FOO KON TAN

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FINANCIAL REPORTING UPDATE

2Q 2025

APRIL - JUNE

This is your quarterly update related to financial reporting matters.

We will bring you up to speed on topical issues and significant developments.

In this issue:

- ISCA has issued ISCA Financial Reporting Bulletin 12
- ISCA has highlighted Key Considerations on Implications from U.S. Tariffs
- IASB has revised IFRS Practice Statement 1 Management Commentary
- IFRS Foundation has published guidance on disclosures about climate-related transition in accordance with IFRS S2

ISCA Financial Reporting Bulletin (“FRB”) 12

On 30 December 2024, Singapore published the Multinational Enterprise (Minimum Tax) Regulations 2024 (MMT Regulations 2024) 4 as the subsidiary legislation under the MMT Act.

Both the MMT Act and MMT Regulations are effective for FYs starting on or after 1 January 2025 and are applicable to constituent entities that are members of a Multinational Enterprise group that has annual revenue of EUR 750 million or more in the consolidated financial statements of the ultimate parent entity in at least two of the last four years.

FRB 12 *Accounting Implications arising from the Multinational Enterprise (Minimum Tax) Act in Singapore* is issued to support entities in understanding the accounting implications arising from the MMT Act in Singapore.

Accounting Considerations

When is Multinational Enterprise (Minimum Tax) (“MMT”) Act considered as substantively enacted or enacted in Singapore before its effective date of 1 January 2025?

Paragraph 88C of SFRS(I) 1-12 states that “In periods in which Pillar Two legislation is enacted or substantively enacted, but not yet in effect, an entity shall disclose known or reasonably estimable information that helps users of financial statements understand the entity’s exposure to Pillar Two income taxes arising from that legislation.”

With the publication of Multinational Enterprise Top-Up Tax (“MTT”) Regulations and IRAS’ e-Tax guide, these would provide sufficient details required for the computation of the estimated financial impact of Domestic Top-Up Tax (“DTT”) and MTT. Hence, MMT Act would have been enacted in Singapore before 31 December 2024 and impacted entities are required to comply with the applicable requirements in SFRS(I) 1-12 for reporting periods ended on 31 December 2024.

How should impacted entities prepare themselves for the enactment or implementation of MMT Act in Singapore?

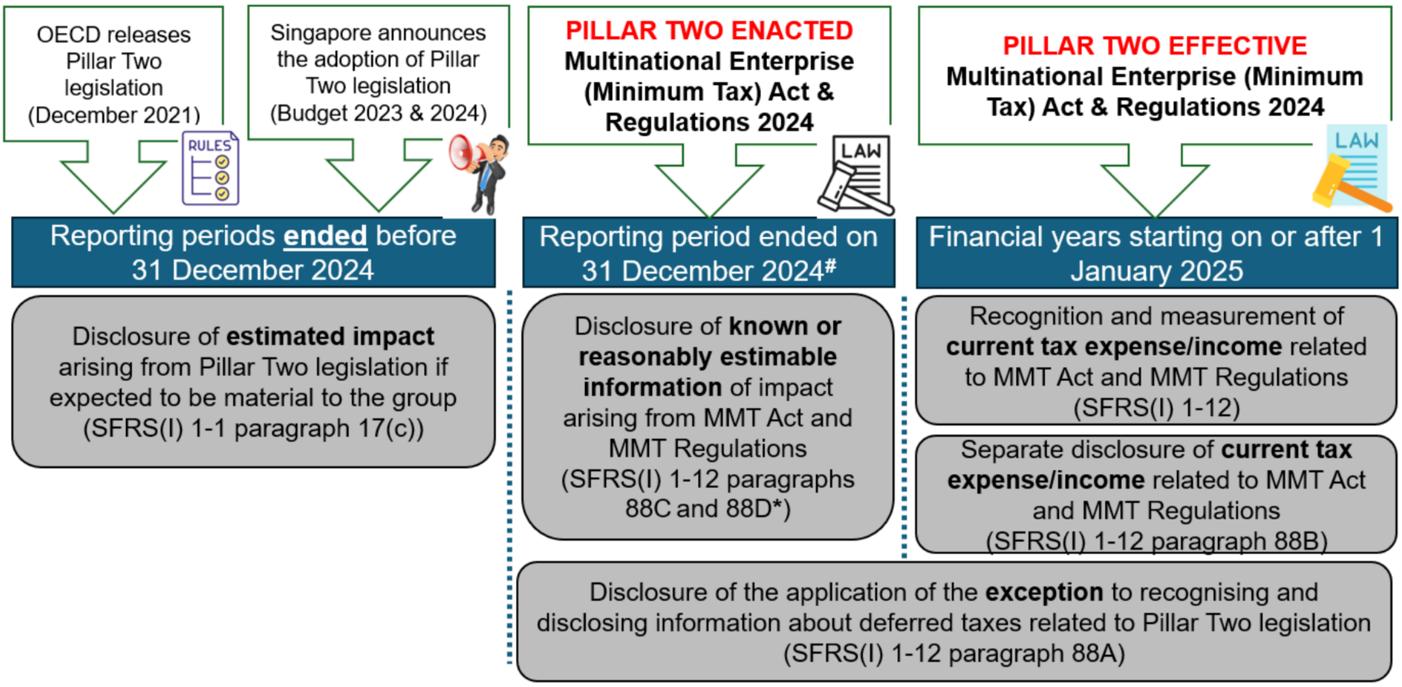
All impacted entities would need to consider accounting implications such as the impact to impairment assessments for cash-generating units as well as their going concern assessment with the tax impact arising from MMT Act in Singapore. In addition, these entities would need to consider the applicable SFRS (I) 1-1 *Presentation of Financial Statements and SFRS(I) 1-12 Income Taxes* requirements as illustrated below.

The following diagram illustrates the applicable accounting requirements (1) before the enactment of Pillar Two legislation, (2) when MMT Act is enacted, and (3) when MMT Act is effective.

For illustration:

1. For an UPE with 31 December as its FY end, the MMT Act is enacted for the reporting period ended on 31 December 2024 and effective for the reporting periods from 1 January 2025 onwards.

2. For an UPE with 30 June as its FY end, the MMT Act is enacted for the reporting periods ended on 31 December 2024 and 31 March 2025. The MMT Act is only effective for the reporting periods from 1 July 2025 onwards.



This is also applicable to both annual and interim reporting periods of entities with financial years starting before 1 January 2025..

* SFRS(I) 1-12 Income Taxes paragraph 88D:

- Disclose qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. This information does not have to reflect all the specific requirements of the Pillar Two legislation and can be provided in the form of an indicative range.
- To the extent information is not known or reasonably estimable, an entity shall instead disclose a statement to that effect and disclose information about the entity's progress in assessing its exposure.

Impacted entities would need to assess the impact on reporting systems and processes as well as the availability of data for the computation of DTT and MTT.

Key Considerations on Implications from U.S. Tariffs

While tariffs are not new, the U.S. has recently imposed baseline and additional reciprocal tariffs, prompting concerns of trade wars. These developments introduce economic uncertainties that could have significant impact on the business and operations of many entities. ISCA Professional Standards Division has put together this communique to highlight some key accounting considerations for affected entities.

Entities with financial reporting date as at 31 December 2024

Is it an adjusting or non-adjusting event?

The imposition of new tariffs is a non-adjusting event for entities with 31 December 2024 financial reporting date.

If the event is material, the entity should disclose its nature and an estimate of its financial effect. If the entity is unable to estimate the financial effect, it should disclose that fact.

The entity should consider disclosing impact on the following items*:

- Breach of loan covenants
- Changes in economic & market conditions affecting fair values of assets & liabilities
- Changes in impairment assessment of non-financial assets
- Additional expected credit losses due to declining repayment ability of certain debtors

** list is not exhaustive*

Is going concern assumption still appropriate?

The imposition of new tariffs may impact the entity's ability to continue as a going concern. The going concern assessment is to be performed up to the date that the financial statements are authorised for issue.

If the going concern assumption is no longer appropriate, there is a fundamental change in the basis of accounting and this should be disclosed in the financial statements.

Entities with financial reporting date on or after 1 January 2025

Is it an adjusting or non-adjusting event?

Depending on the financial reporting date, the imposition of new tariffs could be considered a current period event, subsequent adjusting event or subsequent non-adjusting event. Hence, assessment is required.

If determined to be a subsequent material non-adjusting event, the entity should disclose its nature and an estimate of its financial effect. If the entity is unable to estimate the financial effect, it should disclose that fact.

The entity should consider disclosing impact on the following items*:

- Breach of loan covenants
- Changes in economic & market conditions affecting fair values of assets & liabilities
- Changes in impairment assessment of non-financial assets
- Additional expected credit losses due to declining repayment ability of certain debtors

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Can the tariffs be capitalised as part of cost of inventory / property, plant and equipment ("PPE")?

Yes, these are directly attributable costs to be included in cost of inventory/PPE.

Is any of the entity's non-financial assets (carried at cost) impaired?

Tariffs may result in an indicator of impairment (e.g. decreased sales, increased production costs, impact on investment or business plans etc.)

The entity is to assess the recoverable amount and disclose significant judgement / key assumptions made.

Are the entity's estimates of expected credit losses ("ECL") appropriate?

There is a potential need for entities to adjust the approaches to determine the ECL based on the available information about past events, current conditions and forecast scenarios of future conditions.

Has any of the entity's contracts become onerous?

The newly imposed tariffs may increase costs significantly such that the unavoidable costs of fulfilling the contract exceed the consideration to be received. Entities should review their contracts to determine if any contract has become onerous.

IFRS Practice Statement 1 Management Commentary

In June 2025 the International Accounting Standards Board (IASB) issued the revised IFRS Practice Statement 1 Management Commentary (revised Practice Statement). The revised Practice Statement is designed to support improvements to and greater global alignment in management commentary and similar reports.

Management commentary is a general purpose financial report that accompanies financial statements and might accompany or include sustainability-related financial disclosures. It plays an essential role in investors' assessments of an entity's prospects.

The revised Practice Statement focuses on investors' information needs and targets shortcomings in practice. It is designed to provide a global benchmark for regulators to use in updating or developing national requirements and guidance. It provides a comprehensive set of requirements and guidance to help an entity present, in a single, concise and coherent narrative, information about financial, sustainability-related and other factors fundamental to the entity's ability to create value and generate cash flows—including in the long term. In developing the revised Practice Statement, the IASB built on innovations in narrative reporting, including the Integrated Reporting Framework.

The revised Practice Statement supports the provision of connected information both within management commentary and across management commentary and other general purpose financial reports. Refer to the 'Connecting IFRS Accounting and IFRS Sustainability' page for other connectivity-related resources and developments.

The revised Practice Statement works well with IFRS Accounting Standards and IFRS Sustainability Disclosure Standards and can be applied alongside local law or regulation. IFRS Sustainability Disclosure Standards can help entities identify material information about sustainability-related factors for inclusion in management commentary. An entity is not required to apply the revised Practice Statement to state compliance with IFRS Accounting Standards.

The revised practice statement sets out requirements for management commentary and explains how those requirements can be met. It is divided into two parts.

Part A

Part A of the revised practice statement sets out general requirements and guidance that apply to management commentary as a whole. It discusses:

- the identification, authorisation and statement of compliance;
- the objective of management commentary being to provide information that enhances users' understanding of the entity's financial performance and financial position reported and provides management's insight into factors, including sustainability-related factors, that could affect the entity's ability to create value and generate cash flows;
- material information and key matters, where information judged material for management commentary will typically differ from information judged material for financial statements because management commentary and financial statements have different objectives;
- completeness, neutrality, freedom from error and other attributes based on qualitative characteristics of useful financial information set out in the *Conceptual Framework for Financial Reporting*,
- coherence as the completeness, understandability and comparability of information in management commentary all rely on that information being presented as a well-integrated, coherent whole, and
- metrics by providing requirements and guidance for metrics included in management commentary.

Part B

The information included in Part B of the revised practice statement sets out requirements and guidance for six specified areas of content to be included in management commentary:

- the entity's business model — how the entity creates value and generates cash flows;
- management's strategy for sustaining and developing that business model, including the opportunities management has chosen to pursue;
- the resources and relationships on which the business model and strategy depend, including resources not recognised as assets in the entity's financial statements;
- risks that could disrupt the business model, strategy, resources or relationships;
- factors and trends in the external environment that have affected or could affect the business model, strategy, resources, relationships or risks; and
- the entity's financial performance and financial position — including how they have been affected or could be affected in the future by the matters discussed for the other areas of content.

Effective date and transition

The revised practice statement is effective for annual reporting periods beginning on or after 23 June 2025. Earlier application is permitted.

No transition requirements are provided.

Disclosing information about an entity's climate-related transition, including information about transition plans, in accordance with IFRS S2

On 23 June 2025, the IFRS Foundation has published a new guidance document *Disclosing information about an entity's climate-related transition, including information about transition plans, in accordance with IFRS S2* as part of its commitment to supporting the implementation of IFRS Sustainability Disclosure Standards (ISSB Standards). The document builds on disclosure-specific material developed by the Transition Plan Taskforce (TPT), for which the IFRS Foundation took responsibility in 2024.

The guidance:
- supports entities applying IFRS S2 *Climate-related Disclosures*;
- is designed to enable entities to provide high-quality information about their climate-related transition when applying IFRS S2; and
- covers disclosures about any 'transition plan' an entity has, including both mitigation and adaptation efforts.

Requirements in IFRS S2

Although IFRS S2 does not require an entity to have a transition plan, it does require an entity to provide material information about the sustainability-related risks and opportunities that could reasonably be expected to affect its prospects. This includes information about its climate-related transition because it relates to how the entity mitigates and adapts to climate-related transition and physical risks.

This guidance document:

- explains that an entity's climate-related transition is a process through which the entity, in the context of its overall strategy, pursues targets, undertakes actions or deploys resources to respond to climate-related risks and opportunities.
- explains to entities the information that it is necessary to disclose when applying IFRS S2, if the entity has set a strategy for its transition to a lower-carbon and/or climate-resilient economy (for example, reducing its greenhouse gas emissions and adjusting its business model to become more resilient to climate-related physical risks).
- sets out guidance on disclosures about entities' climate-related transitions. The document complements materials provided by jurisdictions or others that set out requirements or recommendations to create transition plans and the content of such plans.

Implications for jurisdictions

This guidance is intended to be used by jurisdictions adopting or otherwise using ISSB Standards. Jurisdictions can, if they choose, supplement the disclosures required by IFRS S2 with requirements for further information aimed at meeting the needs of a broader group of stakeholders or to address specific jurisdictional information needs, to the extent that the sustainability-related financial disclosures are clearly identifiable and not obscured by additional information.

For example, a jurisdictional authority might require that entities operating in the jurisdiction disclose information on how their GHG targets will enable global warming to be limited to 1.5 degrees Celsius, in line with the latest international agreement on climate change.

Contact Us

If you need assistance or advice on the above, we are here to assist you.

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