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Singapore Financial Reporting Updates

September 2014

Singapore

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Introduction

The Singapore and global financial reporting landscape is facing a new wave of fundamental and upcoming changes. Among these, the most significant are likely to be the changes in the accounting models for consolidation and joint arrangements, which takes effect in Singapore this year; revenue, which will likely take effect in 2017; and financial instruments, which will likely take effect in 2018.

A significant number of standards, interpretations and amendments will take effect for annual periods beginning on or after 1 January 2014, which are listed below. However, the salient features of these standards, interpretations, and amendments have already been included in two of our previous publications, *Singapore Financial Reporting Updates September 2012*, and *Singapore Financial Reporting Updates October 2013*. Accordingly, this publication will not delve further into these pronouncements.

- FRS 27 (revised 2011) Separate Financial Statements
- FRS 28 (revised 2011) Investments in Associates and Joint Ventures
- FRS 110 Consolidated Financial Statements
- FRS 111 Joint Arrangements
- FRS 112 Disclosure of Interests in Other Entities
- INT FRS 121 Levies
- Amendments to FRS 32: Offsetting Financial Assets and Financial Liabilities
- Amendments to FRS 36: Recoverable Amount Disclosures for Non-Financial Assets
- Amendments to FRS 39: Novation of Derivatives and Continuation of Hedge Accounting
- Amendments to FRS 110 Consolidated Financial Statements, FRS 111 Joint Arrangements and FRS 112 Disclosure of Interests in Other Entities - Transition guidance
- Amendments to FRS 110, FRS 112 and FRS 27: Investment Entities
- Amendments to FRS 110, FRS 111, FRS 112, FRS 27 (2011) and FRS 28 (2011): Mandatory Effective Date
- Amendments to FRS 110, FRS 111 and FRS 112: Transition Guidance

Additionally, there are a number of amendments and improvements that are effective for annual periods beginning on or after 1 July 2014, which will be discussed in Section A of this publication. These are:

- Amendments to FRS 19: Defined Benefit Plans: Employee Contributions
- FRS 114 Regulatory Deferral Accounts
- Improvements to FRSs (January 2014)
- Improvements to FRSs (February 2014)

As at the date of writing, no further technical pronouncements have been issued by the Accounting Standards Council (ASC). However, the Accounting Standards Council has announced on 29 May 2014 that Singapore-incorporated companies listed on the Singapore Exchange (SGX) will have to apply a new financial reporting framework that will be identical to the International Financial Reporting Standards (IFRS) in 2018. As such, listed companies cannot afford to ignore the following financial reporting developments that are taking place. A quick summary of such developments is provided in Section B of this publication.

We trust that you will find this publication an excellent resource in updating your understanding of financial reporting developments, both in Singapore and globally. We strongly encourage you to consult your regular Moore Stephens LLP contact should you have any questions or comments regarding the developments highlighted in this publication. We remain committed to be your valuable and trusted advisor.

Section A: Amended FRSs

A1 Amendments to FRS 19 Employee Benefits- Defined Benefit Plans: Employee Contributions

ASC issued Amendments to FRS 19: Defined Benefit Plans: Employee Contributions in January 2014.

Key Amendments

This amendment changes the accounting for contributions from employees or third parties that are linked to service:

- When the contribution amount is dependent on the number of years of service, those contributions should be attributed to periods of service using the same attribution method required by paragraph 70 of FRS 19 for the gross benefit, which involves either using the plan's contribution formula or on a straight-line basis.

- When the contribution amount is independent of the number of years of service, the attribution method in paragraph 70 of FRS 19 may also be used. However, an alternative method for such contributions is to recognize them as a reduction in the service cost in the period in which the related service is rendered. Examples of such contributions include those that are fixed in amount throughout the service period, or where the contribution amounts are a fixed percentage of salary.

For example, consider a simple contributory plan where a new joiner is entitled to a pension of 10% of final salary for each year of service. The new joiner is required to contribute 5% of his salary to the plan every year.

How far does the 5% contribution reduce the expense that the company recognizes in the first year of service? Prior to the amendment, the wording in FRS 19 may suggest that the company should apply the projected unit credit method, in which case the extent of reduction will depend on estimates such as his estimated number of years of service, salary increase and discount rates.

With the amendment, it is clarified that the employee's actual contribution in the first year may be simply set off against the current service cost in the first year.

This amendment does not apply to contributions that are at the employees' discretion, which are merely set off against service costs upon payment to the plan. It also does not apply to employee contributions that are not linked to service, for example, those contributions required to top up plan deficits.

Principal Impact

The amendments are intended to provide relief for contributions that are independent of the number of years of service, by allowing such contributions to be deducted from service cost in the period in which the service is rendered.

When are these amendments effective?

This amendment is effective for annual periods beginning on or after 1 July 2014, but early application is permitted. Retrospective application is required in accordance with FRS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

A2 FRS 114 Regulatory Deferral Accounts

On 23 June 2014, ASC issued FRS 114 Regulatory Deferral Accounts.

Key Amendments

FRS 114 deals with the accounting in rate-regulated industries, where the supply and pricing of certain activities are regulated by the government. Such activities may include the supply of public utilities (gas, water and electricity), telecommunications and transport.

Such regulations often allow suppliers to recover costs through prices charged to customers. However, such regulations also aim to protect customers, for example, by deferring the recovery of costs to reduce price volatility. Suppliers may defer such costs in separate regulatory deferral accounts until they are recovered through future sales of regulated goods or services.

Currently, there is no standard in FRS that specifically addresses the accounting for such rate-regulated activities. Globally, the International Accounting Standards Board has embarked on a comprehensive project to address the accounting for such rate-regulated activities. This project has not been completed. Prior to the completion of this project, FRS 114 is a limited scope standard that provides an interim solution, but only for entities that are adopting FRS for the first time.

FRS 114 permits such first-time adopters of FRS to continue to recognize amounts related to rate regulation in accordance with their previous GAAP requirements when they first adopt FRS. To enhance comparability with entities that already apply FRS and cannot recognize the deferred amounts, FRS 114 requires such first-time adopters to present the deferred account balances separately from other items, and also requires specific disclosures.

Principal Impact

The amendments provide relief for first-time adopters of FRSs who are engaged in rate-regulated activities. Financial statement preparers that already report under FRS are not affected.

When are these amendments effective?

These amendments are effective for annual periods beginning on or after 1 January 2016. Earlier application is permitted.

A3 Improvements to FRSs

The Annual Improvements project is a vehicle for making non-urgent but necessary amendments to FRSs. ASC issued two rounds of Improvements to FRSs in early 2014, once in January 2014, and again in February 2014. Altogether, 10 improvements were issued that affected 7 standards, comprising FRS 16 *Property, Plant and Equipment*, FRS 24 *Related Party Disclosures*, FRS 38 *Intangible Assets*, FRS 40 *Investment Property,* FRS 102 *Share-based Payment*, FRS 103 *Business Combinations*, FRS 108 *Operating Segments*, FRS 113 *Fair Value Measurement*.

- Improvements to FRSs (January 2014)

FRS	Subject of improvement
FRS 102 *Share-based Payment*	Definition of vesting condition
FRS 103 *Business Combinations*	Accounting for contingent consideration in a business combination
FRS 108 *Operating Segments*	Aggregation of operating segments
	Reconciliation of the total of the reportable segments' assets to the entity's assets
FRS 16 *Property, Plant and Equipment*	Revaluation method—proportionate restatement of accumulated depreciation
FRS 24 *Related Party Disclosures*	Key management personnel
FRS 38 *Intangible Assets*	Revaluation method—proportionate restatement of accumulated amortisation

- Improvements to FRSs (February 2014)

FRS	Subject of improvement
FRS 103 *Business Combinations*	Scope exceptions for joint ventures.
FRS 113 *Fair Value Measurement*	Scope of paragraph 52 (portfolio exception).
FRS 40 *Investment Property*	Clarifying the interrelationship between FRS 103 and FRS 40 when classifying property as investment property or owner-occupied property.

A3 Improvements to FRSs *(cont'd)*

Improvements to FRSs (January 2014)

Improvement title	Key Changes and Principal Impact	Effective date and transition
FRS 102: Definition of vesting condition	Refines the definition of "market condition" and "vesting condition", and adds definitions for "performance condition" and "service condition". The changes clarify that: • Service conditions are those that are considered to be not satisfied if a service provider stops providing service during the vesting period, regardless of the reason. • Performance conditions must require service providers to complete specified periods of service, during which performance targets must be met. • Performance targets required by performance conditions may relate to the activities of an entity, or another entity in the same group, or to some part of an entity (e.g. division or individual employee). • The period in which performance targets should be achieved under performance conditions should not extend beyond the end of the service period. It also should not start substantially before the service period. Market conditions are subsets of performance conditions, hence should also require service providers to complete specified periods of service.	Prospective application to share-based payment transactions for which the grant date is on or after 1 July 2014. Early application is allowed.
FRS 103: Accounting for contingent consideration in a business combination	The amendments clarify that contingent consideration in a business combination that is not classified as equity should be measured at fair value through profit and loss at each reporting date, regardless of whether the contingent consideration is within the scope of FRS 39. Changes in fair value, other than measurement period adjustments, are recognised in profit and loss. Consequential amendments were made to FRS 37 and FRS 39. A common example is a situation where an upfront payment is made for a business acquisition, but additional amounts may be payable if the acquired business meets certain profit, revenue or cash flow targets. If the additional amounts are not payable in cash or another financial liability, or the acquirer's own equity instruments, the contingent consideration may be a non-financial liability that is not within the scope of FRS 39. This amendment clarifies that such contingent consideration should nevertheless be measured at fair value through profit and loss. In our view, contingent consideration resulting in a nonfinancial liability is not commonly seen in practice and accordingly, the impact of the amendment will be limited.	Prospective application to business combinations for which the acquisition date is on or after 1 July 2014. Early application is allowed.

A3 Improvements to FRSs *(cont'd)*

Improvements to FRSs (January 2014) *(cont'd)*

Improvement title	Key Changes and Principal Impact	Effective date and transition
FRS 108: Aggregation of operating segments	The amendments require the disclosure of judgments made by management in deciding whether to combine operating segments for segment reporting purposes, including the economic indicators (e.g. gross margins) that have been assessed in determining whether the aggregated operating segments have similar economic characteristics.	Retrospective application to annual periods beginning on or after 1 July 2014. Early application is allowed.
FRS 108: Reconciliation of the total of the reportable segments' assets to the entity's assets	The reconciliation of the total of reportable segments' assets to the entity's total assets is required to be disclosed only if segment assets are regularly reported to the chief operating decision maker.	Retrospective application to annual periods beginning on or after 1 July 2014. Early application is allowed.
FRS 16 and 38: Revaluation method - proportionate restatement of accumulated depreciation/ amortisation	The amendment to FRS 16.35 and FRS 38.80 clarifies that revaluation can be performed by adjusting the gross carrying amount in a manner that is consistent with the revaluation of the carrying amount. For example, the gross carrying amount may be restated by reference to observable market data or it may be restated proportionate to the change in the carrying amount. The accumulated depreciation/ amortization is adjusted to the difference between the revalued gross carrying amount and the revalued net carrying amount of the fixed asset/ intangible asset, after taking into account accumulated impairment losses. Entities can also continue to perform the revaluation by eliminating the accumulated depreciation/ amortisation against the gross carrying amount and restating the revised gross carrying amount to the revaluation amount. For example, an entity may have acquired an item of equipment at $100,000, and revalued the asset after one year based on observable market data (e.g. cost indices) that suggest that the value of such assets have appreciated by 20%. In such situations the amendment allows the revaluation to be performed by adjusting the gross carrying amount to $120,000 ($100,000 x 120%). The accumulated depreciation is restated to the difference between the revised gross carrying amount and the revised net carrying amount.	Limited retrospective application to annual periods beginning on or after 1 July 2014. An entity is required to apply the amendments to revaluations recognised in the annual period in which the amendments are first applied and in the immediately preceding annual period. Restatement of earlier periods presented, if any, is allowed but not required. Early application is allowed.

A3 Improvements to FRSs *(cont'd)*

Improvements to FRSs (January 2014) *(cont'd)*

Improvement title	Key Changes and Principal Impact	Effective date and transition
FRS 16 and 38: Revaluation method - proportionate restatement of accumulated depreciation/ amortization *(cont'd)*	Prior to this amendment, the adjustment to the gross carrying amount would be restated proportionately with the adjustment to the accumulated depreciation and net carrying amount, in which case the adjustment to the gross carrying amount would depend on the net carrying amount at the time of revaluation, which in turn would vary depending on the entity's depreciation policies and estimates (e.g. residual value, useful lives, depreciation method, etc.).	
FRS 24: Key management personnel	The amendments clarify that a management entity providing key management personnel services to a reporting entity is included in the definition of related parties. The amendments require the amounts incurred by an entity for such services to be included in the related party disclosures. However, this amount need not be split into the components required for other key management personnel compensation (e.g. short-term employee benefits, post-employment benefits, etc.).	Retrospective application to annual periods beginning on or after 1 July 2014. Early application is allowed.

A3 Improvements to FRSs *(cont'd)*

Improvements to FRSs (February 2014)

Improvement title	Key Changes and Principal Impact	Effective date and transition
FRS 103: Scope exceptions for joint ventures	The amendment clarifies that the formation of all types of joint arrangements (and not just joint ventures) are outside the scope of FRS 103. This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.	Prospective application to annual periods beginning on or after 1 July 2014. Early application is allowed.
FRS 113: Scope of paragraph 52 (portfolio exception)	The amendment clarifies that the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with FRS 39. These contracts need not meet the definitions of financial assets or financial liabilities in FRS 32. As such, the portfolio exemption can be applied to contracts to buy and sell non-financial items (e.g. commodity purchase/ sale contracts) that fall within the scope of FRS 39 (e.g. because they can be settled net and are not held for the entity's expected purchase, sale or usage requirements).	The amendment is effective for annual periods beginning on or after 1 July 2014, and is applied prospectively from the beginning of the annual period in which FRS 113 was initially applied.
FRS 40: Clarifying the interrelationship between FRS 103 and FRS 40 when classifying property as investment property or owner-occupied property	The amendment clarifies that the criteria in FRS 40 to classify an acquired property as investment property or owner-occupied property is separate from, and not meant to be used as criteria to determine whether a property acquisition is an asset or business acquisition, which is found in FRS 103. In our view, this amendment is not likely to result in a significant change because in most cases, the two sets of criteria are likely to have been already separately applied in practice. Although FRS 103 focuses on processes as one of the criteria in distinguishing business acquisitions from asset acquisitions, the processes considered in FRS 103 are wide-ranging and are not necessarily restricted to the ancillary services that distinguish an investment property (e.g. rental apartment) from an owner-occupied property (e.g. hotel). For example, FRS 103 also consider strategic management processes (e.g. in managing a property portfolio) in distinguishing asset acquisitions and business acquisitions.	Prospective application to acquisitions of investment property in periods commencing on or after 1 July 2014. Early application and restatement of prior periods is allowed only if the information required to do so is available.

Section B: Global Financial Reporting Developments

B1 IFRSs not yet adopted in Singapore

Name of standard/ amendment	Key amendments	Effective date
Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)	The amendment prohibits revenue-based depreciation and amortization methods for property, plant and equipment, and with some exceptions, intangible assets.	Effective for annual periods beginning on or after 1 January 2016.
Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)	The amendment requires that bearer plants should be accounted for in the same way as property, plant and equipment in IAS 16 Property, Plant and Equipment. However, the produce growing on bearer plants will remain within the scope of IAS 41.	Effective for annual periods beginning on or after 1 January 2016.
Equity Method in Separate Financial Statements (Amendments to IAS 27)	The amendment will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in the entities' separate financial statements. This is in addition to the accounting policy choice to account for such investments at cost less impairment, or fair value (in accordance with IAS 39 or IFRS 9), which currently exists and will continue to be available.	Effective for annual periods beginning on or after 1 January 2016.
Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	The amendments deal with a situation when an investor sells, or contributes assets to its associate or joint venture, and in doing so, has a gain on disposal. In such situations, the amendments require that: - when the transaction involves a business, a full gain or loss to be recognized, regardless of whether the business is housed in a subsidiary; - when the transaction only involves assets that do not constitute a business, only a partial gain is recognized, regardless of whether the assets are housed in a separate subsidiary.	Effective for annual periods beginning on or after 1 January 2016.
Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)	The amendment requires that business combination accounting principles in IFRS 3 and elsewhere should be applied in accounting for the acquisition of an interest in a joint operation if the joint operation meets the definition of a "business" in IFRS 3.	Effective for annual periods beginning on or after 1 January 2016.

B1 IFRSs not yet adopted in Singapore *(cont'd)*

Name of standard/ amendment	Key amendments	Effective date
IFRS 9 Financial Instruments	IFRS 9 was introduced to replace IAS 39 Financial instruments: Recognition and measurement. IFRS 9 changes the classification and measurement requirements for financial assets and liabilities, and also introduces a three-stage impairment model that will impair financial assets based on expected losses regardless of whether objective indicators of impairment have occurred. IFRS 9 also provides a simplified hedge accounting model that will align more closely with companies' risk management strategies.	Effective for annual periods beginning on or after 1 January 2018.
IFRS 15 Revenue Recognition	IFRS 15 changes the revenue recognition model under IFRS. The core principle of IFRS 15 is to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. To achieve this, a five-step model is introduced: - Identify the contracts with a customer - Identify the separate performance obligations in the contract - Determine the transaction price - Allocate the transaction price to the separate performance obligations - Recognise revenue when (or as) the entity satisfies a performance obligation	Effective for annual periods beginning on or after 1 January 2017.

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Contact Information

If you would like further information on any item within this brochure, or information on our services please contact:

Mick Aw - Senior Partner and Head,
Corporate Finance & Corporate Restructuring
T +65 6329 2701
mickaw@moorestephens.com.sg

Chris Johnson - Partner and Head,
Shipping Group & Risk Management
T +65 6329 2703
chrisjohnson@moorestephens.com.sg

Gerry G. Vetuz - Partner and Head,
Technical, Training, Compliance & Methodology
T +65 6329 2705
gerrygvetuz@moorestephens.com.sg

Neo Keng Jin - Partner and Head,
Audit Assurance & Initial Public Offerings
T +65 6329 2707
neo-kj@moorestephens.com.sg

Willy Ng - Partner and Head,
China Services
T +65 6329 2708
willyng@moorestephens.com.sg

Lao Mei Leng - Partner and Head,
Practice Development
T +65 6329 2706
laomeileng@moorestephens.com.sg

Poh Lay Choo - Director,
Training, Compliance and Methodology
T +65 6329 2709
pohlaychoo@moorestephens.com.sg

Wong Koon Min - Director,
Technical, Compliance & Methodology
T +65 6329 2723
wongkoonmin@moorestephens.com.sg

Chan Rouh Ting - Director,
Audit & Assurance
T +65 6329 2700
chanrt@moorestephens.com.sg

Koo Kah Yee - Director,
Audit & Assurance
T +65 6329 2771
kookahyee@moorestephens.com.sg

MOORE STEPHENS LLP
CHARTERED ACCOUNTANTS OF SINGAPORE

Moore Stephens LLP
10 Anson Road #29-15, International Plaza, Singapore 079903
T +65 6221 3771
F +65 6221 3815
www.moorestephens.com.sg