MOORE STEPHENS

Moore Stephens Financial Reporting Seminar 2016

18 November 2016

Agenda

1. Welcome Address
2. Financial Reporting Changes in 2016
3. Financial Reporting Changes post-2016
   - Revenue Recognition
   - Financial Instruments
   - Leases
4. Break
5. Corporate Regulatory Updates
6. IT Developments in Financial Reporting
7. Panel: Developments in the Corporate Reporting Landscape
8. Q&A

Professor Ng Eng Juan

Associate Professor Ng Eng Juan graduated with B Ec (first class honours) from Universiti Malaya and MBA from University of Southern California. He is a fellow of the Institute of Singapore Chartered Accountants (ISCA).

Prof Ng has had many years of working experience in an international public accounting firm. He was with the Nanyang Business School of the Nanyang Technological University (NTU), teaching financial accounting courses in the B Acc and MBA programmes. Over the years, he has won several teaching awards, including the "Accounting Teacher of the Year", and "Nanyang Award for Excellence in Teaching". After his retirement from NTU, Prof Ng has joined UniSIM as an Associate Professor in the UniSIM School of Business.

Prof Ng is actively involved in the accounting profession. He was a member of ASC's working committee on "Revenue from Contracts with Customers" and has been a member of ISCA's Accounting Standards Committee for many years. He has served as external examiner/advisor to several accounting professional/degree programmes in Singapore, UK and China. He also conducts regular executive development programmes for accountants and managers (and was awarded "CPE Trainer of the Year" by ISCA), and provides consultancy services to public accounting firms and law firms.

Prof Ng's current research interests are in the area of accounting standards and practices. Among his publications are more than 30 professional accounting books including "Consolidated Financial Statements (Singapore)", "A Practical Guide to Financial Reporting Standards (Malaysia)", and "A Practical Guide to Financial Reporting Standards (Singapore)".

Winston Seow

Winston Seow graduated with a Bachelor of Law (Honours) degree from the National University of Singapore. He was called to the Singapore bar in 1995 and since then has been a practising advocate and solicitor of the Supreme Court of Singapore.

He is currently Regional Head of Asia Pacific Business Division at Withers KhattarWong.

Winston's practice covers a wide spectrum of corporate work including mergers and acquisitions, joint ventures, corporate finance, banking and corporate restructuring.

His practice focuses on cross border transactions and foreign direct investment in Asia, in particular, Indonesia, China, Malaysia, Thailand and Vietnam.

His clients include local and foreign small and medium enterprises, multinational corporations and state-owned enterprises, the majority of which are in the energy and shipping sectors.

Chris Johnson

Chris is a Partner with the Audit and Assurance practice of Moore Stephens LLP and Head of Risk Management and Corporate Governance.

He has more than 30 years' experience in audit and assurance. Chris provides forensic accounting and risk management services.

He leads audit and assurance engagements for Singapore and international clients, comprising both listed and privately owned businesses. He has also undertaken a number of special assignments including corporate restructuring and capital raising.

Chris' industry expose spans through various sectors - shipping, agriculture, education, manufacturing and property development.

Neo Keng Jin

Keng Jin joined Moore Stephens Singapore from another accounting firm in 1994 and was appointed a Partner in year 2001 in the Audit and Assurance Division. He is a Fellow Chartered Accountant of Singapore and an approved liquidator registered with the Accounting and Corporate Regulatory Authority of Singapore ("ACRA").

During his career with Moore Stephens Singapore, he has been involved in audit, corporate recovery and special engagements for various industries including agriculture, consumer business, manufacturing, real estate, retail, shipping and technology companies. In addition, he has undertaken a number of special engagements in an advisory role in restructuring advice, business viability studies, financial due diligence and fraud and investigation audits.

Keng Jin is the Head of Initial Public Offerings (IPO) / Reverse Take Over (RTO) Group. He is also a director of Moore Stephens Asia Pacific Limited, panel member of ACRA's Investigation and Disciplinary Committee and member of ISCA – Financial Statements Review Committee.

Wong Koon Min

Koon Min graduated with a Bachelor of Accountancy degree from the Nanyang Technological University in Singapore. He is a member of the Institute of Singapore Chartered Accountants and the Institute of Chartered Accountants in Australia. He has over 15 years of public accounting experience in Singapore.

He joined Moore Stephens LLP Singapore from another accounting firm in 2014. He is Audit Partner and Head of Professional Standards within the firm, overseeing financial reporting and audit advisory as well as internal quality reviews and technical compliance. He presents widely in public presentations and private client seminars.

Koon Min has more than seven years of advisory experience in the interpretation and application of International and Singapore Financial Reporting Standards, including two years in the London office of an international major accounting firm where he advised on accounting issues from the global network. In addition, he has also been involved in the audit of various industries including financial, real estate, manufacturing, and transportation.

Phil Cowan

Phil is Head of Corporate Finance at Moore Stephens LLP, London, specialising in private equity, mergers and acquisitions, valuations, IPOs and transaction support.

Phil first joined Moore Stephens in 1985. He became a partner in 1996 and Head of Corporate Finance in 2004, with a strong track record of flotations, fundraising, mergers and acquisitions and valuations. He joined V.Ships in 2007, and became Group CFO and Chairman of V.Ships Capital. Subsequently, he returned to Moore Stephens in July 2012 and is a member of its Management Board with particular responsibility for strategy and finance.

Phil has acted as an expert witness in a number of shipping and other industry sector arbitrations and court cases.

Nick King

Nick is a Director in the forensic accounting services team of Moore Stephens LLP, London. He specialises in business planning, financial planning, project appraisals and the use of computerised accounting models, particularly in the context of forensic accounting.

Among other areas of specialty, Nick is one of the leading investigation/ forensic accounting experts on the shipping industry. He is the first accountant member of the British Maritime Law Association.

Choo Kwong Chee

Kwong Chee is a Director of the IT Consulting and Solutions practice of Moore Stephens LLP with over 16 years of consulting experience in helping clients transform their business using technology, and in solving business problems through delivery of high-quality, innovative, and cost-effective solutions. His expertise includes systems implementation, client engagement, change management, business transformation, business process standardization, project and program management.

Kwong Chee has previously worked in a wide variety of industries, and he has served leading global corporations, managing large scale business transformation programs across all major economies in SEA and Asia Pacific. He graduated from the London School of Economics and Political Science with a Bachelor of Science in Economics (Hons) degree.

Financial Reporting Changes in 2016

Presenter: Wong Koon Min

Are you Affected?

Does your Company issue Auditor’s reports for periods ending on or after 15 December 2016?

- Changes to auditor's report

Does your Company equity account for its share of other comprehensive income of associates/ JVs?

- Disclosure initiative

Does your Company depreciate fixed assets, or amortises intangible assets based on revenue?

- Revenue-based depreciation/ amortisation

Does your Company owns bearer plant biological assets e.g. fruit trees, oil palms?

- Bearer Plants

Has your Company entered into a joint arrangement that qualifies as joint operation, for which goodwill is paid?

- Accounting for joint operations

Has your Company factored its receivables, or performed any other types of transfers of financial assets?

- Servicing contracts

Are you Affected?

Has your Company sold or transferred one or more subsidiaries to its associates or joint ventures?

- Contribution of assets between an investor and its associate or joint venture

Does your Company have parents, subsidiaries, or associates that are investment entities?

- Amendments: Investment Entities

Has your Company initially decided to sell an asset, but subsequently, instead, decided to distribute the asset to shareholders, or vice versa?

- Change of plans from asset disposal to asset distribution

Does your Company have investments in subsidiaries, joint ventures and associates held by parent company?

- Equity Method in Separate Financial Statements

Does your Company operate a pension plan which pays benefits are paid in a currency where a deep bond market exists outside the country (e.g. Singapore plan pays US$ benefits)?

- Discount rates for pension plans

Has your Company issued condensed interim financial statements based on FRS 34, where some information (e.g. segment) is repeated in other parts of the report (e.g. management commentaries)?

- Using cross references in interim reports

Changes to auditors’ report

New SSA 701 - *Communicating Key Audit Matters in the Independent Auditor’s Report*

Effective for the annual period on or after 15 December 2016	Applicable to	
Enhanced auditors’ report	Listed entities	Non-Listed entities
Opinion section first	√	√
Revised description of management responsibilities (including enhanced responsibilities related to going concern)	√	√
Revised description of auditors’ responsibilities (including enhanced auditor reporting related to going concern)	√	√
Affirmative statement in auditor’s report about the auditor’s independence and other relevant ethical requirements	√	√
Disclose the name of the audit partner	√	X
Key audit matters and how they were addressed	√	X

Required disclosures on Key Audit Matters

KAM Disclosures

KAM disclosures in audit report include:

- Explain why was the matter considered to be KAM
- Explain how the matter was addressed in the audit
- Reference to the related disclosures in the financial statements, where relevant

KAM disclosures are:

- prohibited for disclaimer of opinion
- required for qualified or adverse opinion

ACRA Practice Bulletin – Practice Guidance no. 2 of 2016

- Provides ACRA's views in respect of KAMs
- Number of KAMs not prescribed but reference can be drawn to UK practice with average of 3-5, none exceeding 8
- ACRA's expectations:
  - Avoid boilerplate/ generic
  - KAM should not be merely a description of audit procedures
  - Concise, understandable, less technical
- Includes worked example
- Focal point for ACRA reviews in 2017

Disclosure Initiative

Applies when:

- All financial statements (FS)

Key amendments:

- Materiality
    - Should not be obscured with immaterial information
    - Additional disclosures required if needed for understanding of financial impact
- Additional sub-totals in Primary Statements
    - Comprised only of line items based on FRS
    - Presented to be clear, understandable, consistent, without undue prominence
    - Disclose reconciliation to FRS sub-totals
- Notes structure
    - Flexible order considering understandability/ comparability (e.g. group by activities, items measured similarly, etc.)
- Presentation of Equity-Accounted OCI (next slide)

Disclosure Initiative (cont'd)

Before amendment	
<u>Other comprehensive income, net of income tax</u>	S$
Items that will not be reclassified subsequently to profit or loss	
Gains on revaluation of fixed assets	1,000
Share of gains on revaluation of fixed assets of associated companies	200
Share of defined benefit plan remeasurements of associated companies	300
	1,500
Items that will be reclassified subsequently to profit or loss:	
Exchange differences on translating foreign operations	800
After amendment	
<u>Other comprehensive income, net of income tax</u>	S$
Items that will not be reclassified subsequently to profit or loss	
Gains on revaluation of fixed assets	1,000
Share of other comprehensive income of associated companies	500
	1,500
Items that will be reclassified subsequently to profit or loss:	
Exchange differences on translating foreign operations	800

Revenue-based depreciation/ amortisation

Applies when:

- Group depreciates fixed assets, or amortises intangible assets based on revenue

Key amendments:

- For *property, plant and equipment*, revenue-based depreciation is prohibited.
- For *intangibles, r*evenue-based amortisation is presumed to be inappropriate.
- For *intangibles*, the presumption can be rebutted if either:
    1. The intangible asset is expressed as a measure of revenue; or
    2. Revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

Example:

Contract that allows extraction of gold from mine until total cumulative revenue from the sale of gold reaches fixed amount as per contract qualify for revenue-based amortisation.

Bearer Plants

Applies when:

- Group owns bearer plant biological assets e.g. fruit trees, oil palms.

Key amendments:

- Prior to the amendments, bearer plants was within the scope of FRS 41, and held at fair value less costs to sell.
- Amendment requires bearer plant to be accounted for as fixed assets.

Bearer Plants

Bearer plants	NOT bearer plants
• Tea bushes • Grape vines • Oil palms • Rubber trees	• Plants cultivated to be harvested as agricultural produce (e.g. trees grown for lumber) • Plants cultivated to grow agricultural produce, when there is more than a remote likelihood that the entity will also harvest and sell the plant (other than as part of incidental scrap sales) • Annual crops (e.g. maize and wheat).

Accounting for joint operations

Applies when:

- Group enters into a joint arrangement that qualifies as joint operation
- The joint operation qualifies as a business.

Key amendments:

- Clarification of the treatment of acquisitions of interests in joint operations that meet the definition of a business in FRS 103 *Business Combinations*.
- Only apply to if acquiree is a business (including unincorporated business).
- The entity must:
  - Apply the principles of business combination accounting (only to the extent of its share) as prescribed in FRS 103
  - Disclose the information regarding business combinations as prescribed in FRS 103

Servicing Contracts

Applies when:

- Company transacted to transfer a financial asset (e.g. factoring of receivables)
- Company remains involved in collecting cash from customers/ debtors, and transferring the collected monies to the bank (“servicing contract”).

Before amendment

- Company has to make the disclosures in FRS 107.42A to H (next slides), if it has a “continuing involvement” in the transferred assets (e.g. factored receivables)
- Unclear if servicing contract is “continuing involvement”. If yes, disclosures required.

After amendment

- Servicing contract is “continuing involvement” if it exposes Company to future performance of the asset (e.g. if Company gets a variable fee based on collection of factored receivables), in which case disclosures required.

Disclosures: FRS 107.42A to H

42A The disclosure requirements in paragraphs 42B–42H relating to transfers of financial assets supplement the other disclosure requirements of this FRS. An entity shall present the disclosures required by paragraphs 42B–42H in a single note in its financial statements. An entity shall provide the required disclosures for all transferred financial assets that are not derecognised and for any continuing involvement in a transferred asset, existing at the reporting date, irrespective of when the related transfer transaction occurred. For the purposes of applying the disclosure requirements in those paragraphs, an entity transfers all or a part of a financial asset (the transferred financial asset) if, and only if, it either:

(a) transfers the contractual rights to receive the cash flows of that financial asset; or

(b) retains the contractual rights to receive the cash flows of that financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement.

42B An entity shall disclose information that enables users of its financial statements:

(a) to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities; and

(b) to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognised financial assets.

42C For the purposes of applying the disclosure requirements in paragraphs 42E–42H, an entity has continuing involvement in a transferred financial asset if, as part of the transfer, the entity retains any of the contractual rights or obligations inherent in the transferred financial asset or obtains any new contractual rights or obligations relating to the transferred financial asset. For the purposes of applying the disclosure requirements in paragraphs 42E–42H, the following do not constitute continuing involvement:

(a) normal representations and warranties relating to fraudulent transfer and concepts of reasonableness, good faith and fair dealings that could invalidate a transfer as a result of legal action;

(b) forward, option and other contracts to reacquire the transferred financial asset for which the contract price (or exercise price) is the fair value of the transferred financial asset; or

(c) an arrangement whereby an entity retains the contractual rights to receive the cash flows of a financial asset but assumes a contractual obligation to pay the cash flows to one or more entities and the conditions in paragraph 19(a)-(c) of FRS 39 are met.

Transferred financial assets that are not derecognised in their entirety

42D An entity may have transferred financial assets in such a way that part or all of the transferred financial assets do not qualify for derecognition. To meet the objectives set out in paragraph 42B(a), the entity shall disclose at each reporting date for each class of transferred financial assets that are not derecognised in their entirety:

(a) the nature of the transferred assets.

(b) the nature of the risks and rewards of ownership to which the entity is exposed.

(c) a description of the nature of the relationship between the transferred assets and the associated liabilities, including restrictions arising from the transfer on the reporting entity's use of the transferred assets.

(d) when the counterparty (counterparties) to the associated liabilities has (have) recourse only to the transferred assets, a schedule that sets out the fair value of the transferred assets, the fair value of the associated liabilities and the net position (the difference between the fair value of the transferred assets and the associated liabilities).

(e) when the entity continues to recognise all of the transferred assets, the carrying amounts of the transferred assets and the associated liabilities.

(f) when the entity continues to recognise the assets to the extent of its continuing involvement (see paragraphs 20(c)(ii) and 30 of FRS 39), the total carrying amount of the original assets before the transfer, the carrying amount of the assets that the entity continues to recognise, and the carrying amount of the associated liabilities.

Disclosures: FRS 107.42A to H

Transferred financial assets that are derecognised in their entirety

42E To meet the objectives set out in paragraph 42B(b), when an entity derecognises transferred financial assets in their entirety (see paragraph 20(a) and (c)(i) of FRS 39) but has continuing involvement in them, the entity shall disclose, as a minimum, for each type of continuing involvement at each reporting date:

(a) the carrying amount of the assets and liabilities that are recognised in the entity's statement of financial position and represent the entity's continuing involvement in the derecognised financial assets, and the line items in which the carrying amount of those assets and liabilities are recognised.

(b) the fair value of the assets and liabilities that represent the entity's continuing involvement in the derecognised financial assets.

(c) the amount that best represents the entity's maximum exposure to loss from its continuing involvement in the derecognised financial assets, and information showing how the maximum exposure to loss is determined.

(d) the undiscounted cash outflows that would or may be required to repurchase derecognised financial assets (eg the strike price in an option agreement) or other amounts payable to the transferee in respect of the transferred assets. If the cash outflow is variable then the amount disclosed should be based on the conditions that exist at each reporting date.

(e) a maturity analysis of the undiscounted cash outflows that would or may be required to repurchase the derecognised financial assets or other amounts payable to the transferee in respect of the transferred assets, showing the remaining contractual maturities of the entity's continuing involvement.

(f) qualitative information that explains and supports the quantitative disclosures required in (a)–(e).

42F An entity may aggregate the information required by paragraph 42E in respect of a particular asset if the entity has more than one type of continuing involvement in that derecognised financial asset, and report it under one type of continuing involvement.

42G In addition, an entity shall disclose for each type of continuing involvement:

(a) the gain or loss recognised at the date of transfer of the assets.

(b) income and expenses recognised, both in the reporting period and cumulatively, from the entity's continuing involvement in the derecognised financial assets (eg fair value changes in derivative instruments).

(c) if the total amount of proceeds from transfer activity (that qualifies for derecognition) in a reporting period is not evenly distributed throughout the reporting period (eg if a substantial proportion of the total amount of transfer activity takes place in the closing days of a reporting period):

(i) when the greatest transfer activity took place within that reporting period (eg the last five days before the end of the reporting period),

(ii) the amount (eg related gains or losses) recognised from transfer activity in that part of the reporting period, and

(iii) the total amount of proceeds from transfer activity in that part of the reporting period.

An entity shall provide this information for each period for which a statement of comprehensive income is presented.

Contribution of assets between an investor and its associate or joint venture

Applies when:

Group sells one or more subsidiaries to its associates or joint ventures

Key amendments:

Investor

Sell or contribute an asset

Loss of control

Associate or Joint Venture

Does the asset being contributed meet the definition of a business under FRS 103?

Yes

Full gain or loss is recognised in P/L

No

Partial gain or loss is recognised in P/L only to the extent of unrelated investors' interests in associate or joint venture

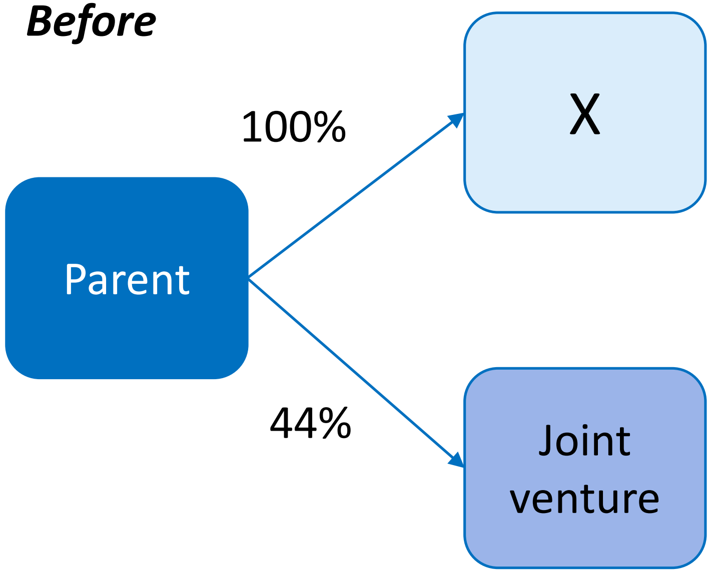
Contribution of assets between an investor and its associate or joint venture

Example:

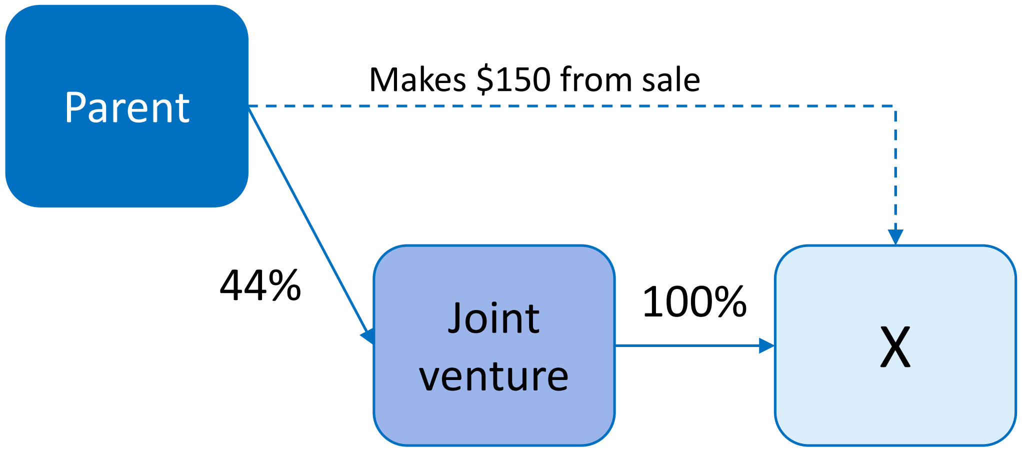
- A parent sells 100% interest in a subsidiary X to its 44% Joint venture for cash of $200. As a result, the parent loses control of X.
- The carrying amount of X's net assets in the parent's consolidated financial statements is $50. The gain on disposal of 100% of X is $150 ($200-$50).

How the amendments apply to the above transaction?

Before



After



Contribution of assets between an investor and its associate or joint venture

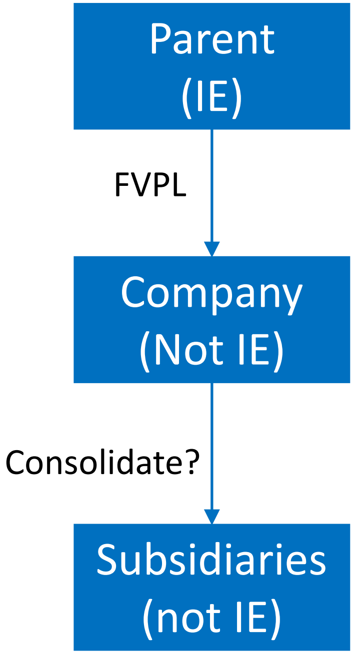
If X is a business	If X is a sale of asset
Parent recognises a full gain profit or loss of $150 on the loss of control.	Because the parent has a 44% interest in the JV, it eliminates 44% of the gain against the carrying amount of JV, 56% of the gain $84 is recognised in profit or loss.

In December 2015, ASC indefinitely deferred the effective date of this amendment. However, it can still be early adopted.

Amendments: Investment Entities

Applies when:

- Company is not an investment entity
- Company has subsidiaries
- Company is subsidiary of Parent
- Parent is investment entity and measures subsidiaries at FVPL instead of consolidation



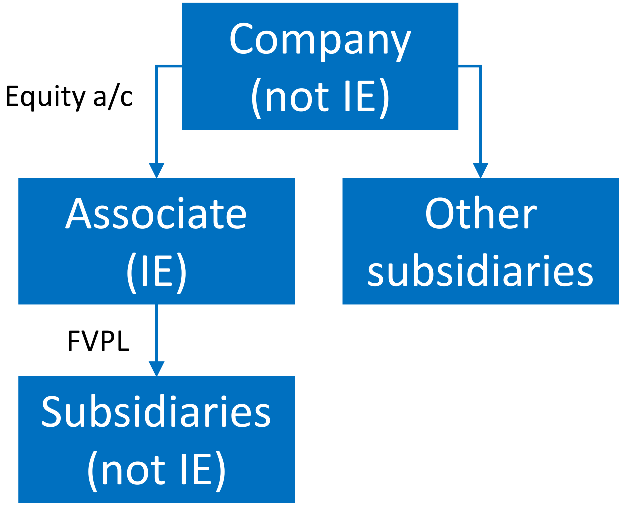
Before amendment

- FRS 110 exempts a company from preparing consolidated FS if the parent company produces “consolidated” FS that are available for public use (among other criteria).
- Parent does not “consolidate”=> Company may need to consolidate.

After amendment

- Amendment exempts Company from consolidation if remaining exemption criteria met.

Amendments: Investment Entities (cont’d)



Applies when:

- Company is not an investment entity; must produce consolidated FS.
- Company holds Associate that is investment entity
- Associate has its own subsidiaries, held at FVPL in Associate’s FS
- Associate’s subsidiaries is not investment entity

Before amendment:

- Company technically should equity-account for Associate’s subsidiaries
- Practical difficulties to reverse Associate’s FVPL adjustment on its subsidiaries, and instead, perform equity accounting for Associate’s subsidiaries

After amendment:

- Company need not equity account for Associate’s subsidiaries
- Company can retain Associate’s FVPL basis for Associate’s subsidiaries

Amendments: Investment Entities (cont'd)

Applies when:

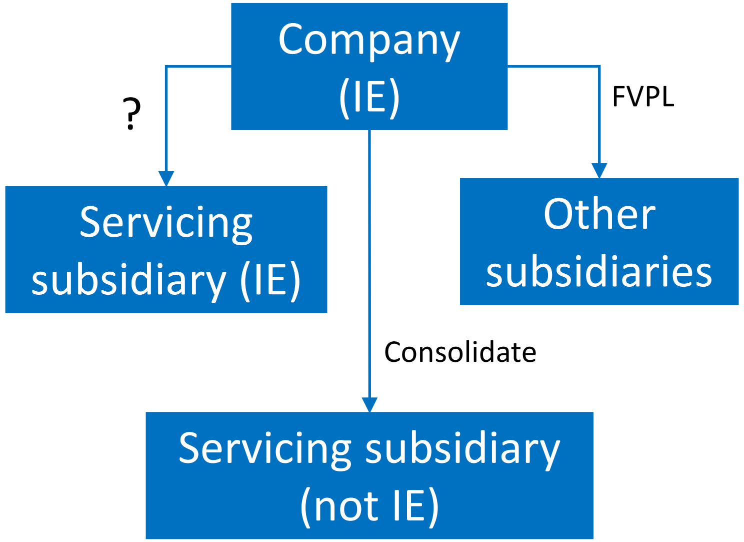
- Company is an investment entity; fair values its subsidiaries.
- Company holds subsidiaries that provide services that relate to Company's investment activities ("Servicing subsidiary").
- According to FRS 110, Servicing subsidiary that is not investment entity should be consolidated (instead of FVPL).

Before amendment:

- Unclear how to measure Servicing subsidiary that is investment entity.

After amendment:

- Servicing subsidiary that is investment entity is measured at FVPL.



Change of plans from asset disposal to asset distribution

Applies when:

- Group initially classified asset as held-for-sale, but subsequently decided to distribute the asset to shareholders and classify it as held-for-distribution; or
- Vice versa

Key amendments:

- Reclassification is considered a continuation of the original plan of disposal.
- Continue to measure the assets (or disposal group) at the lower of carrying amount and fair value less cost to sell.
- When an entity determines that the asset (or disposal group) is no longer available for immediate distribution or that the distribution is no longer highly probable, it should cease held-for distribution accounting.

Change of plans from asset disposal to asset distribution (cont'd)

On 1 January 2015, an entity is committed to a plan to sell a property to a third party and classified the property as held for sale at that date. On 30 June 2015, the management have changed their mind and decided to treat the property as distribution to its shareholders, instead of selling it. Should an entity account for the change of disposal plan using Alt A or Alt B?

	1 Jan 15	30 Jun 15		
		Alt A	***Alt B***	
Asset for sale	100	(100)	(100)	-
Asset for distribution	-	100	-	90(a)
Property, plant and equipment (PPE)	(100)	-	10[illegible]	([illegible])(b)

a) FRS 105 para. 15A requires an entity shall measure a non-current asset (or disposal group) classified as held for distribution to owners at the lower of its carrying amount and fair value less costs to distribute.

b) FRS 105 para. 27 requires an entity to measure a non-current asset that ceases to be classified as held for sale (or ceases to be included in a disposal group classified as held for sale) at the lower of original amount adjusted for depreciation and its recoverable amount at the date of subsequent decision not to sell. Assuming depreciation is $20 per year. The net carrying amount of the property is 90 (100-10).

Equity Method in Separate Financial Statements

Applies when:

- Group has investments in subsidiaries, joint ventures and associates, held by parent company

Key amendments:

- Entities have the option to account for its subsidiaries, joint ventures and associates using the equity method in its separate financial statements.
- The amendment allows the entity to use the following methods to account for its investments:
  - At cost;
  - In accordance with FRS 39 (or FRS 109); or
  - Using the equity method.
- Any dividends received are deducted from the carrying amount of the equity accounted investment, and are not recorded as income in profit or loss.

Equity Method in Separate Financial Statements (cont'd)

	Group		Company	
	2016	**2015**	**2016**	**2015**
Cash	1,500	1,000	-	-
Investment in subsidiary	-	-	(A)	1,000
	1,500	1,000	(A)	1,000
Share capital	1,000	1,000	1,000	1,000
Profit	500	-	?	-
	1,500	1,000	?	1,000

On 31/12/2015,

- holding company invests $1,000 in subsidiary which holds $1,000 cash,

On 31/12/2016,

- share of net assets of subsidiary is $1,500 and
- fair value of subsidiary is $2,000.

What is the value marked (A)?

1. $1,000
2. $1,500
3. $2,000

All of the above are possible. From 1 Jan 2016, investments in subsidiaries can be held at cost, fair valued, or equity-accounted in the holding company's separate balance sheet.

Discount rates for pension plans

Applies when:

- Group operates a pension plan
- Pension plan benefits are paid in a currency where a deep bond market exists outside the country

Key amendments:

- Clarifies the discount rates used for pension plans
- Discount rates should be based on high quality corporate bonds denominated in the same currency as the related benefits that will be paid

Example:

- An entity set up a pension plan in EURO and in Greece. The entity should not limit its consideration of the discount rate to the highest-quality Euro bond in Greece only. It should also consider the Euro bonds outside Greece.

Using cross references in interim reports

Applicable when:

- Group issues condensed interim financial statements based on FRS 34
- Some information in the interim financial statements (e.g. segment) is repeated in other parts of the report (e.g. management commentaries)

Key amendments

- Certain disclosure requirements in interim financial statements can be omitted and cross-referenced to other reports that are available on the same terms and at the same time.
- Otherwise, the disclosures must be made again in the notes to the interim financial statements.

FRS 115 Revenue from Contracts with Customers

Presenter: Wong Koon Min

FRS 115 *Revenue from Contracts with Customers*

- Joint project between IASB and FASB
- Converged project with US GAAP
- Issued under IFRS in May 2014
- Issued under Singapore FRS in Nov 2014
- Amended subsequently in 2015 and 2016
- Replaces:
  - FRS 18 *Revenue*
  - FRS 11 *Construction Contracts*
  - INT FRS 31 *Revenue - Barter Transactions Involving Advertising Services*
  - INT FRS 113 *Customer Loyalty Programs*
  - INT FRS 115 *Agreements for the Construction of Real Estate*
  - INT FRS 118 *Transfer of Assets from Customers*
- Effective for financial years beginning on or after 1 January 2018

Five-Step Approach

1. Identify the contract with the customer
2. Identify the separate performance obligations
3. Determine the transaction price
4. Allocate the transaction price to the separate performance obligations
5. Recognize revenue when a performance obligation is satisfied

Are you affected?

Company may be affected if “Yes” to any of the following:

- Does your Company have significant sales returns?
- Does your Company earn multiple revenue streams from a single contract (“multi-element contract”)?
- Does your Company earn long-term project revenue?
- Does your Company earn revenue from projects spanning multiple contractual documents?
- Does your Company have to deal with variation orders or other modifications to revenue contracts?
- Does your Company earn revenue that is variable (e.g. based on some contingency or market variable)?
- Does your Company issue warranties on sold products?

Are you affected?

Company may be affected if "Yes" to any of the following:

- Does your Company earn revenue as a middleman ("Agent")?
  - E.g. brokerage revenue, revenue earned by product distributor, main contractor on a project where project where part of the work (and revenue) is sub-contracted.
- Does your Company earn revenue from the sale or licensing of intellectual property?
  - E.g. software, franchises, patents and trademarks
- Does your Company earn revenue from sales where the billing is done prior to delivery ("bill and hold" sales)?
- Does your Company provide customers with options for additional goods or services (e.g. as part of a customer loyalty program)?
- Does your Company sell gift cards, vouchers, non-refundable tickets, or other types of future promises to deliver, where the Company cannot deliver its promise until the customers utilize the gift cards/vouchers/tickets?
- Does your Company earn non-refundable up-front fees from customers (e.g. joining fee, activation fee)?

Sales returns

- E.g. right to return G&S for cash, product exchange, credit notes or vouchers
- Seller recognizes:
  1. Revenue excluding amount expected be refunded (variable consideration guidelines)
  2. Refund liability
  3. Asset for right to recover products upon refund
- Refund liability re-measured at each reporting date, adjusted through revenue
- Asset for recovery right recognized at pre-sale carrying amount of product
- Exchange for another product of same type, quality, condition, price is not a return
- Return of defective product considered as warranty not return

Revenue Issues – Sale With Right Of Return

- X Company's return policy allow full cash refund on return of unused/undamaged products within 30 days.
- During the year, X sold 100 products at $20 each for $2,000
- Cost of each product sold is $5 each
- X estimates that 2 products will be returned; unlikely to be more
- Returned products can be re-sold at a profit

What are the accounting entries?

	Dr	**Cr**
Cash	2,000	
Refund liability ($20 x 2)		40
Revenue		1,960

	Dr	**Cr**
Asset ($5x2)	10	
Cost of sales	490	
Inventory		500

Multi-element contracts

Two issues:

1. Is it necessary to split-account for the multiple revenue streams separately?
2. If yes, how to allocate price received between separate revenue streams?

Multi-element contracts
- Separate revenue streams?

Separate revenue streams only if the promised goods or services are both:

- capable of being **distinct**
  - The entity regularly sells the good or service separately; or
  - The customer can benefit from the good or service on its own or together with other readily available resources
- **distinct** within the context of the contract
  - Next slide

Multi-element contracts
- Separate revenue streams?

Is significant work performed to integrate the G&S with other G&S in the contract? or

Does one or more G&S significantly modify/ customise other G&S in the contract? , or

Are the G&S in contract highly interdependent or interrelated?

Transformative relationship?

Yes

Yes

Yes

Not "distinct within context of contract"

→ one performance obligation

"Distinct within context of contract"

Multi-element contracts
- Separate revenue streams?

Example

- Entity contracts to build commercial property for a customer.
- Entity has to
    1. clear the site,
    2. lay the foundation,
    3. construct the structure,
    4. lay the piping and wiring,
    5. install the equipment and finishing.
- How many performance obligations are there in this contract?

Answer: One performance obligation. The entity provides a significant service of integrating all five elements above into the completed commercial property.

Multi-element contracts - Price allocation

Usually allocated based on relative **stand-alone selling price** at contract inception

- Stand-alone selling price: observable price of good/ svc when entity sells that good/svc separately
- Estimate stand-alone selling price if not directly observable

Example: Fastfood restaurant sells ala carte Hamburgers, Fries, and Drinks for \$5.00, \$2.50 and \$2.50 respectively. A value meal, which comprises of a Hamburger, Fries and a Drink, is priced at \$8. When the value meal is sold, how much revenue does the restaurant record for the Hamburger?

Ans: \$4 (=\$5/\$10 x \$8)

Long-term project revenue

A performance obligation is satisfied **over time** if:

a) Customer **receives benefits simultaneously** as the entity performs; or
b) Seller creates/ enhances asset that customer controls during creation/ enhancement; or
c) Seller:
   - does not create an asset with **alternative use;** and
   - has a **enforceable right to payment** for performance completed to date.

If satisfied over time, revenue recognised based on progress to completion

Customer “receives benefits simultaneously”

- Critical test

  If another service provider were to step in to fulfill the remaining performance obligation to the customer, does the stepping-in servicer need to re-perform the work completed to date by the exiting servicer?

- Assumptions in applying test
  - Disregard contractual/ practical limitations that prohibit transfer of contract
  - Assume that stepping-in servicer cannot benefit from assets controlled by exiting servicer, if those assets remain controlled by exiting servicer after exit.

“Alternative Use”

- ✓ Examples of alternative use: sell to different customer, convert to different product, etc.
- ✓ Consider both contractual restrictions and practical limitations
- ✓ Contractual restrictions – must be substantive, i.e. customer can enforce rights to asset if asset sold to different customer
- ✓ Practical limitation - exists if:
  - Significant costs needed to rework the asset; or
  - Can only sell the asset to other parties at a significant loss.

“Enforceable Right to Payment”

- Critical test

  If contract is terminated, <u>not</u> because seller failed to perform, will the seller be compensated for performance completed to date?

- Compensation required
  - Selling price of goods transferred to date or costs plus reasonable margin.

- Other relevant factors
  - Enforceable right to demand or retain payment if the contract is terminated?
  - Legal precedent that confers right to payment even if not specified in contract
  - Legal precedent that a contractual right to payment is not legally effective
  - Customary business practice of not enforcing a right to payment that renders the right unenforceable in a particular legal environment

Combining contracts

Multiple revenue contracts are regarded as a single contract when:

- contracts are negotiated as a package with a single commercial objective; or
- amount of consideration to be paid in one contract depends on the price or performance of the other contract; or
- goods/services in contracts qualify as a single performance obligation.

Modifications to revenue contracts

- Modifications: change to existing contract e.g. scope/ price/ both) e.g. variation orders
- Modification not accounted for unless approved (writing, oral, or implied by business practice)
- If scope of contract approved but corresponding price change not yet approved, price should be estimated as variable consideration.
- Two possible outcomes:
  - Contract modification as separate contract
  - Contract modification is not a separate contract

Modifications to revenue contracts

Has scope of contract increased with addition of distinct G&S?

- No → Modification is not separate contract
- Yes → Has price of contract increased correspondingly based on standalone price of additional G&S, with appropriate adjustments (e.g. bulk discount)?
  - No → Modification is not separate contract
  - Yes → Modification is separate contract from existing contract → Modification accounted separately from existing contract

Modification is not separate contract → Are remaining G&S distinct from G&S already delivered under existing contract?

- Yes → Existing contract deemed terminated → Deemed new contract with consideration = unrecognized revenue from old contract + modification revenue
- No → Existing contract continues, modified by new contract → Revenue and % of completion adjusted on cumulative catch-up basis

Immediate P&L impact

Implications for construction/ project companies subject to VOs

Variable Consideration

How does variable consideration arise?

- Explicitly stated in contract
- Customer has a valid expectation of price concession e.g. due to customary business practices
- Other facts & circumstances suggesting intention

Estimated using either:

- Probability-weighted expected value
- Most likely amount

How to estimate variable consideration?

- Apply single method consistently
- Consider all information (historical, current, forecast)
- Bid-and-proposal considerations typically apply

Variable Consideration

- Recognize revenue to extent that it is highly probable that significant reversal will not occur.

  Consider:
  - Susceptibility to outside influence
  - Period of uncertainty
  - Previous, or other predictive experience
  - Past practice
  - Range of consideration amounts
- Impacted industries
  - Recognition of handset revenue in telecommunication companies

Warranties

Does customer have option to purchase warranty separately?

Yes → Warranty is separate performance obligation

No ↓

Does warranty provide additional service ?

a) Requirement by law → no additional service
b) Longer coverage period → yes, additional service provided
c) Nature of tasks → if warranty tasks are to provide assurance of compliance with agreed specifications, then no additional service.

Yes → Warranty is separate performance obligation

No ↓

Apply FRS 37 – provide for costs if FRS 37 criteria met

Warranties

- Company X grants its customers a standard warranty with the purchase of its product.
- Warranty assures that:
  - product complies with agreed-upon specifications
  - will operate as promised for three years
- In addition to the standard warranty, the customer also purchased an extended warranty for two additional years.

Is the warranty a performance obligation?

1. Standard warranty only guarantees quality therefore accounted for as warranty obligations under FRS 37.
2. Sale of electronic products
3. Extended warranties (it can be purchased separately)

If it meets “distinct” criteria then should account as separate performance obligation

Principal vs. Agent

Primary indicator:

Whether the control of the goods or services transfer to the intermediary first

- Obtaining legal title momentarily before transferring it to customer may not be sufficient to qualify as principal
- For sub-contracted services, intermediary has control of services if:
  - Intermediary can direct the ultimate service provider; or
  - Intermediary provides a significant service to integrate sub-con’s services with other G&S

Secondary indicators: Intermediary recognizing revenue as a principal:

- Intermediary is primarily responsible for **fulfilling the promise** to provide G&S
- Intermediary has **inventory risk**
- Intermediary has **discretion in establishing the price** for G&S.

Sale/ Licence of Intellectual Property

Is the licensing performance obligation distinct?

No → Combine with other goods/ services and account as single performance obligation

Yes ↓

Criteria 1 — Expectation or requirement for entity to undertake activities that significantly affect IP?

No → Right to use IP as it exists at license grant date

Yes ↓

Criteria 2 — Do rights granted by licence expose customer to positive/negative effects of above activities?

No → Right to use IP as it exists at license grant date

Yes ↓

Criteria 3 — Do above activities result in transfer of good or service to customer as those activities occur?

Yes → Right to use IP as it exists at license grant date → Recognise revenue at a point in time (“sale” of IP)

No ↓

Right to access IP as it exists throughout license period → Recognise revenue over time (“lease” of IP)

"Expectation Or Requirement For Entity To Undertake Activities That Significantly Affect IP"

A licensor's activities will significantly affect the Intellectual Property (IP) ("Yes" to Criteria 1) when:

- The activities are expected to change the form (e.g. the design or content) or functionality (e.g. the ability to perform a function or task) of the IP, **or**
- The ability of the customer to derive benefits from the intellectual property is substantially derived from, or dependent on, those activities. E.g. brand management.
    - This criteria is <u>not</u> likely to be met if the IP has significant stand-alone functionality (e.g. software, drugs formula, films etc).

Licensing Of Intellectual Property - Example

Company A → Customer X

Licenses to sell an accounting software

- Under the agreement, the underlying code and its functionality remain unchanged during the license period because they are saved and maintained by Customer X for the duration of the license term.
- Company A issues regular updates or upgrades that Customer X can choose to install.
- In addition, the activities of Company A in providing updates or upgrades transfer a promised good or service to Customer X – i.e., when-and-if available upgrades – and are therefore not considered in determining the nature of the license granted to Customer X

Should Company A recognise the revenue over time or at a point in time?

- the software license is a right to use because the activities do not change Customer X's IP under the current license and those activities transfer a promised good or service.

- Therefore, Company A will recognise revenue at a point in time – sale of IP.

Bill and Hold Sales

"Bill and hold" – customer is billed for product but seller retains physical possession

- Could be due to delay in production, or customer lack space

Additional criteria to recognise revenue in bill and hold:

- Reason must be **substantive**;
- Product for customer must be identified separately;
- Product must be currently ready for physical transfer; and
- Seller must not have ability to use product/ direct to another customer

If revenue is recognized, consider whether partial revenue should be deferred for remaining performance obligations (e.g. custodial services).

Options for Additional Goods

Could the customer obtain the right to acquire the additional goods or services without entering into the sale agreement?

No

Does the option give the customer the right to acquire additional goods or services at a price that reflects the stand-alone selling price for those goods or services?

Yes

Yes

No

The option does NOT give rise to a performance obligation

The option is a material right that gives rise to a performance obligation

Customers' unexercised rights (breakage)

- Breakage – Unexercised rights arising when customer makes non-refundable prepayment for G&S but did not claim G&S, e.g. gift cards or vouchers, and non-refundable tickets..

- Revenue recognition depends on expectation of customer's claim for G&S.

Expect to be entitled to a breakage amount?

Yes → Recognize in proportion to the pattern of rights exercised by the customer

No → Recognize when the likelihood of the customer exercising its remaining rights becomes remote

Non-Refundable Up-Front Fees

Does the up-front fee relate to specific goods or services transferred to customer?

No

Account for as an advanced payment for future goods or services

Recognize as revenue when those future goods or services are provided.

Yes if it meets performance obligation criteria

Account for as a promised good or service

Recognize as revenue at a point of time

Non-refundable Up-front Fees - Example

Cable Co. C → Customer A

one-year contract to provide cable television

- In addition to a monthly service fee of $100, Cable Co. C charges a one-time up-front installation fee of $10. Cable Co. C has determined that its installation services do not transfer a promised good or service to the customer, but are instead a set-up activity that is an administrative task.

- Customer A can renew the contract each year for an additional one-year period at the then-current

How should Cable Co. C recognise the transaction?

- The significance of the up-front fee is considered when evaluating whether the contract renewal grants the customer a material right. By comparing the installation fee $10 to the total one-year service fees of $1,200, Cable Co. C concludes that the non-refundable up-front fee does not grant Customer A a material right as it is not deemed significant (1%) enough to influence Customer A's decision to renew or extend the services beyond the initial one-year term.

- As a result, the installation fee is treated as an advance payment on the contracted one-year cable services and is recognized as revenue over the one-year contract term.

Transition

- Entities can choose to apply FRS 115 using either:
  a) a full retrospective approach as if FRS 115 had always been applied or;
  b) a modified retrospective approach (i.e. not required to restate comparative information).

- Two practical expedients available under the clarifications to FRS 115:

  a) completed contracts under the full retrospective transition approach, i.e. FRS 115 will only apply to contracts that are not completed as at the beginning of the earliest period presented.
  b) contract modifications at transition, i.e. an entity need not retrospectively restate the contracts that were modified before the beginning of the earliest period presented.

FRS 109 Financial Instruments

Presenter: Wong Koon Min

Are you Affected?

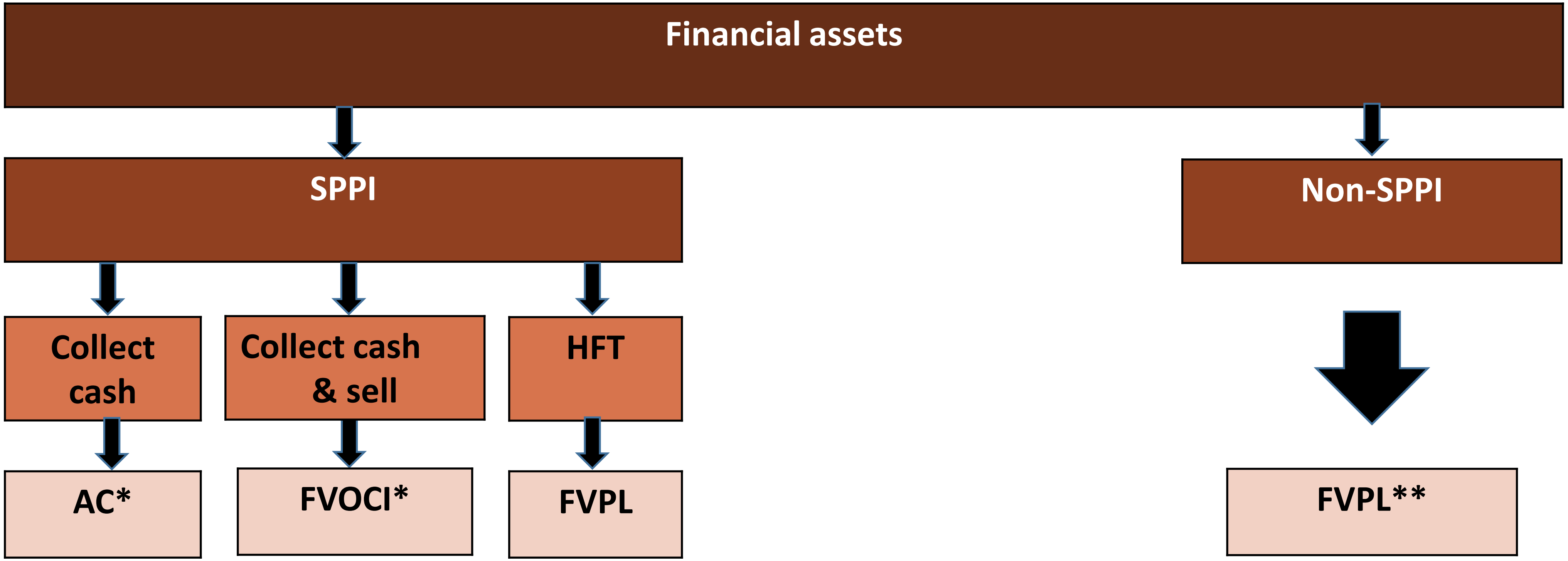
Does your company hold:

- Loan assets and receivables at amortised cost (L&R)?
- Available-for-sale debt investments (AFS Debt)?
- Held-to-maturity investments (HTM)?
- Available-for-sale equity investments (AFS Equity)?
- Equity securities held at cost?
- Financial assets with embedded derivatives?
- Hedging instruments that are deployed in FRS 39/ 109 hedge accounting?

L&R, AFS Debt, HTM - Key impact

1. Classification
   a) FV through P/L (FVPL)
   b) Fair value through OCI (FVOCI)
   c) Amortized cost (AC)
2. Impairment

L&R, AFS Debt, HTM
- Classification (recap)



*** May be designated as FVPL;**
**** For non-trading securities, may be elected to be FVOCI**
SPPI: Solely payments of principal and interest

Adapted from materials provided by Professor Ng Eng Juan in Moore Stephens Financial Reporting Seminar 2015

L&R, AFS Debt, HTM
- Classification issues: SPPI

Following are likely to be non-SPPI (i.e. FVPL):

- Variable rate loan where coupon/ principal repayment depends on variables not related to interest, e.g.:
  - Commodity price
  - Stock prices
  - Issuer’s profit
  - Others
- Variable rate loan where payment of coupon is based on a multiple of interest rate index, e.g.:
  - Interest charged at two times LIBOR
  - Interest charged at x% less LIBOR
- Variable rate loan where variable rate index is not consistent with re-set period, e.g.
  - 3-month LIBOR reset every 6 months (unless 3-month LIBOR and 6-month LIBOR are similar).
- Loans with separately-bifurcated embedded derivatives (e.g. convertible bond investments that can be converted to specified number of shares)

L&R, AFS Debt, HTM
- Classification issues: Business model

- Loan assets and receivables qualify for AC only if part of a business model that holds assets to collect interest & principal at maturity.
    - If business model aims to achieve objective by both collecting contractual cash flows and selling financial assets, FVOCI
    - Otherwise FVPL.
- Example:
    - Company needs to fund capital expenditure in 5 years time. Company invests excess cash in debt investments maturing in 3 to 20 years to achieve this.
    - Cannot do AC, as the 20-year debt will not be held to maturity.
    - Probably FVOCI.
- Issues:
    - Not an asset-by-asset determination. However, level at which business model is determined requires judgment.
    - Need to consider frequency, value and timing of past sales, as well as current conditions.
    - Once-off past sales do not preclude AC (unlike HTM). Judgment required on the level of past sales that invalidate AC.

L&R, AFS Debt, HTM - Impairment (recap)

Key change from FRS 39 :

- Impairment provision required based on expected credit losses, regardless of impairment indicators.
- Either 12-month expected credit loss or lifetime expected credit loss (next slide)

12-month expected credit losses:

- Portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Lifetime expected credit losses:

- Expected credit losses that result from all possible default events over the expected life of a financial instrument.

L&R, AFS Debt, HTM - Impairment (recap)

Initial recognition
(with exceptions)

Difference?

Expected Loss = Exposure At Default x Loss Given Default x Probability of Default

	'Performing'	'Under-performing'	'Non-performing'
Allowance:	**12-month expected credit losses**	**Lifetime expected credit losses**	
Criterion:		The credit risk has increased significantly since initial recognition	+ Objective evidence of impairment
Interest revenue based on:	Gross carrying amount	Gross carrying amount	Net carrying amount

How to judge (next slide)?

Changes in credit risk since initial recognition

improvement — deterioration

Impairment
- Significant increase in credit risk

- Key test: Has risk of default occurring over expected life increased significantly since initial recognition of the receivable?
  - If yes, lifetime expected credit losses
  - Rebuttable presumption that credit risk increased significantly beyond 30 days past due
  - “Low credit risk simplification”: If there is low credit risk at balance sheet date, can assume no significant in credit risk since initial recognition.
- “Default” not defined
  - Be consistent with internal credit risk management purposes
  - Rebuttable presumption that default occurs within 90 days past due

Impairment
- 12-Month vs. Lifetime Credit Losses

Global Corporate Average Cumulative Default Rates (1981- 2014) (%)

	--Time horizon (years)--														
Rating	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**
AAA	0.00	0.03	0.14	0.24	0.36	0.47	0.53	0.61	0.67	0.74	0.77	0.80	0.84	0.91	0.98
AA	0.02	0.07	0.13	0.24	0.35	0.46	0.56	0.65	0.73	0.82	0.90	0.97	1.05	1.12	1.19
A	0.07	0.16	0.27	0.41	0.57	0.75	0.95	1.13	1.32	1.51	1.69	1.84	2.00	2.15	2.32
BBB	0.20	0.57	0.96	1.46	1.95	2.43	2.84	3.26	3.66	4.06	4.49	4.84	5.17	5.50	5.84
BB	0.76	2.35	4.23	6.06	7.71	9.28	10.59	11.75	12.80	13.74	14.52	15.18	15.75	16.24	16.77
B	3.88	8.80	12.97	16.22	18.70	20.72	22.37	23.69	24.82	25.91	26.82	27.57	28.26	28.88	29.49
CCC/C	26.38	35.58	40.67	43.77	46.28	47.24	48.27	49.06	50.03	50.73	51.28	51.94	52.72	53.38	53.38
Investment grade	0.11	0.29	0.50	0.76	1.03	1.29	1.54	1.78	2.01	2.24	2.46	2.65	2.83	3.01	3.20
Speculative grade	3.87	7.58	10.79	13.39	15.49	17.23	18.69	19.90	20.98	21.97	22.79	23.49	24.13	24.68	25.22
All rated	1.50	2.95	4.23	5.31	6.20	6.97	7.62	8.18	8.68	9.15	9.56	9.90	10.21	10.49	10.78

Sources: Standard & Poor's Global Fixed Income Research and Standard & Poor's CreditPro®.

Source: 2014 Annual Global Corporate Default Study And Rating Transitions

Impairment
- Practical Expedients

- Example: Provision matrix based on receivables ageing, and historical credit loss experience within each ageing band, performed separately for segments with different credit characteristics.
- FRS 109 B7.2.4: "*An entity with little historical information may use information from internal reports and statistics (that may have been generated when deciding whether to launch a new product), information about similar products or peer group experience for comparable financial instruments, if relevant.*"

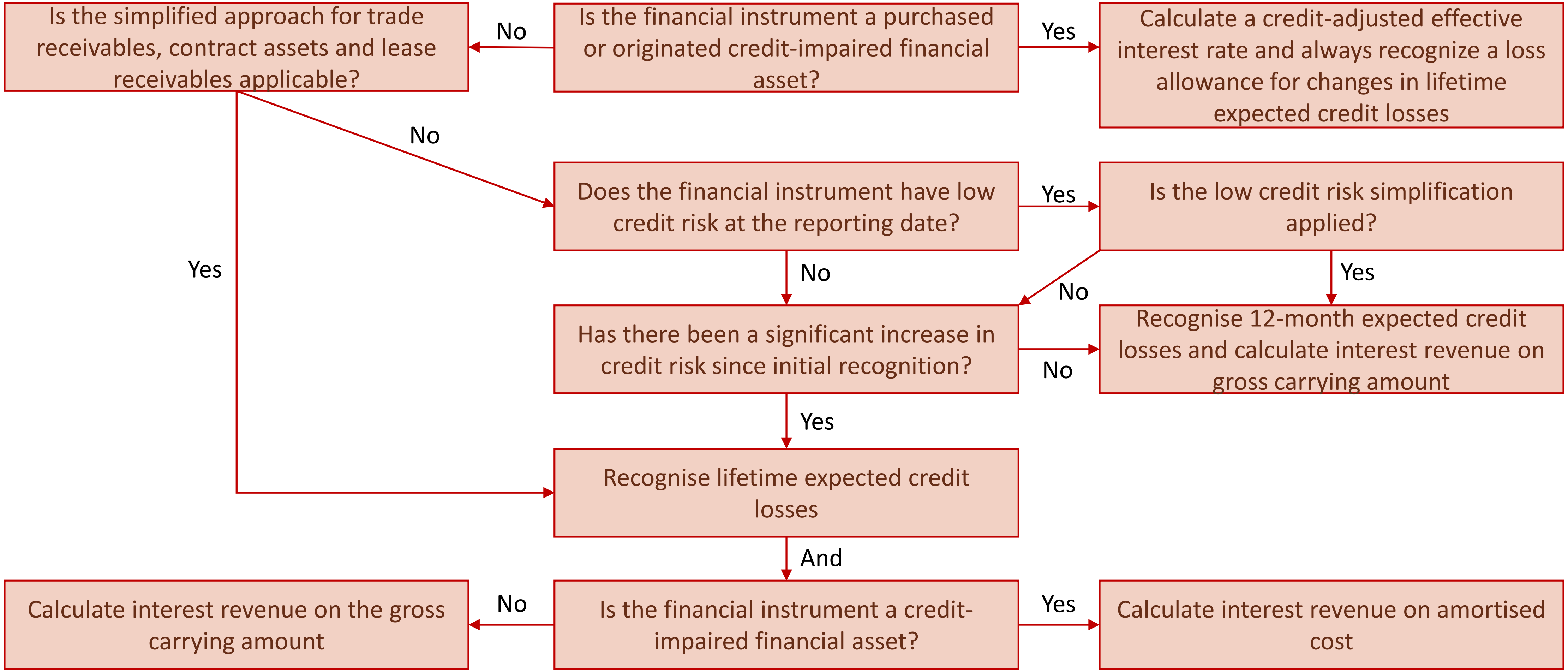
Impairment

- Trade receivables, contract assets and lease receivables

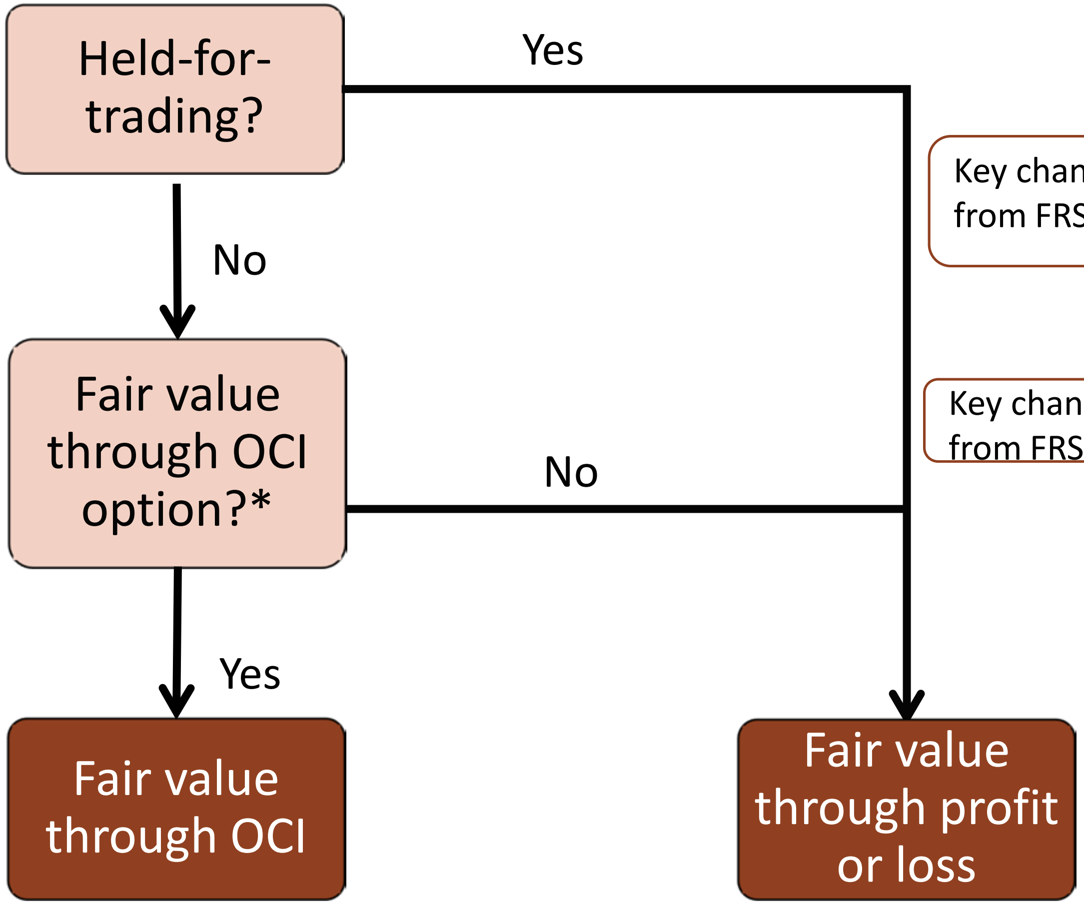
Simplified approach

- Recognises lifetime expected credit losses on initial recognition and subsequent reporting periods
- Required for ‘short-term’ trade receivables
- Policy election for ‘long-term’ trade receivables and lease receivables

Impairment
- Flowchart of considerations



AFS Equity



*Option to record fair value changes through OCI:

Key changes from FRS 39:
- Disposal gain/loss excluded from P/L

- Irrevocable choice
- Dividends in profit or loss

Key changes from FRS 39:
- Impairment no longer relevant

- Hedge accounting still possible

Equity securities held at cost

- FRS 109 requires fair value for unquoted equities; cost no longer permitted.
- In limited circumstances, cost may be an appropriate estimate of FV (e.g. when insufficient more recent information is available to determine FV)
- Guidance on when **cost is not appropriate**, for example:
  - Significant change in the performance of the investee compared with the budget plan or milestone
  - Changes in expectation that technical milestones will be achieved
  - Significant change in the market for the investee company or its products or potential products
  - Significant change in the global economy or the economic environment in which the investee company operates
  - Significant change in the observable performance of comparable companies, or in the valuations implied by the overall market

Financial assets with embedded derivatives

- Split accounting for embedded derivatives in financial asset hosts is no longer permitted.
- The entire instrument as a whole is measured at FVPL (usually), FVOCI, or AC.
- Split accounting is still required for embedded derivatives in other types of host instruments
  - Financial liability hosts (e.g. convertible bond accounting in the books of the borrower, where the conversion option fails the conditions to be classified as equity)
  - Non-financial instrument hosts (e.g. sales contract with embedded derivative)

Hedging – Comparison with FRS 39

- Accounting policy choice to apply either FRS 39 or FRS 109 hedging requirements
  - Pending project on dynamic risk management, discussion paper expected after April 2017.
- FRS 109 removes 80-125% arbitrary guidelines; hedge effectiveness based on qualitative, forward-looking assessments
- Rebalancing - FRS 109 permits adjustment of hedge relationship without terminating the relationship
- FRS 109 prohibits voluntary termination of qualifying hedge relationships
- Prohibition against hedging sub-LIBOR component continues
- Additional possibilities for designating cash instruments as hedging instruments
- FRS 109 permits the following to be deferred/ amortised as part of a hedge:
  - Time value of purchased options
  - Forward element of forward contracts
  - Foreign currency basis spreads

Hedging – Comparison with FRS 39

- Additional hedged items allowed:
  - Risk components of non-financial items (next slide)
  - Groups of items (including net positions)

    E.g. cash flow hedge of forex risk of group of foreign currency receivables and payables
  - Layer components of items

    E.g. hedge forex risk of first $1m of sales in January 2017, or hedge forex risk of last $1m repaid from a $5m fixed rate bond
  - Aggregated exposures (non-derivative + derivative)

    E.g. use interest rate swap to perform SGD fair value hedge of synthetic SGD fixed rate loan that comprises a) USD fixed rate loan; and b) USD-SGD foreign exchange forward contract
  - Equity investments measured at FVOCI

Risk Component Hedging

- A risk component is an eligible hedged item if it is separately identifiable and reliably measurable.
- Examples of risk components:
  - Gas supply contract with a specified price escalation clause based on the price of gas oil
  - Crude oil component in jet fuel
- Assessment of whether the risk is separately identifiable and reliably measurable has to be done within the context of the particular market structure.

FRS 116
Leases

Presenter:

Prof. Ng Eng Juan

FRS 116: Leases

- ED (2010) issued in 2010
- ED (2013) issued in May 2013
- IFRS 16 issued in January 2016
- FRS 116 issued on 30 June 2016
- To supersede FRS 17, INT FRS 15, INT FRS 27, INT FRS 104
- Effective date: 1 Jan 2019

FRS 116: Leases

- Basic changes:
  - ➢To require <u>lessee</u> to capitalize all leases
    (except (i) short term leases and (ii) leases with low value underlying asset)
    - FRS 17: “purchase” model
    - FRS 116: “right of use” model”

  - ➢No major changes for <u>lessor</u>

FRS 116: Definition

- Definition of lease:
  - ➢A contract that conveys the right to use an asset for a period of time in exchange for consideration
  - ➢Two important issues
    - There is an identified asset; and
    - Customer controls the use of the asset
  - ➢(Leases are not “purchase” or “service”)

FRS 116: Definition

- There is an identified asset when:
  - the asset is specified in the contract, and
  - the supplier does not have a substantive right (practical ability and economic benefits) to substitute the asset throughout the period of use

FRS 116: Definition

- Customer controls the use of the asset when the customer has the right to:
  - obtain substantially all the economic benefits from the use of the asset throughout the period of use, and
  - direct the use of the asset throughout the period

FRS 116: Lessee

- Upon inception of lease, lessee should recognise (i) “right-of-use” asset and (ii) lease liability
  - = PV of lease payments discounted using the implicit rate (if known), else lessee’s incremental borrowing rate
  - (ROU asset includes initial direct cost incurred and costs of dismantlement)

FRS 116: Lessee

- B/S:
  - “Right-of-use” asset, and
  - Lease liability,
- P/L:
  - Depreciation expense, and
  - Interest expense
- CF:
  - Principal payment: financing;
  - Interest payment: operating/financing

FRS 116: Lessee

- For (i) short term leases and (ii) leases with low value underlying asset
  - Lessee may elect to recognize lease payments as expense (i.e. accounted for as operating lease)

  - B/S: Nil
  - P/L: Lease expense
  - CF: Operating cash flow

FRS 116: Lessee

- Short term lease
  - ➢ A lease that, at the commencement date, has a lease term of 12 months or less (and does not contain a purchase option)

FRS 116: Leases

- Leases with low value underlying asset
  - General guide:
    - Assets with a value, when new, in the order of magnitude of US$5,000 or less
    - (Absolute figure, not in terms of materiality)
    - Small items of office furniture or equipment
    - Not highly dependent on or highly interrelated to other underlying assets
    - Cannot sublease
    - Election done on lease-by-lease basis

FRS 116: Lessor

- As per FRS 17
  - ➢Operating leases and finance leases
    - same test
    - same accounting treatment
    - enhanced disclosure: additional qualitative and quantitative information about the leasing activities

FRS 116: Others

- Sublease: Accounting by intermediate lessor
    - ➢ If sublease is operating lease
        - No change (continue as before)
        - Recognize lease income from the sublease

FRS 116: Others

- Sublease (cont'd)
  - ➢ If sublease is finance lease
    - Derecognize the ROU asset and recognize net investment in sublease, difference recognize immediately in P/L
    - Retain the lease liability of head lease
    - During the term of sublease: recognize interest expense on head lease and finance income on sublease

FRS 116: Others

- Sales-type lease
  - as per FRS 17

FRS 116: Others

- Sale and leaseback
  - ➢A SLB may comprise
    - a sale transaction + a lease transaction , or
    - just a single financing transaction

  - ➢Assess whether the transfer of the asset is a “sale” as per FRS 115 (Note: rule is different from that in INT FRS 27)

FRS 116: Others

- Sale and leaseback (cont'd)

  ➢ (A) If transfer of asset is not a "sale":

    - Accounted for the SLB as a financing transaction

FRS 116: Others

- Sale and leaseback (cont'd)

  - ➢(B) If the transfer of asset is a "sale":
    - Recognize the sales and account for the lease
    - Two issues:
      - Gain/loss?
      - Off-market prices?

FRS 116: Others

- Sale and leaseback (cont'd)

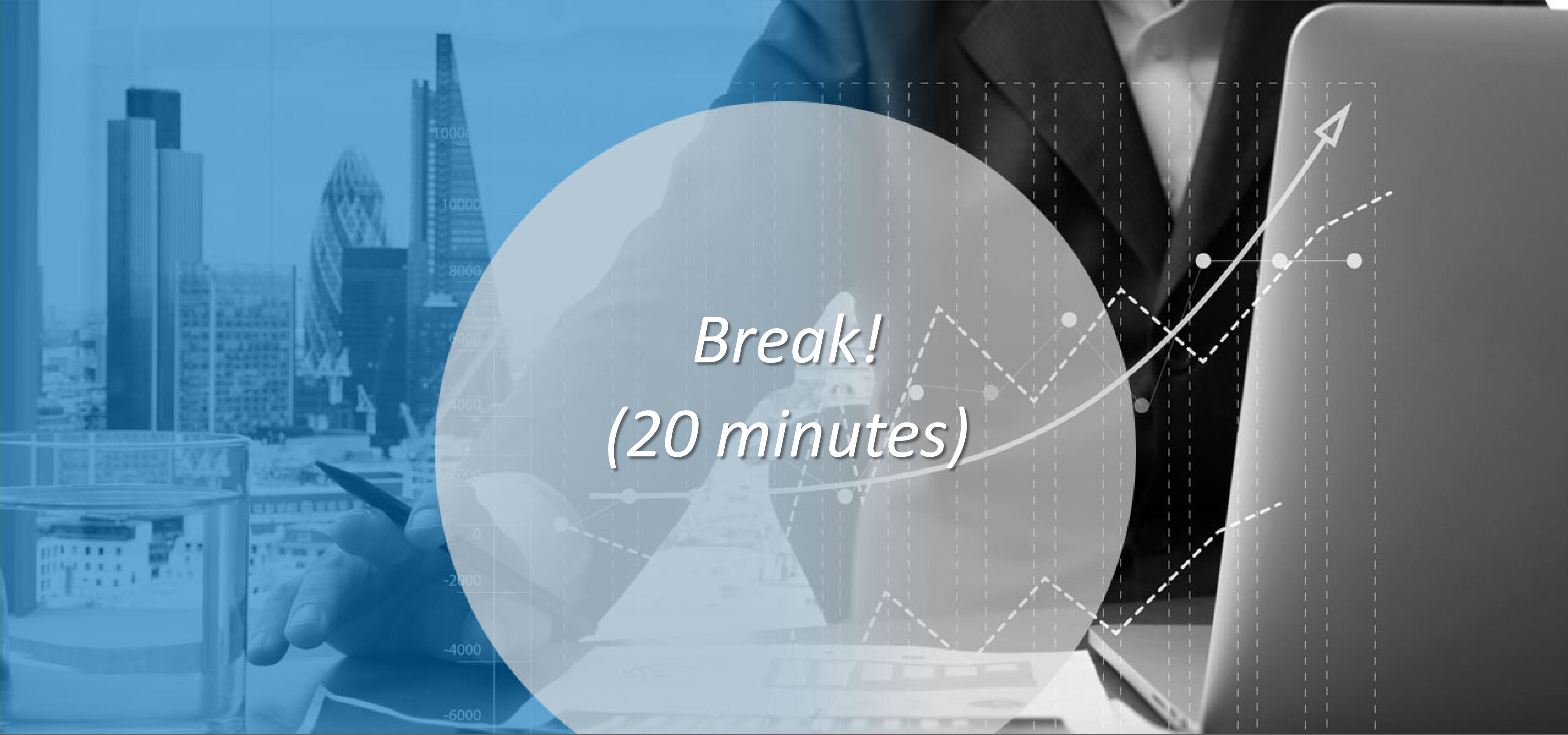
  - (i) Gain/loss:
    - If leaseback the entire underlying asset
      - No gain/loss
    - If leaseback < underlying asset
      - Recognize gain/loss on portion "sold"

FRS 116: Others

- Sale and leaseback (cont'd)

  - (ii) Off-market prices:
    - Any below-market price is accounted for as a prepayment of the lease payment
    - Any above-market price is accounted for as additional financing provided by lessor

Thank you!



Break!

(20 minutes)

Corporate Reporting Regulations Update

Presenter: Winston Seow

Use the right tools to achieve reporting success.

Presenter: Choo Kwong Chee

Excel – your favourite reporting tool

Executives Finance Sales Ops

“ More than **90%** of spreadsheets contain serious errors, while more than **90%** of spreadsheet users are convinced that their models are error-free. ”

ACCA

The Excel Error That Changed History

CONCLUSION

Countries shrink by -0.1% when debt hits 90% of GDP

HARVARD
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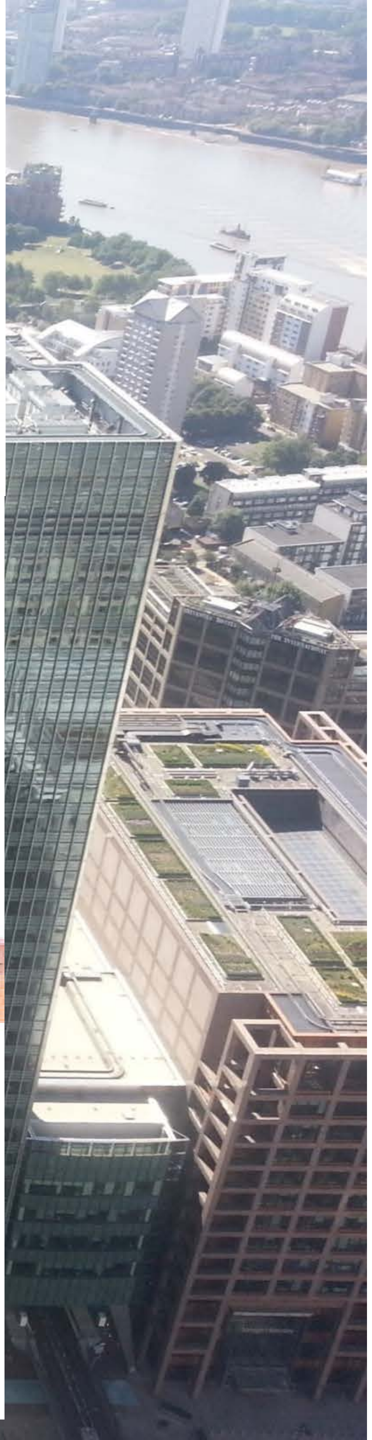

$7BN of "London Whale" losses

"After subtracting the old rate from the new rate, the spreadsheet divided by their sum instead of their average, as the modeler had intended."

AstraZeneca reaffirms outlook after mistaken release

Mon Jan 9, 2012 9:08am GMT

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AstraZeneca PLC
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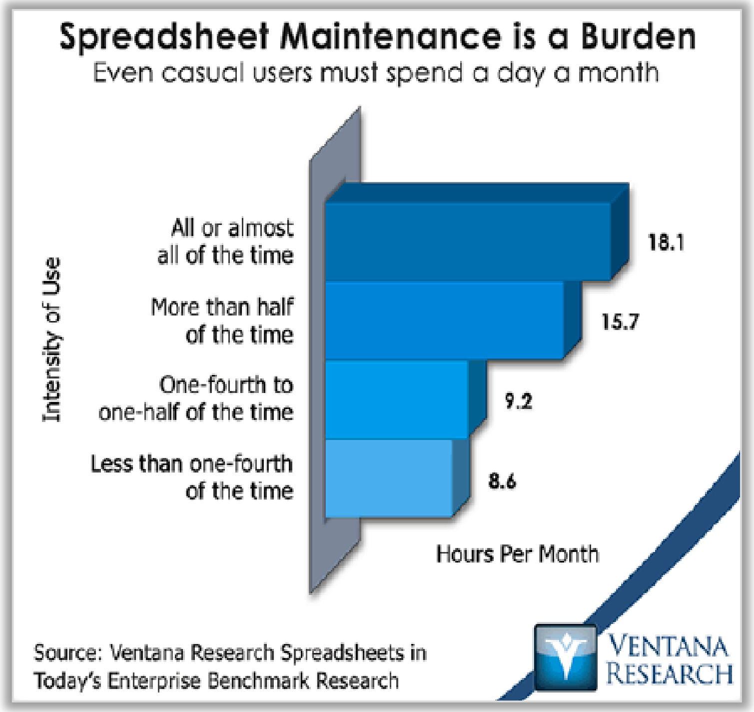
LONDON - Britain's second largest drugmaker AstraZeneca (AZN.L) was forced to reiterate its 2011 and mid-term financial forecasts on Monday after inadvertently releasing confidential company information to analysts.

Confidential information was embedded in a spread sheet template that was sent to a sell-side analyst community

"It was literally a cut-and-paste error in an Excel spreadsheet that we did not detect".

‘Free’ Spreadsheets Actually Quite Costly

Time Spent



Casual User: 12 hours/month

Finance User: 18 hours/month

1–3 **days/month**

Lost to ‘spreadsheet’ reporting alone

Source:

VENTANA RESEARCH

Beyond Excel : What you should look for in a Reporting tool

1. Centralized Data: Single Source of the Truth
2. Workflow: laying out a clear flow of data from contributor to approver
3. Self Service Reporting across the business
4. Permissions and Business Rules: on the visibility and ability to edit data
5. Detailed Audit Trail

Cloud Solution for Corporate Performance Management (CPM)

Replace your spreadsheets with Cloud solutions

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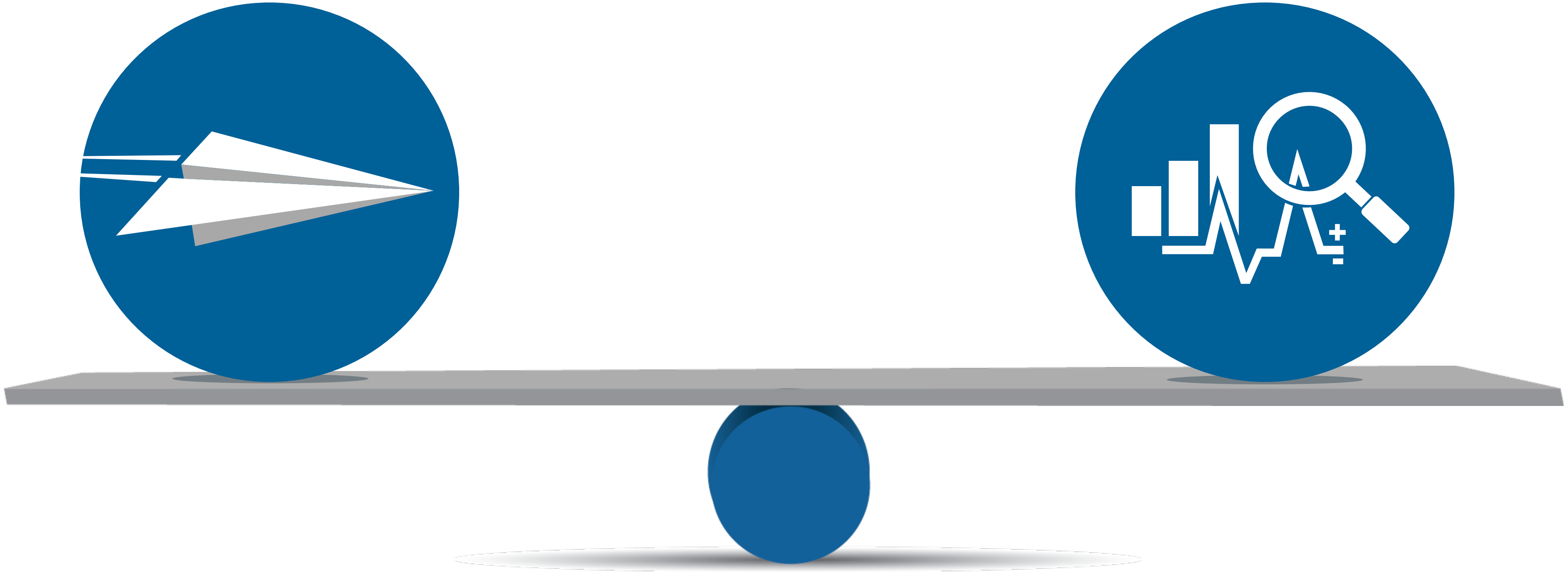

Cloud Enables Automation without Maintenance and Overhead

50%

of 2014 Gartner CPM inquiries about the cloud

81%

CFOs see the cloud as the future for their applications

Gartner®

Panel Discussion


Q&A


Thank you!

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18 November 2016

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