overall comparison
					<p>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.</p> <p>If the agreement is neither a construction contract nor a service contract, it is a contract to supply goods for which IAS 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.</p> <p>The Accompanying Note to INT FRS 115 states that the standard residential property sales in Singapore that meet the criteria set out in FRS 18.14 would require such sales to be accounted for on a percentage-of-completion method.</p> <p>However, in some situations specific to the circumstances of a development project as described in paragraph 32, there might be uncertainties that would require the completion of construction method to be applied, consistently with the principles set out in FRS 18 for the treatment of revenue when such uncertainties exist.</p>
1 Oct 2008	INT FRS 116	Hedges of a Net Investment in a Foreign Operation	IFRIC 16	Hedges of a Net Investment in a Foreign Operation	INT FRS 116 is consistent with IFRIC 16 in all material aspects.
1 July 2009	INT FRS 117	Distributions of Non-cash Assets to Owners	IFRIC 17	Distributions of Non-cash Assets to Owners	INT FRS 117 is consistent with IFRIC 17 in all material aspects.
1 July 2009	INT FRS 118	Transfers of Assets from Customers	IFRIC 18	Transfers of Assets from Customers	INT FRS 118 is consistent with IFRIC 18 in all material aspects.

## Differences between Singapore Financial Reporting Standards and International Financial Reporting Standards

As at 31 August 2012

(B) INTERPRETATIONS					
Effective from 1 January; unless otherwise specified	Singapore Financial Reporting Standards		International Financial Reporting Standards		Overall comparison
1 July 2010	INT FRS 119	Extinguishing Financial Liabilities with Equity Instruments	IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	INT FRS 119 is consistent with IFRIC 19 in all material aspects.
2013	INT FRS 120	Stripping Costs in the Production Phase of a Surface Mine	IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	INT FRS 120 is consistent with IFRIC 20 in all material aspects.

---

## Notes

---

## Notes

## Contact Us

For more information or comments on this publication, please contact us :

PricewaterhouseCoopers LLP  
8 Cross Street #17-00  
PWC Building  
Singapore 048424  
Main Line : +65 6236 3388  
Facsimile : +65 6236 3300  
Website : <http://www.pwc.com/sg>



Yeoh Oon Jin  
Executive Chairman (Designate)  
Email : [oon.jin.yeoh@sg.pwc.com](mailto:oon.jin.yeoh@sg.pwc.com)  
Telephone : +65 6236 3108



Sim Hwee Cher  
Singapore Assurance Leader  
Email : [hwee.cher.sim@sg.pwc.com](mailto:hwee.cher.sim@sg.pwc.com)  
Telephone : +65 6236 3128



Chen Voon Hoe  
Partner, Accounting Consulting Services  
Email : [voon.hoe.chen@sg.pwc.com](mailto:voon.hoe.chen@sg.pwc.com)  
Telephone : +65 6236 7488



Kok Moi Lre  
Partner, Accounting Consulting Services  
Email : [moi.lre.kok@sg.pwc.com](mailto:moi.lre.kok@sg.pwc.com)  
Telephone : +65 6236 3178



Yong Jiunn Siong  
Partner, Assurance Risk and Controls Solutions  
Email : [jiunn.siong.yong@sg.pwc.com](mailto:jiunn.siong.yong@sg.pwc.com)  
Telephone : +65 6236 7238

This publication is available for free download from <http://www.pwc.com/sg/iar2012>.  
Alternatively, you can scan this QR code to download the publication.



[www.pwc.com/sg](http://www.pwc.com/sg)



This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. It does not take into account any objectives, financial situation or needs of any recipient; any recipient should not act upon the information contained in this publication without obtaining independent professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers LLP, its members, employees and agents do not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.