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A Practical Guide to New Singapore Financial Reporting Standards for 2011

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Introduction

This publication is a practical guide to the new or amended FRS standards and interpretations that come into effect in 2011. Significant changes to FRS are due to be published in 2011, but there are a relatively small number of changes that come into effect for 2011 year ends: two new interpretations, and a number of amendments to existing standards and interpretations.

The new interpretation INT FRS 115 *Agreements for the construction of real estate* clarifies the contracts that will need to be accounted for in accordance with FRS 18 *Revenue*, and those that will need to apply FRS 11 *Construction contracts*. This interpretation may have significant earnings implications, as the revenue recognition between the two standards is quite different and will have wider implications than just for the real estate industry.

Another interpretation which comes into effect in 2011 – INT FRS 119 *Extinguishing financial liabilities with equity instruments*, clarifies the accounting when an entity renegotiates the terms of its debt when the liability is extinguished by the debtor issuing its own equity.

One amendment that has an effective date in 2010 will impact 2011 year ends – amendments to FRS 32 *Financial instruments: Presentation*, on classification of rights issues. Amendments that apply from 1 January 2011 are an amendment to FRS 24 *Related party disclosures*, and an amendment to INT FRS 114 *The limit on a defined benefit asset, minimum funding requirements and their interaction*.

A number of other specific amendments to standards and the International Accounting Standards Board's (IASB's) 2010 annual improvements project, which have been adopted by the Accounting Standards Council (ASC) in Singapore, have affected many of the standards. Some of the changes address inconsistency in terminology between the standards; others will impact certain entities and hence will need careful consideration.

A number of standards have been issued by the IASB but have not yet been adopted by the ASC as at the date of this publication. These include IFRS 9 *Financial Instruments*, five standards on consolidation and joint arrangements – IFRS 10 *Consolidated financial statements*, IFRS 11 *Joint arrangements*, IFRS 12 *Disclosures of interests in other entities*, IAS 27 *Separate financial statements* and IAS 28 *Investments in associates and joint ventures* and IFRS 13 *Fair value measurement*. They apply to 2013 year ends but can be adopted with immediate effect for IFRS preparers.

IFRS 9 deals with the classification and measurement of financial instruments and is the first phase of the IASB's project to replace FRS 39 *Financial instruments: Recognition and measurement*.

IFRS 10 introduces a revised definition of control and significant new guidance to determine which entities should be consolidated. It replaces IAS 27, which now only deals with separate financial statements.

IFRS 11 replaces IAS 31 and will have significant impact on how entities classify and account for their joint arrangements. IAS 28 has also been amended to now include all the guidance on the equity method of accounting for associates or joint ventures.

Disclosures for interests in subsidiaries, joint arrangements and associates are considered in IFRS 12.

IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures.

Abbreviations used

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

1. New and amended standards

Classification of rights issues
– FRS 32 amendment

Disclosures – transfers of financial assets
– FRS 107 amendment

Deferred tax: Recovery of underlying assets
– FRS 12 amendment

Related party disclosures
– FRS 24 amendment

Severe hyperinflation and removal of fixed dates for first-time adopters
– FRS 101 amendment

Limited exemption from comparative FRS 107 disclosures for first-time adopters
– FRS 101 amendment

Classification of rights issues – FRS 32 amendment

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

Effective date

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

What is a rights issue?

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

Why new guidance now?

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

What does the amendment require?

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

What is the scope of the new guidance?

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

How will this change current practice?

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

Disclosures – transfers of financial assets – FRS 107 amendment

An amendment to FRS 107 which requires greater disclosure of transferred financial assets was issued on 23 February 2011.

Effective date

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

How extensive are the new requirements?

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

The amendment has different requirements for the following two categories:

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

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

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

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

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

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

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

to the transferred financial asset. The new disclosures are mainly about the entity's continuing involvement. They include disclosure of:

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

Deferred tax: Recovery of underlying assets – FRS 12 amendment

The ASC amended FRS 12 *Income taxes* to introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value following a similar amendment by the IASB in IAS 12.

Effective date

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

Why was this amendment needed?

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

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

Key provisions

The IASB has added another exception to the principles in IAS 12: the rebuttable presumption.

Why was this amendment needed?

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

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

Key provisions

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

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

What are the transition implications?

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

Which entities are affected?

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

Related party disclosures – FRS 24 amendment

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

Effective date

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

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

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

What is the definition of a government-related entity?

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

What disclosures are government-related entities required to make?

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

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

What is the impact of the change in disclosure requirements?

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

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

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

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

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

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

Severe hyperinflation and removal of fixed dates for first-time adopters – FRS 101 amendment

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

- An exemption for severe hyperinflation; and
- Removal of fixed dates

Effective date

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

Severe hyperinflation

What is the issue?

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

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

What are the key provisions?

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

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

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

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

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

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

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

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

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

Which entities are affected?

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

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

What do affected entities need to do?

Management of first-time adopters that have interests in hyperinflationary economies should consider:

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

Removal of fixed dates requirement

What is the issue?

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

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

The second amendment relates to financial assets or liabilities at fair value on initial recognition where the fair value is established through valuation techniques in the absence of an active market.

This means that a first-time adopter does not need to determine the fair value of financial assets and liabilities for periods prior to the date of transition. FRS 39 has also been amended to reflect these changes.

Which entities are affected?

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

Limited exemption from comparative FRS 107 disclosures for first-time adopters – FRS 101 amendment

The ASC has issued an amendment to FRS 101 *First-time adoption of FRS* provides first-time adopters with the same transition relief that existing FRS preparers received in the March 2009 amendment to FRS 107 *Financial instruments: Disclosures*.

Effective date

Annual periods beginning on or after 1 July 2010. Earlier adoption is permitted. Early adoption is required for a first-time adopter that has a first reporting period that begins earlier than 1 July 2011 in order to benefit from the disclosure relief is permitted.

What triggered this amendment?

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

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

Which entities are affected?

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

What action do first-time adopters need to take?

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

2. New and amended interpretations

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

Agreements for the construction of real estate with an accompanying note
– INT FRS 115

Extinguishing financial liabilities with equity instruments
– INT FRS 119

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

The amendment to INT FRS 114, FRS 19 – *The limit on a defined benefit asset, minimum funding requirements and their interaction* was published on 22 January 2010. It removes an unintended consequence of INT FRS 114 relating to voluntary pension pre-payments when there is a minimum funding requirement.

Effective date

Annual periods beginning on or after 1 January 2011; it will apply from the beginning of the earliest comparative period presented. Earlier adoption is permitted.

How does the amendment differ from previous guidance?

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

Which entities are affected?

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

Those affected are companies that:

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

What do affected entities need to do?

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

Agreements for the construction of real estate with an accompanying note – INT FRS 115

INT FRS 115 *Agreements for the construction of real estate* with an accompanying note was published on 26 August 2010. It clarifies the accounting for property developers that recognise revenue and associated costs of pre-completed properties using either the percentage-of-completion method or the completion of construction method as allowed under Recommended Accounting Practice (RAP) 11 *Pre-Completion Contracts for the Sale of Development Property*.

Effective date

Annual periods beginning on or after 1 January 2011. Early adoption is permitted.

What are the key changes under INT FRS 115?

INT FRS 115 specifies that:

- When a buyer can specify the design of the real estate, the contract is accounted for as a construction contract under FRS 11 *Construction Contracts* using the percentage-of-completion method. Otherwise it is accounted for under FRS 18 *Revenue*.
- Contracts accounted for under FRS 18 are regarded as agreements for the rendering of services if the developer is not required to acquire and supply construction materials. Such contracts are accounted for using the percentage-of-completion method if the relevant criteria in FRS 18 are met.
- Other contracts are regarded as contracts for the sale of goods. The percentage-of-completion method applies to such contracts only where the developer transfers both control and significant risks and rewards of ownership of the work-in-progress as construction progresses. Otherwise, revenue is recognised only at the point where control and significant risks and rewards transfer to the buyer, typically, when the property is delivered to the buyer.

Together with the issuance of INT FRS 115, ASC also issued an Accompanying Note (the "Note"). The Note discusses ASC's considerations on whether the sale of uncompleted residential properties "off-plan" in Singapore under the Singapore Housing Developers (Control and Licensing) Act (Chapter 130) (the "Act") that use the standard form of the sale and purchase agreement, satisfy the continuous transfer of control and risks and rewards criteria in INT FRS 115.

ASC concluded that such sales satisfy those criteria and accordingly, should be accounted for using the percentage-of-completion method. However, there could be uncertainties in certain specific situations that preclude the transfer of risks and rewards to the buyers as construction progresses.

It should be noted that the Note only addresses those specified contracts under the Act. The application of INT FRS 115 on other contracts (e.g. selling of properties under the Deferred Payment Scheme, commercial properties in Singapore or other properties outside of Singapore) may result in recognising revenue and associated costs only when the completed units are delivered to the buyers.

Which entities are affected?

All entities that undertake the construction and sale of real estate either directly or through subcontractors will be affected.

What do affected entities need to do?

The interpretation shall be applied retrospectively for annual periods beginning on or after 1 January 2011 with early application permitted. RAP 11 will cease to be effective from annual periods beginning on 1 January 2011.

Extinguishing financial liabilities with equity instruments – INT FRS 119

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

Effective date

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

Why the new guidance now?

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

What is the scope of the new guidance?

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

What does the interpretation address?

INT FRS 119 addresses the following issues:

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

What does the interpretation require?

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

How will this change current practice?

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

3. Improvements to FRSs 2010

The table below identifies the more significant changes to the standards arising from the Improvements to FRSs 2010 issued by ASC on 7 October 2010 and the implications for management.

Effective date

See final column in table below.

Standard/ interpretation	Amendment	Practical implications	Effective date
Amendment to FRS 1 *Presentation of financial statements*	• The impact of a previous amendment to FRS 1 by FRS 27 was to make explicit the requirement to present each item of other comprehensive income in the statement of changes in equity, along with the profit or loss and transactions with owners. The amendment removes the requirement for each item of other comprehensive income to be presented separately in the statement of changes in equity.	• The amendment clarifies that, for each component of equity, an entity may present the breakdown of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.	Annual periods beginning on or after 1 January 2011. Early adoption is permitted.
Transition requirements for amendments arising as a result of FRS 27 *Consolidated and separate financial statements*	• Additional guidance has been included within FRS 21, which clarifies the accounting for disposals or partial disposals of a foreign operation. • Guidance in the FRS 28 and FRS 31 amendment clarifies disposal accounting for associates and jointly controlled entities in accordance with FRS 39.	• The amendment is based on the changes in FRS 27. It states that loss of control over a subsidiary, the loss of significant influence over an associate and loss of joint control over a jointly controlled entity are similar events and should therefore be accounted for similarly. Such an event should be recognised and measured at fair value and any gain or loss is recognised in the profit or loss.	Annual periods beginning on or after 1 July 2010.
Amendment to FRS 34 *Interim financial reporting*	• The amendment emphasises the existing disclosure principles in FRS 34 and adds further guidance to illustrate how to apply these principles.	• Greater emphasis has been placed on the disclosure principles for significant events and transactions. Additional requirements cover disclosure of changes to fair value measurements (if significant), and the need to update relevant information from the most recent annual report.	Annual periods beginning on or after 1 January 2011. Early adoption is permitted.

Standard/ interpretation	Amendment	Practical implications	Effective date
Amendment to FRS 101 *First-time adoption* – interim information	• A first-time adopter that changes its accounting policies or its use of FRS 101 exemptions after publishing a set of FRS 34 interim financial information should explain those changes and include the effects of such changes in its opening reconciliations within the first annual FRS financial statements.	• FRS 101 explains that the disclosures required when accounting policies are changed under FRS 8 *Accounting policies, changes in accounting estimates and errors* are not required for a first-time adopter. • The amendment clarifies that FRS 8 also does not apply to changes made to accounting policies during the period of an entity's first FRS financial statements. This includes a change in policy between publication statements. However, management should explain the change in its first FRS financial statements, as required by of FRS 101 para 23, and provide updated reconciliations. This disclosure requirement also applies where an entity changes its use of the exemptions in FRS 101 between the interim report and its first FRS financial statements.	Annual periods beginning on or after 1 January 2011. Early adoption is permitted.
Amendment to FRS 101 *First-time adoption* – deemed cost	• The exemption to use a "deemed cost" arising from a revaluation triggered by an event such as a privatisation that occurred at or before the date of transition to FRS is extended to revaluations that occur during the period.	• Local regulations might require entities to remeasure assets and liabilities to fair value on the event of a privatisation or an IPO and to recognise those revalued amounts as deemed cost under local GAAP. If such an event occurs after the date of transition to FRS, FRS 101 did not previously permit these revalued amounts to be recognised as deemed cost on transition to FRS. The amendment to FRS 101 permits entities to use these revalued amounts as deemed cost at the date the event occurs provided that this revaluation occurs during the period covered by the first FRS financial statements. • At the date of transition, the assets and liabilities are either measured at deemed cost using either fair value or revaluation as described above, or in accordance with other applicable FRSs.	Annual periods beginning on or after 1 January 2011. Early adoption is permitted. The amendment is also available to entities that applied FRS 101 prior to the effective date where such a re-measurement event occurred during their first FRS reporting period. The amendment allows these entities to apply this amendment retrospectively in the first annual period after the amendment is effective.

Standard/ interpretation	Amendment	Practical implications	Effective date
Amendment to FRS 101 *First-time adoption* - rate regulation	• Entities subject to rate regulation are permitted to use previous Generally Accepted Accounting Principles ("GAAP") carrying amounts of property, plant and equipment or intangible assets as deemed cost on an item-by-item basis. Entities that use this exemption are required to test each item for impairment under FRS 36 at the date of transition.	• This amendment provides relief to entities that carry items of PPE and intangible assets that are or were previously used in rate-regulated activities. The amendment states that operations are considered to be subject to rate regulation if "they provide goods or services to customers at prices (i.e. rates) established by an authorised body empowered to establish rates that bind the customers and that are designed to recover the specific costs the entity incurs in providing the regulated goods or services and to earn a specified return". The specified return does not need to be of a fixed amount and may be stated as a minimum amount or a range. • The amendment permits a first-time adopter to use the previous GAAP carrying amount of such rate-regulated assets as deemed cost at the date of transition to FRS even if those assets do not qualify for recognition under FRS. The amendment also permits entities to choose the assets to which the exemption is applied. This is similar to the choice available in the deemed cost exemption for other types of assets.	Annual periods beginning on or after 1 January 2011. Early adoption is permitted.
Amendment to FRS 103 *Business combinations* – contingent consideration	• Contingent consideration arrangements arising from business combinations with acquisition dates preceding the application of FRS 103 (2008) are accounted for in accordance with the guidance in the previous version of FRS 103 (as issued in 2004).	• This amendment clarifies that the guidance in FRS 39, FRS 32 and FRS 107 will not apply to contingent consideration arising from business combinations with an effective date prior to the application of the revised version of FRS 103.	Annual periods beginning on or after 1 July 2010. Early adoption is permitted.
Amendment to FRS 103 *Business combinations* – non-controlling interests	• The choice of measuring non-controlling interests at fair value or at the proportionate share of the acquiree's net assets applies only to instruments that represent 'present' ownership interests and entitle their holders to a proportionate share of the net assets in the event of liquidation. All other components of non-controlling interest are measured at fair value unless FRS requires another measurement basis. Removal of reference to transactions between segments as being hedgeable transactions in individual or separate financial statements.	• This amendment will reduce diversity in practice and provides clearer guidance on how to measure non-controlling interests.	Annual periods beginning on or after 1 July 2010. Early adoption is permitted.

Standard/ interpretation	Amendment	Practical implications	Effective date
Amendment to FRS 103 *Business combinations* – share-based payments	• The application guidance in FRS 103 applies to all share- based payment transactions that are part of a business combination, including unreplaced and voluntarily replaced share-based payment awards.	• FRS 103 did not previously provide guidance for situations where the acquirer does not have an obligation to replace an award but replaces an existing acquiree award that would otherwise have continued unchanged after the acquisition. This amendment addresses this gap in the previous guidance. The amendment made to FRS 103 results in the accounting for these awards being the same as for awards that the acquirer is obliged to replace.	Annual periods beginning on or after 1 July 2010. Early adoption is permitted.
Amendment to FRS 107 *Financial instruments: disclosures*	• Amendments to FRS 107 *Financial instruments: Disclosures – Nature and extent of risks arising from financial instruments*. • These are minor amendments to the disclosure of financial assets, including the financial effect of collateral held as security.	• No significant impact.	Annual periods beginning on or after 1 January 2011. Early adoption is permitted.
Amendment to INT FRS 113 *Customer loyalty programmes*		• The amendment clarifies the meaning of the term "fair value" in the context of measuring award credits under customer loyalty programmes. • When the fair value of award credits is measured on the basis of the value of the awards (that is, goods or services) for which they could be redeemed, the fair value of the award credits should take account of expected forfeitures as well as the discounts or incentives that would otherwise be offered to customers who have not earned award credits from an initial sale.	Annual periods beginning on or after 1 January 2011. Early adoption is permitted.

4. Standards issued globally but not yet issued in Singapore

Classification and measurement of financial assets
– IFRS 9

Classification and measurement of financial liabilities
– IFRS 9

Consolidated financial statements
– IFRS 10

Joint arrangements
– IFRS 11

Disclosure of interests in other entities
– IFRS 12

Fair value measurement
– IFRS 13

Presentation of financial statements
– Amendment to IAS 1

Financial instruments – IFRS 9

IFRS 9 *Financial instruments* replaces IAS 39 *Financial instruments: Recognition and Measurement*. It generally applies retrospectively, with some exceptions. Comparative information is not required to be adjusted retrospectively for adoptions before 2012. If an entity early adopts IFRS 9, it will not be required to early adopt subsequent stages in the IAS 39 replacement project – that is, impairment and hedging. This is to facilitate early adoption of IFRS 9. However, if an entity chooses to early adopt any of the subsequent stages, it will be required to early adopt all preceding stages from the same date.

Effective date

Annual periods beginning on or after 1 January 2013. Early adoption is permitted from 12 November 2009 (see detail below).

Classification and measurement of financial assets

How are financial assets to be measured?

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

What determines classification?

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

What is a contractual cash flow characteristics test?

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

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

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

- Unleveraged linkage to an inflation index in the currency in which the financial asset is denominated.

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

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

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

Are reclassifications permitted?

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

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

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

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

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

What does this mean for equity investments?

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

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

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

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

What does this mean for hybrid contracts?

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

Is a fair value option available?

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

Classification and measurement of financial liabilities

How are financial liabilities to be measured?

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

What determines classification?

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

What is the accounting for financial liabilities that are required to be at fair value through profit and loss?

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

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

IFRS 9 changes the accounting for financial liabilities that an entity chooses to account for at fair value through profit or loss, using the fair value option. For such liabilities, changes in fair value related to changes in own credit risk are presented separately in OCI. However, if presenting the changes in own credit of a financial liability in OCI would create an accounting mismatch in profit or loss, all fair value movements are recognised in profit or loss.

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

The accounting mismatch:

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

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

What are the eligibility criteria for the fair value option?

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

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

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

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

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

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

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

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

How are financial liabilities at fair value to be measured?

Entities will need to calculate the amount of the fair value movement that relates to the credit risk of the liability. IFRS 7 already requires disclosure of the amount of fair value changes that are attributable to own credit risk for liabilities designated at fair value through profit or loss. The existing guidance on how to calculate own credit risk in IFRS 7 is retained but has been relocated to IFRS 9, and some aspects have been clarified.

How can own credit risk be determined?

This can be determined as either:

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

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

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

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

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

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

Consolidated Financial Statements - IFRS 10

Effective date

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

What is the issue?

The IASB has issued the long-awaited IFRS 10 *Consolidated financial statements* as part of the group of five new standards that address the scope of the reporting entity. IFRS 10 replaces all of the guidance on control and consolidation in IAS 27 *Consolidated and separate financial statements* and SIC 12 *Consolidation – special purpose entities*. IAS 27 is renamed *Separate financial statements*; it continues to be a standard dealing solely with separate financial statements. The existing guidance for separate financial statements is unchanged.

The rest of the package includes IFRS 11 *Joint Arrangements*; IFRS 12 *Disclosure of interests in other entities*; and consequential amendments to IAS 28 *Investments in associates*.

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

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

IFRS 10 excludes guidance specifically for investment companies, as the IASB continues to work on a project on accounting by investment companies for controlled entities.

Revised definition of control

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

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

The application guidance includes examples illustrating when an investor may have control with less than half of the voting rights. When assessing if it controls the investee, an investor should consider potential voting rights, economic dependency and the size of its shareholding

in comparison to other holdings, together with voting patterns at shareholder meetings. This last consideration will bring the notion of "de facto" firmly within the consolidation standard.

IFRS 10 also includes guidance on participating and protective rights. Participating rights give an investor the ability to direct the activities of an investee that significantly affect the returns. Protective rights (often known as veto rights) will only give an investor the ability to block certain decisions outside the ordinary course of business.

The new standard includes guidance on agent/principal relationships. An investor (the agent) may be engaged to act on behalf of a single party or a group of parties (the "principals"). Certain power is delegated to the agent (e.g. to manage investments). The investor may or may not have control over the pooled investment funds. IFRS 10 includes a number of factors to consider when determining whether the investor has control or is acting as an agent.
The revised definition of control and associated guidance replaces not only the definition and guidance in IAS 27 but also the four indicators of control in SIC 12.

Which entities are affected?

IFRS 10 has the potential to affect all reporting entities (investors) that control one or more investees under the revised definition of control. The determination of control and consolidation decisions may not change for many entities. However, the new guidance will need to be understood and considered in the context of each investor's business.

What do affected entities need to do?

The revised standard is effective for annual periods beginning on or after 1 January 2013; earlier application is permitted.

IFRS preparers should consider whether IFRS 10 will affect their control decisions and consolidated financial statements.

Joint arrangements - IFRS 11

Effective date

Annual periods beginning on or after 1 January 2013. Early adoption is permitted if the entire package of standards is adopted at the same time.

What is the issue?

The IASB has issued the long awaited IFRS 11 *Joint arrangements* as part of a "package" of five new standards.

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

Key provisions

Underlying principles

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

All parties to a joint arrangement should recognise their rights and obligations arising from the arrangement. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement.

The structure and form of the arrangement is only one of the factors to consider in assessing each party's rights and obligations. The terms and conditions agreed by the parties (e.g. agreements that may modify the legal structure or form of the arrangement) and other relevant facts and circumstances should also be considered. If the facts and circumstances change, a venturer needs to reassess:

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

Types of joint arrangements and their measurement

IFRS 11 classifies joint arrangements as either joint operations or joint ventures. The "jointly controlled assets" classification in IAS 31 *Interests in Joint Ventures* has been merged into joint operations, as both types of arrangements generally result in the same accounting outcome.

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

A joint operator in a joint operation will therefore recognise in its own financial statements:
- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output of the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

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

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

Which entities are affected?

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

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

The transition provisions of IFRS 11 require entities to apply the new rules at the beginning of the earliest period presented upon adoption. When transitioning from the proportionate consolidation method to the equity method, entities should recognise their initial investment in the joint venture as the aggregate of the carrying amounts that were previously proportionately consolidated. In transitioning from the equity method to accounting for assets and liabilities, entities should recognise their share of each of the assets and liabilities in the joint operation, with specific rules detailing how to account for any difference from the previous carrying amount of the investment.

What do affected entities need to do?

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

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

Disclosure of interests in other entities – IFRS 12

Effective date

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

What is the issue?

The IASB has issued IFRS 12 *Disclosure of interests in other entities* as part of the group of five new standards that address the scope of the reporting entity. IFRS 12 sets out the required disclosures for entities reporting under the two new standards, IFRS 10 *Consolidated financial statements* and IFRS 11 *Joint arrangements*; it replaces the disclosure requirements currently found in IAS 28 *Investments in associates*. IAS 27 is renamed *Separate financial statements* and is now a standard dealing solely with separate financial statements. The existing guidance and disclosure requirements for separate financial statements are unchanged.

The new standard, IFRS 12, requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities.

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

Significant judgements and assumptions

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

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

Interests in subsidiaries

This includes information about:

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

Interests in joint arrangements and associates

Detailed disclosures include:

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

Interests in unconsolidated structured entities

Detailed disclosures include:

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

Which entities are affected?

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

The standard is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. An entity can provide any or all of the above disclosures without having to apply IFRS 12 in its entirety, or IFRS 10 or 11, or the amended IAS 27 or 28.

What do affected entities need to do?

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

Fair value measurement – IFRS 13

Effective date

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

What is the issue?

The IASB has completed its joint project with the FASB on fair value measurement, issued as IFRS 13 *Fair value measurement*.

IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures; it does not say when to measure fair value or require additional fair value measurements.

Although the project converges IFRS and US GAAP on how to measure fair value, there will continue to be differences in certain respects, including when fair value measurements are required and when Day 1 gains and losses can be recognised.

Key provisions

Scope

The guidance in IFRS 13 does not apply to transactions within the scope of IFRS 2 *Share-based payment* or IAS 17 *Leases*, or to certain other measurements that are required by other standards and are similar to, but are not, fair value (e.g. value in use in IAS 36 *Impairment of assets*).

Definition of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price).

The fair value of a liability therefore reflects non-performance risk (that is, own credit risk).

Principal or most advantageous market

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

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

Market participant assumptions

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

Highest and best use

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

Bid and ask prices

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

Fair value hierarchy

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

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

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

Disclosures

The guidance includes enhanced disclosure requirements that could result in significantly more work for reporting entities. These requirements are similar to those in IFRS 7 *Financial instruments: Disclosures* but apply to all assets and liabilities measured at fair value, not just financial ones.

The required disclosures include:

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

Transition and effective date

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. It is applied prospectively as of the beginning of the annual period in which it is initially applied.

The disclosure requirements of the new guidance do not need to be applied in comparative information for periods before initial application of IFRS 13.

Which entities are affected?

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

What do affected entities need to do?

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

Presentation of financial statements – Amendment to IAS 1

The IASB has issued an amendment to IAS 1 *Presentation of financial statements*. The amendment changes the disclosure of items presented in other comprehensive income (OCI) in the statement of comprehensive income.

Effective date

Annual periods beginning on or after 1 July 2012. Early adoption is permitted and full retrospective application is required.

What is the issue?

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

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

The amendment was developed jointly with the FASB, which has removed the option in US GAAP to present OCI in the statement of changes in equity.

Key provisions

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

Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately.

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

Transition

The amendment is effective for annual periods beginning on or after 1 July 2012. Early adoption is permitted and full retrospective application is required.

Which entities are affected?

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

What do affected entities need to do?

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

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- Transition requirements for amendments arising as a result of FRS 27 *Consolidated and Separate Financial Statements*
- Amendments to FRS 101 *Limited Exemption from Comparative* FRS 107 *Disclosures for First-time Adopters*
- Amendments to FRS 103 *Business Combinations*
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As at 31 August 2011

Standard/ Interpretation	Significant changes on Scope and Definition	Significant changes on Measurement and Recognition	Significant changes on Presentation and Disclosures
Effective for annual periods beginning on or after 1 February 2010			
Amendments to FRS 32 *Classification of Rights Issues*	The scope of the amendment is narrow and does not extend to foreign-currency-denominated convertible bonds. For these instruments, the embedded option to acquire the issuer's equity may continue to be accounted for as a derivative liability with fair value changes recorded in profit or loss.	Rights issues are now required to be classified as equity if they are issued for a fixed amount of cash regardless of the currency in which the exercise price is denominated, provided they are offered on a pro rata basis to all owners of the same class of equity. Entities will no longer classify rights issues, for which the exercise price is denominated in a foreign currency, as derivative liabilities with fair value changes being recorded in profit or loss. Rather, entities will be able to classify these rights in equity with no re-measurement PwC Observation: This will result in lower income volatility.	–
Effective for annual periods beginning on or after 1 July 2010			
Transition requirements for amendments arising as a result of FRS 27 *Consolidated and Separate Financial Statements*	–	Clarifies that the consequential amendments to FRS 21, FRS 28 and FRS 31 resulting from the 2008 revisions to FRS 27 (effective from 1 July 2009) are to be applied prospectively.	–
Amendments to FRS 101 *Limited Exemption from Comparative FRS 107 Disclosures for First-time Adopters*	–	The amendment provides first-time adopters of FRSs with the same transition provisions as those included in the amendment to FRS 107 (effective for annual periods beginning on or after 1 January 2009) relating to enhanced disclosures about fair value measurements and liquidity risk. A first time adopter is exempted from such disclosures for any comparative periods that end before 31 December 2009.	–

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

As at 31 August 2011

<table>
<tr><th rowspan="2">Standard/ Interpretation</th><th colspan="3">Significant changes on</th></tr>
<tr><th>Scope and Definition</th><th>Measurement and Recognition</th><th>Presentation and Disclosures</th></tr>
<tr><td colspan="4">Effective for annual periods beginning on or after 1 July 2010</td></tr>
<tr><td>Amendments to FRS 103 Business Combinations</td><td>–</td><td>The amendment clarifies that:

• Contingent consideration arrangements arising from business combinations with acquisition dates preceding the application of FRS 103 Revised (2008) are to be accounted for in accordance with the guidance in the previous version of FRS 103 (as issued in 2004).

<u>PwC Observation:</u>
This means that such contingent consideration arrangements are recognised only when payment becomes probable and subsequent changes in estimate of the amounts payable will continue to be adjusted against goodwill.

• The choice of measuring non-controlling interests at fair value or at the proportionate share of the acquiree’s net assets applies only to instruments that represent present ownership interests and entitle their holders to a proportionate share of the net assets in the event of liquidation. All other components of non-controlling interest are measured at fair value unless another measurement basis is required by IFRS.

• The application guidance in FRS 103 applies to all share-based payment transactions that are part of a business combination, including un-replaced and voluntarily replaced share-based payment awards.</td><td>–</td></tr>
</table>

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

As at 31 August 2011

Standard/ Interpretation	Significant changes on Scope and Definition	Measurement and Recognition	Presentation and Disclosures
Effective for annual periods beginning on or after 1 July 2010			
INT FRS 119 *Extinguishing Financial Liabilities with Equity Instruments*	–	The interpretation clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (referred to as a "debt for equity swap"). It requires a gain or loss to be recognised in profit or loss when a liability is settled through the issuance of the entity's own equity instruments. The amount of the gain or loss recognised in profit or loss will be the difference between the carrying value of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments cannot be reliably measured then the fair value of the existing financial liability is used to measure the gain or loss. Entities will no longer be permitted to reclassify the carrying value of the existing financial liability into equity (with no gain or loss being recognised in the profit or loss). The amount of the gain or loss should be separately disclosed on the face of the statement of comprehensive income or in the notes.	–
Effective for annual periods beginning on or after 1 January 2011			
Amendments to FRS 1 Presentation of Financial Statements	–	–	Clarifies that the reconciliation of changes in each component of equity shall show separately each movement of comprehensive income and this reconciliation can be presented either in the statement of changes in equity or within the notes.

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

As at 31 August 2011

Standard/ Interpretation	Significant changes on		
	Scope and Definition	Measurement and Recognition	Presentation and Disclosures
Effective for annual periods beginning on or after 1 January 2011			
Amendments to FRS 24 *Related Party Disclosures*	The amendments clarify and simplify the definition of a related party. Previously, the definition of a related party was complicated and contained a number of inconsistencies. These inconsistencies meant, e.g. that there were situations in which only one party to a transaction was required to make related-party disclosures. The definition has been amended to remove the inconsistencies and to make it easier to apply.	–	The amendment removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. Government-related entities are now defined as entities that are controlled, jointly controlled or significantly influenced by the government. With the amendment, all the disclosure requirements of FRS 24 for transactions between government-related entities and the government, and all other government-related entities are exempted. Those disclosures are replaced with a requirement to disclose: (a) the name of the government and the nature of their relationship (b) (i) the nature and amount of any individually-significant transactions (ii) the extent of any collectively-significant transactions qualitatively or quantitatively.
Amendments to FRS 34 *Interim Financial Reporting*	–	–	Greater emphasis has been placed on the disclosure principles in FRS 34 involving significant events and transactions, including changes to fair value measurements, and the need to update relevant information from the most recent annual report.
Amendments to FRS 101 *First-time Adoption of Financial Reporting Standards*	–	–	A first-time adopter that changes its accounting policies or its use of FRS 101 exemptions after publishing a set of FRS 34 interim financial information should explain those changes and include the effects of such changes in its opening reconciliations within the first annual FRS financial statements.

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

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Standard/ Interpretation	Significant changes on		
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Effective for annual periods beginning on or after 1 January 2011			
	–	First-time adopters that have revalued some or all of their assets and liabilities at one particular date prior to FRS adoption, because of an event such as a privatization or initial public offering, are currently allowed to use such event-driven fair value measurements as deemed cost under FRS. This exemption has been extended to revaluations that occur during the period covered by the first FRS financial statements. In such cases, the resulting adjustments are recognised directly in equity at the measurement date.	–
	–	Entities subject to rate regulation are allowed to use previous GAAP carrying amounts of property, plant and equipment or intangible assets as deemed cost at the date of transition to FRS on an item-by-item basis. Entities that use this exemption are required to test each item for impairment under FRS 36 at the date of transition.	Entities that use this exemption should disclose the use of this exemption and the basis on which carrying amounts were determined under previous GAAP.
Amendments to FRS 107 *Financial Instruments: Disclosures*	–	–	Key amendments include: • Removal of requirement to disclose carrying amount of renegotiated financial assets that would be past due or impaired if not for the renegotiation • Clarification that disclosure of amount that best represents maximum exposure to credit risk is not required when this amount is represented by the carrying amount of the financial instrument • Requirement to disclose fair value of collateral and other credit enhancements is replaced with a description to disclose the financial effect of collateral and other credit enhancements • Clarification that entities are only required to disclose the amount of foreclosed collateral held at the reporting date. Previously it was not clear whether entities were required to disclose all collateral obtained during the year.

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

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Standard/ Interpretation	Significant changes on		
	Scope and Definition	Measurement and Recognition	Presentation and Disclosures
Effective for annual periods beginning on or after 1 January 2011			
Amendments to INT FRS 113 *Customer Loyalty Programmes*	–	The meaning of the term "fair value" is clarified in the context of measuring award credits under customer loyalty programs. It is clarified that the fair value of such award credits is not necessarily equal to the fair value of redemption awards, but it should also take account of expected forfeitures as well as discounts or incentives that would otherwise be offered to customers who have not earned award credits from an initial sale.	–
Amendments to INT FRS 114 *Pre-payments of a Minimum Funding Requirement*	–	The amendment to INT FRS 114 removes an unintended consequence of the previous interpretation relating to voluntary pension prepayments when there is a minimum funding requirement. Some entities that are subject to minimum funding requirement may elect to prepay their pension contributions and recover them through lower minimum funding requirements in the future. An unintended consequence prior to this amendment was that the interpretation could prevent the recognition of an asset for any surplus arising from voluntary prepayment in respect of future service. The interpretation has been amended to require an asset to be recognised in these circumstances. PwC Observation: It will have a limited impact, as it only applies to companies that are required to make minimum funding contributions to a defined benefit pension plan and choose to prepay those contributions.	–

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

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Standard/ Interpretation	Significant changes on: Scope and Definition	Measurement and Recognition	Presentation and Disclosures
Effective for annual periods beginning on or after 1 January 2011			
INT FRS 115 Agreements for the *Construction of Real Estate*	Provides guidance on how and when revenue from the construction of real estate should follow FRS 11 Construction Contracts or FRS 18 Revenue. The ASC also issued an Accompanying Note with INT FRS 115 (the "Accompanying Note"), which distils the ASC's considerations in reaching its consensus on the accounting treatment for the sale of uncompleted residential properties "off-plan" in Singapore. The Accompanying Note is an integral part of INT FRS 115 and is to be read together with the interpretation.	• The interpretation clarifies that an agreement for the construction of real estate meets the definition of a construction contract and will be able to use percentage-of-completion accounting only when the buyer is able to: • specify the major structural elements of the design of the real estate before construction begins; and/or • specify major structural changes once construction is in progress (whether or not it exercises that ability). • If the agreement is not a construction contract, it may be an agreement for the rendering of services if the entity is not required to acquire and supply the construction materials required for the construction. In this situation, the entity may still be able to use percentage-of-completion accounting. • If the agreement is neither a construction contract nor a service contract, it is a contract to supply goods for which FRS 18 should be applied. In this case, the percentage-of-completion accounting can only be applied if the entity transfers to the buyer control and the significant risks and rewards of ownership of the work in progress in its current state as construction progresses. • The standard residential property sales in Singapore meet the criteria set out in FRS 18.14 that would require such sales to be accounted for on a percentage-of-completion method. However, in some situations specific to the circumstances of a development project as described in paragraph 32, there might be uncertainties that	–

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

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Standard/ Interpretation	Significant changes on		
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Effective for annual periods beginning on or after 1 January 2011			
		would require the completion of construction method to be applied, consistently with the principles set out in FRS 18 for the treatment of revenue when such uncertainties exist. PwC Observation: Entities that have previously recognised revenue from the sale of real estate under FRS 11 (i.e. revenue recognises over the period of construction) will be most significantly affected if their arrangements do not meet the definition of a construction contract (e.g. entities that build residential houses or apartments for sale to individuals) or it does not satisfy the criteria for continuous transfer of control, risks and rewards of the construction in progress. Such entities will recognise the revenue when the criteria for the sale of goods and/or services under FRS 18, as appropriate, have been satisfied. The impact of the interpretation may not be restricted to real estate entities. It can also be applicable to other entities that build and sell other assets that take significant time to build, such as ships. The Accompanying Note in INT FRS 115 sets a narrow scope for the sale of uncompleted residential properties "off-plan" in Singapore. Hence, all the criteria set out in FRS 18 and INT FRS 115 (including the Accompanying Note) should be carefully analysed to ensure that the requirements for applying the percentage-of-completion method for revenue recognition purposes are met for SPAs that are outside the scope of the Accompanying Note (e.g. Deferred Payment Scheme, Design-build-and-sell Scheme, commercial properties, mixed developments etc).	

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

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Effective for annual periods beginning on or after 1 July 2011			
Amendments to FRS 101 *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*	References to a fixed date of "1 January 2004" are replaced with "the date of transition to FRSs", thus eliminating the need for companies adopting FRSs for the first time to restate derecognition transactions that occurred before the date of transition to FRSs.	–	Guidance is provided on how an entity should resume presenting financial statements in accordance with FRSs after a period when the entity was unable to comply with FRSs because its functional currency was subject to severe hyperinflation.
Amendments to FRS 107 *Disclosures-Transfers of Financial Assets*	–	–	The required disclosures for these financial assets add to those already in IFRS 7. New requirements mainly include: For transferred assets that are not derecognised in their entirety: • A description of the nature of the relationship between the transferred assets and the associated liabilities; and • A schedule that sets out the fair value of the transferred assets, the fair value of the associated liabilities and the net position, when the counterparty to the associated liabilities has recourse only to the transferred assets. For transferred assets that are derecognised in their entirety: • The carrying amount and fair value of the continuing involvement; • The maximum exposure to loss from the continuing involvement; • Any future cash outflows to repurchase the derecognised assets and a maturity analysis of those cash outflows;

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

As at 31 August 2011

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Effective for annual periods beginning on or after 1 July 2011			
			• A description of the nature and purpose of the continuing involvement and the risk the entity remains exposed to; • The gain or loss at date of derecognition; • The income and expense recognised from the continuing involvement; and • Whether transfer activity is unevenly distributed in the period.
Effective for annual periods beginning on or after 1 January 2012			
Amendment to FRS 12 *Deferred Tax: Recovery of Underlying Assets*	–	The amendments introduce a presumption that an investment property is recovered entirely through sale for investment property measured using fair value model. Hence the tax rate used to measure the deferred tax liability is the tax rate applicable on sale of the investment property. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. PwC Observation: The amendment will affect entities holding investment property measured at fair value in territories where the capital gains tax rate is different from the income tax rate, or/and the tax base from sale is different from tax base from use. For example, the deferred tax liability will be reduced significantly and movements in the fair value of investment property will not be tax-affected in a territory where there is no capital gains tax.	–

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

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Standard/ Interpretation	Significant changes on: Scope and Definition	Measurement and Recognition	Presentation and Disclosures
IFRS Amendments and Interpretations not yet adopted in Singapore (As at 31 August 2011)			
IFRS 9 *Financial Instruments* (effective for annual periods beginning on or after 1 January 2013)	Applies to all financial assets within the scope of IAS 39, including hybrid financial instruments with financial assets hosts. IFRS 9 does not apply to financial liabilities and hybrid contracts with hosts that are not financial assets.	Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss. All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.	IFRS 9 resulted in consequential amendments to IFRS 7 to align IFRS 7 disclosures with the new accounting requirements. Key disclosures include: • Amounts of equity investments held at fair value through other comprehensive income, the reason for using this presentation alternative, the fair value of such investments, dividends recognised and equity transfers in relation to such investments. If there are any disposals of such investments, the reasons for such disposals, fair values at disposal date and cumulative gain/loss on such disposals. • For any assets reclassified from fair value to amortised cost or vice versa, the date of reclassification, a detailed explanation of the change in business model and a qualitative description of its effect on the financial statements, the cumulative amounts reclassified, the effective interest rates upon reclassification, interest income/ expense recognised on reclassified amounts, fair value at reporting date of financial assets reclassified to fair value, etc. • For financial assets at amortised cost that are derecognised, gains and losses arising from derecognition, as well as reasons for derecognition. • Disclosures upon transition such as the original category under IAS 39 versus the new category in IFRS 9, etc.
	Additions to IFRS 9 *Financial Instruments' dealing with financial liabilities*	In cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than to the income statement, unless this creates an accounting mismatch.	–

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

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<tr><th>Scope and Definition</th><th>Measurement and Recognition</th><th>Presentation and Disclosures</th></tr>
<tr><td colspan="4">IFRS Amendments and Interpretations not yet adopted in Singapore (As at 31 August 2011)</td></tr>
<tr><td>IFRS 10 Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2013)</td><td>IFRS 10 replaces all of the guidance on control and consolidation in IAS 27 ‘Consolidated and Separate Financial Statements’ and SIC 12 ‘Consolidation – Special Purpose Entities’. The same criteria are now applied to all entities to determine control.

IFRS 10 excludes from its scope investment companies. The IASB is working on a project for investment companies to account for their controlled investments at fair value through profit or loss. An Exposure draft is expected for Q3 2011.</td><td>It introduces a revised definition of control that focuses on the need to have both power and variable returns before control is present.

This definition is supported by extensive application guidance that addresses the different ways in which a reporting entity might control another entity, including:

• Control with less that half of the voting rights (known as defacto control);
• Participating and protective rights (often known as veto rights) given to investors;
• Determining whether an entity has control (is a principal) or is acting as agent for other parties;
• Potential voting rights and when they are considered as substantive.

The mechanics of consolidation remain unchanged.

<u>PwC Observation:</u>
The changed definition and application guidance is not expected to result in widespread change in the consolidation decisions of existing IFRS reporting entities, except for two areas that should be considered carefully:

• Situations where de facto control might exist
• Situations where an entity might act as an agent for other parties. That could be the case of certain managers of REITs (Real Estate Investment Trusts), Business Trusts or Investment funds.</td><td>Disclosures relating to subsidiaries are parked in IFRS 12 Disclosure of Interests in Other Entities (please refer below)</td></tr>
</table>

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

As at 31 August 2011

Standard/ Interpretation	Significant changes on: Scope and Definition	Measurement and Recognition	Presentation and Disclosures
IFRS Amendments and Interpretations not yet adopted in Singapore (As at 31 August 2011)			
IFRS 11 *Joint Arrangements* (effective for annual periods beginning on or after 1 January 2013)	IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and applies to all entities that are a party to a joint arrangement (i.e. when there is a contractual agreement to share control over the operations of an entity, known as joint control). It provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. These changes in the definitions have reduced the types of joint arrangements to two: • Joint operations, where a joint operator has rights to the assets and obligations for the liabilities of the arrangement; and • Joint ventures, where the joint operator has rights to the net assets of the arrangement. The jointly controlled assets category in IAS 31 has been merged into joint operations.	A joint operator in a joint operation recognises in its own financial statements its assets, liabilities, revenue from the sale of its share of the output and expenses, as well as its share of the assets held jointly, its share of the liabilities incurred jointly, and its share of the revenues and expenses of the joint operation. A joint venturer in a joint venture accounts for its rights to the net assets of the arrangement using the equity accounting method in IAS 28 (Revised 2011) *Investments in Associates and Joint Ventures*. Proportionate consolidation of joint ventures is no longer allowed. PwC Observation: Entities that conduct their business through joint arrangements should consider carefully the impact of IFRS 11 on their existing or new joint arrangements. The accounting may have a significant impact on their financial results and financial position. If they wish to retain the current accounting for existing arrangements, now is the time to consider how the terms of these arrangements can be reworked or restructured to achieve this.	Disclosures relating to joint arrangements are parked in IFRS 12 'Disclosure of Interests in Other Entities' (please refer below)

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

As at 31 August 2011

Standard/ Interpretation	Significant changes on		
	Scope and Definition	Measurement and Recognition	Presentation and Disclosures
IFRS Amendments and Interpretations not yet adopted in Singapore (As at 31 August 2011)			
IFRS 12 *Disclosures of Interests in Other Entities* (effective for annual periods beginning on or after 1 January 2013)	IFRS 12 sets out the required disclosures for entities reporting under the two new standards, IFRS 10 *Consolidated financial statements* and IFRS 11 *Joint arrangements*. It replaces and harmonises the disclosure requirements currently found in IAS 27 *Consolidated and Separate Financial Statements,* IAS 28 *Investments in associates* and IAS 31 *Interests in Joint Ventures*. Applies to all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.	–	IFRS 12 requires disclosure of information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in (1) subsidiaries, (2) associates, (3) joint arrangements and (4) unconsolidated structured entities. The key disclosures are: For all entities: • Significant judgments and assumptions made in determining whether the entity controls, jointly controls, or significantly influences an entity; For subsidiaries: • Interests that the non-controlling interests (NCI) have in the group's activities for each subsidiary with material NCI; • Nature and extent of significant restrictions over the ability to access assets and liabilities of a subsidiary; • Nature and risks of an entity's interests in consolidated structured entities; • Financial effects of changes in ownership interests without loss of control; • Financial effects of losing control over a subsidiary; For joint arrangements and associates: • Nature, extent and financial effects of the interests for each material joint arrangement and associate, and in aggregate for all other non-material interests; For unconsolidated structured entities: • Nature of interests, including for sponsored entities. This includes qualitative and quantitative information by type of unconsolidated structured entity; • Nature of risks, including maximum exposure to loss.

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<table>
<tr><th rowspan="2">Standard/ Interpretation</th><th colspan="3">Significant changes on</th></tr>
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<tr><td colspan="4">IFRS Amendments and Interpretations not yet adopted in Singapore (As at 31 August 2011)</td></tr>
<tr><td>IFRS 13 Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013)</td><td>IFRS 13 provides consistent guidance across IFRSs on how fair value should be determined and which disclosures should be made in the financial statements. The guidance in IFRS 13 does not apply to transactions within the scope of IFRS 2 Share-based payment or IAS 17 Leases, or to certain other measurements that are required by other standards and are similar to, but are not, fair value (e.g. value in use in IAS 36, Impairment of assets).</td><td>IFRS 13 does not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.

Together with the amended definition of fair value, the following are the key provisions:
• A fair value measurement assumes that a transaction will take place in the principal or most advantageous market relating to the asset or liability being fair valued
• Fair value is measured using market participant assumptions, not entity-specific assumptions. How an entity intends to use an asset is irrelevant when determining its fair value.
• For non-financial assets, fair value is determined by reference to the highest and best use of the asset, which could differ from its current use.
• Bid and ask prices for asset and liability positions are permitted, but not required.
• Fair value measurements are categorised into a three-level hierarchy, same as what is currently the case under IFRS 7 for fair value disclosures of financial instruments.</td><td>Requirements are similar to those in IFRS 7, Financial instruments: Disclosures, but apply to all assets and liabilities measured at fair value, not just financial assets and liabilities.

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

<u>PwC Observation:</u>
Entities that own non-financial assets at fair value, such as investment properties, property carried at revalued amount or biological assets, will be affected by the extent of the new disclosures.</td></tr>
<tr><td>Amendments to IAS 1 Presentation of Financial Statements (effective for annual periods beginning on or after 1 July 2012)</td><td>–</td><td>–</td><td>Items presented in OCI are required to be separated into two groups, based on whether or not they may be recycled to profit or loss in the future. Items that will not be recycled such as revaluation gains on property, plant and equipment will be presented separately from items that may be recycled in the future, such as deferred gains and losses on cash flow hedges. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately.</td></tr>
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<tr><td>IAS 19 (revised 2011) Employee Benefits (effective for annual periods beginning on or after 1 January 2013)</td><td>–</td><td>Key changes include:
• Actuarial gains and losses will be recognised immediately in OCI and cannot be deferred using the corridor approach or recognised in profit or loss. No recycling through profit or loss in subsequent periods.
• Past-service costs will be recognised in the period of a plan amendment; unvested benefits will no longer be spread over a future-service period. A curtailment now occurs only when an entity reduces significantly the number of employees. Curtailment gains/losses are accounted for as past-service costs.
• Annual expense for a funded benefit plan will include net interest expense or income, calculated by applying the discount rate to the net defined benefit asset or liability. This will replace the finance charge and expected return on plan assets, and will increase benefit expense for most entities.
• Taxes related to benefit plans should be included either in the return on assets or the calculation of the benefit obligation, depending on their nature. Investment management costs should be recognised as part of the return on assets.</td><td>Key changes include:
• Benefit cost will be split between (i) the cost of benefits accrued in the current period (service cost) and benefit changes (past-service cost, settlements and curtailments); and (ii) finance expense or income. This analysis can be in the income statement or in the notes.
• Additional disclosures are required to present the characteristics of benefit plans, the amounts recognised in the financial statements, and the risks arising from defined benefit plans and multi-employer plans.
• The distinction between short- and long-term benefits for measurement purposes is based on when payment is expected, not when payment can be demanded. An obligation measured as a long-term benefit could therefore be presented as a current liability when the entity expects to settle after more than one year, but does not have the unconditional ability to defer settlement for more than one year.</td></tr>
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IFRS Amendments and Interpretations not yet adopted in Singapore (As at 31 August 2011)			
IAS 27 (revised 2011) *Separate Financial Statements* (effective for annual periods beginning on or after 1 January 2013)	IAS 27 (revised 2011) now applies only to accounting for investments in subsidiaries, joint ventures and associates when an entity elects, or is required by local regulations, to present separate financial statements. The requirements on control and consolidation are now dealt within a separate IFRS, IFRS 10 (see above).	–	–
IAS 28 (revised 2011) *Investments in Associates and Joint Ventures* (effective for annual periods beginning on or after 1 January 2013)	IAS 28 (revised 2011) now applies to both the accounting for investments in associates and joint ventures. Joint ventures are indeed now required to be equity accounted for, with proportionate consolidation being no longer permitted. However, it still does not apply to investments in associates and joint ventures held by venture capital organisations, mutual funds, unit trusts and similar entities including investment-linked insurance funds, when such entities elect to measure the investments at fair value through profit or loss.	Joint ventures, as well as associates, are now required to be equity accounted for.	–