FOO KON TAN

WE ARE AN INDEPENDENT MEMBER OF THE GLOBAL ADVISORY AND ACCOUNTING NETWORK

Q4 2018 Financial Reporting Updates

This is your quarterly update on all things relating to International Financial Reporting Standards or Singapore Financial Reporting Standards. We will bring you up to speed on topical issues, provide our comments and view points on any significant developments.

October 2018

In this issue:

Definition of a Business (Amendments to IFRS 3)

On 22 October 2018, IASB issued the narrow-scope amendments to IFRS 3 *Business Combinations* to improve the definition of a business. The amendments narrowed and clarified the definition of a business.

They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The amendments will help companies determine whether an acquisition made is of a business or a group of assets.

Business and asset acquisition accounting can be very different:

	Business acquisition	**Asset acquisition**
Goodwill (not amortised)	√	×
Additional intangibles	√	×
Bargain purchase gain	√	×
Day 1 deferred tax	√	×
Capitalised transaction costs	×	√

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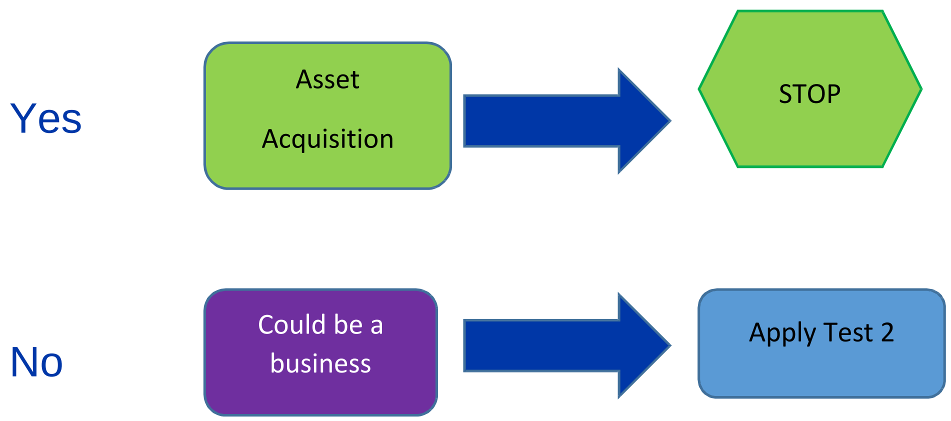
What are the amendments?

Under these amendments, the following screening tests are permitted, but not required:

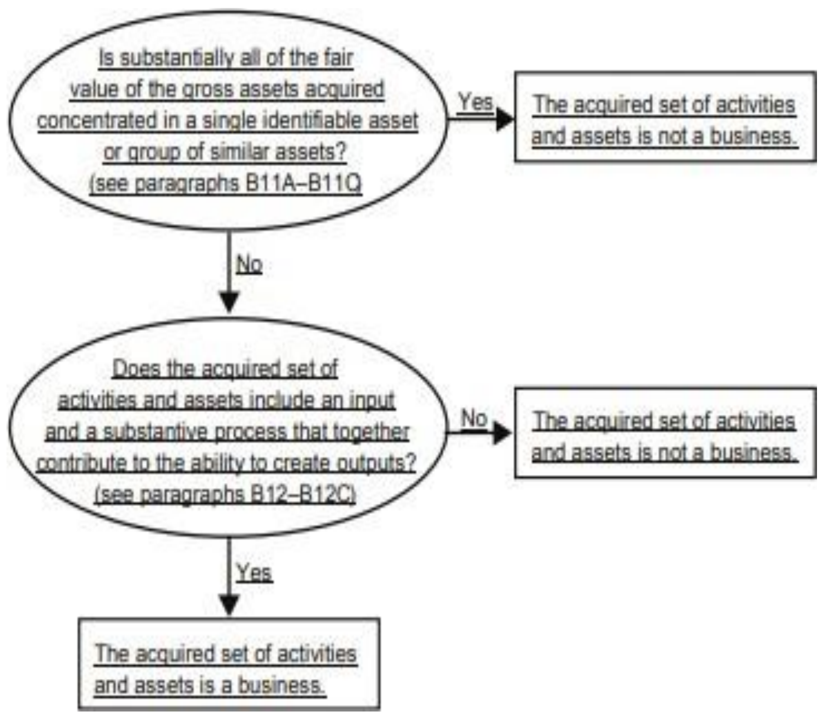
(i) **Test 1 Asset concentration test**

Is substantially all the fair value concentrated in one or more similar assets?



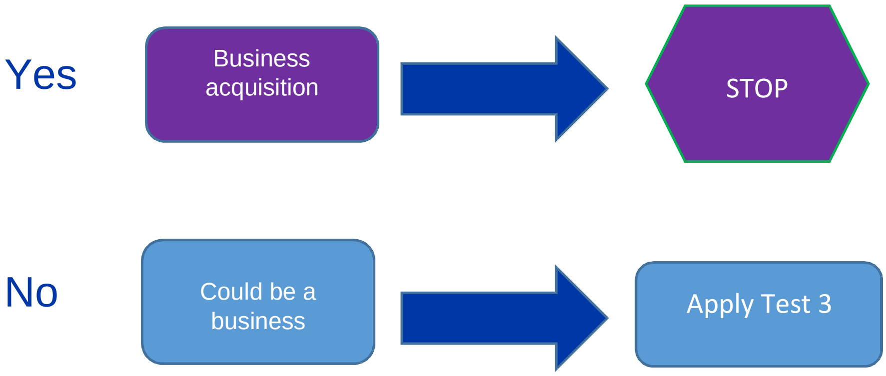
"Substantially all" is commonly considered to be approximately 90%. While it is not a bright line, if it meets or exceeds the threshold it's an asset acquisition. Otherwise, the analysis must continue through the "full model." This means that the structure of the transaction will be important in determining the accounting result. Three types of scenarios that are more likely to result in asset acquisitions under the new guidance are

- Transacting via smaller more frequent acquisitions that are not necessarily part of an overall plan
- Acquiring certain desired assets out of an existing business, rather than buying the entire business and subsequently selling the unwanted pieces
- Requiring the seller to liquidate certain of an entity's assets prior to acquisition to allow the buyer to meet the screen test for the assets it acquires
  The gross assets considered in the screening test exclude cash and cash equivalents acquired, and confirm that IASB those gross assets also exclude:
  i. goodwill resulting from the effects of deferred tax liabilities; and
  ii. deferred tax assets.



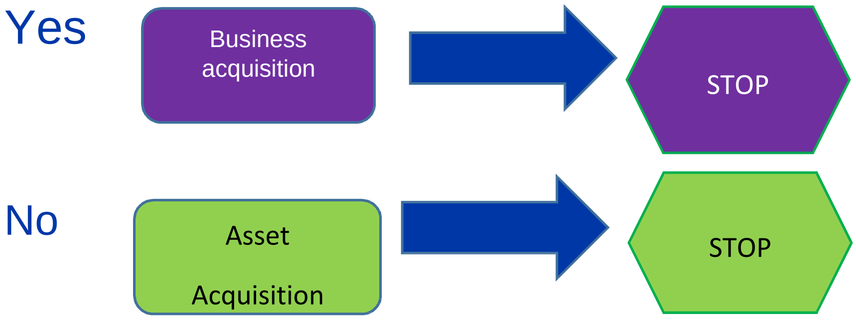
(ii) **Test 2 Workforce test**

Is there an acquired workforce that has the necessary skills for producing outputs now or developing future outputs?



(iii) **Test 3 Process Test**

Is it disruptive or costly to replace the process that contributes to the ability to produce the output?



When will these amendments effective?

The amendments to IFRS 3 should apply for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning or after 1 January 2020, with earlier application permitted.

IASB provides guidance on making materiality judgements and issues amendments to the definition of material

On 31 October 2018, the International Accounting Standards Board has issued amendments to its definition of material to make it easier for companies to make materiality judgements.

The definition of material, an important accounting concept in IFRS Standards, helps companies decide whether information should be included in the International Accounting Standard (IAS) 1, Presentation of Financial Statements and IAS 8, Accounting Policies, Changes in Accounting Estimates. This is to align the definition used in the Conceptual Framework with that in the standards themselves.

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards.

The new definition of material states that "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

Three new aspects of the new definition should especially be noted:

- Obscuring. The existing definition only focused on omitting or misstating information, however, the Board concluded that obscuring material information with information that can be omitted can have a similar effect. Although the term obscuring is new in the definition, it was already part of IAS 1 (IAS 1.30A).
- Could reasonably be expected to influence. The existing definition referred to 'could influence' which the Board felt might be understood as requiring too much information as almost anything 'could' influence the decisions of some users even if the possibility is remote.
- Primary users. The existing definition referred only to 'users' which again the Board feared might be understood too broadly as requiring to consider all possible users of financial statements when deciding what information to disclose.

Primary users. The existing definition referred only to 'users' which again the Board feared might be understood too broadly as requiring to consider all possible users of financial statements when deciding what information to disclose.

The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

When are these amendments effective?

The amendments to IAS 1 and IAS 8 are required to be applied for annual periods beginning on or after 1 January 2020. The amendments must be applied prospectively and earlier application is permitted.

IFRS 9 SFRS (I) 9 FRS 109 impairment of intercompany loans in separate financial statements

Many intergroup balances and loans:

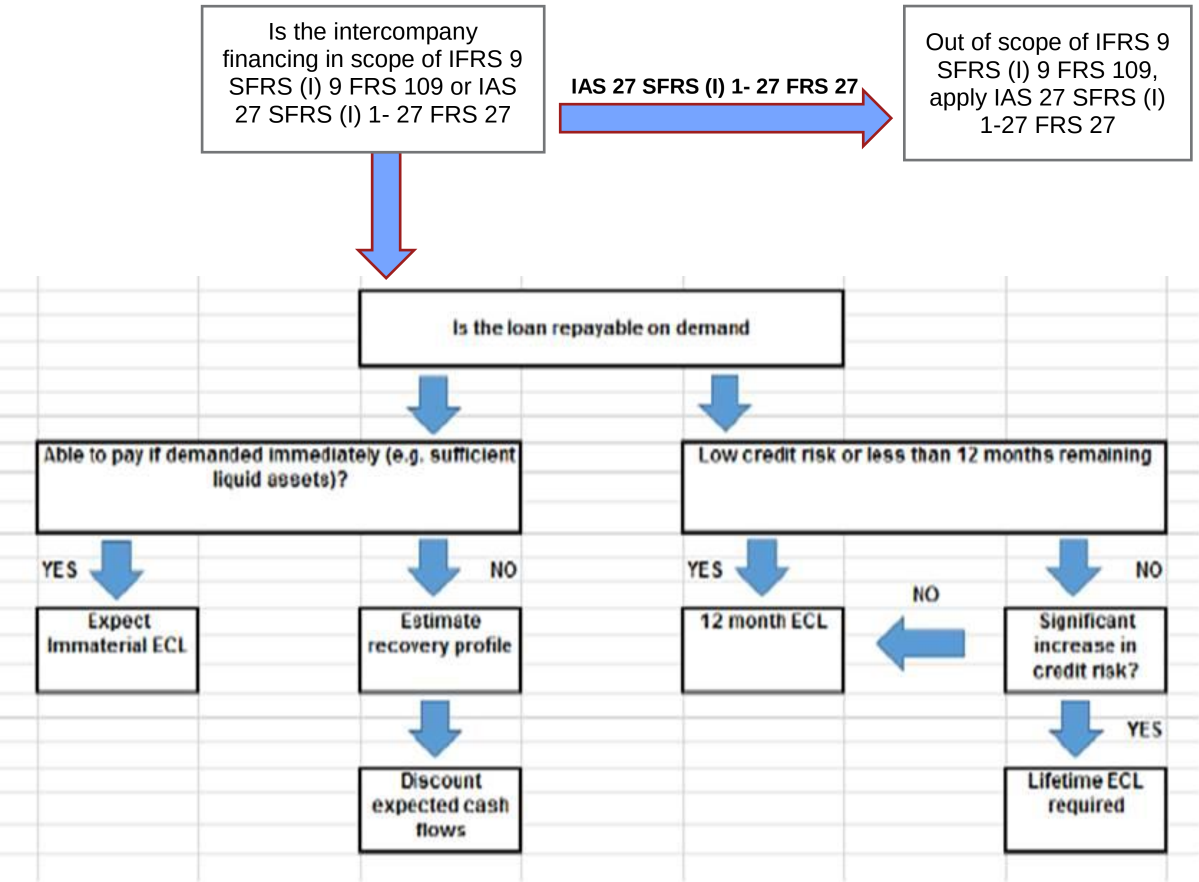
- Do not have a written agreement;
- Have no (or a below market) interest rate; and/or
- Do not have a fixed repayment date.

As a result, many companies that enter into intercompany loans consider them due on demand, classifying them as debt. The question was whether such loans meet the tests within IFRS 9 SFRS (I) 9 FRS 109 to be accounted for at amortized cost.

Decision tree & content index

How should a lender assess intercompany loans for impairment?

Use the following decision tree to direct you:



Is the intercompany financing within the scope of IFRS 9 SFRS (I) 9 FRS 109 or IAS 27 SFRS (I) – 27 FRS 27?

Financing arrangements between entities within the same group can take various forms. On the one hand, they might be formal contractual lending agreements that are enforceable under local law; on the other hand, they might, in substance, be part of the investment in another entity.

As a result, most accounting firms note entities should refer to the IASB Conceptual Framework and the substance of the transaction.

- If the intention of the Parent was to lend money and there exists a possibility the loan will be repaid, then the Subsidiary should record a liability and the Parent would record a loan receivable within the scope of IFRS 9 SFRS (I) 9 FRS 109.
- However, if the Subsidiary is not required to repay the amount under any circumstance and repayment is entirely at their discretion, or the intention of the Parent was to provide a capital contribution, then the substance of the transaction is a capital contribution. In this case, the Subsidiary would record the amount received within equity and the Parent would increase its investment in the Subsidiary. As a result, this capital contribution would be outside the scope of IFRS 9 SFRS (I) 9 FRS 109.

To make the determination as to whether it is a loan or a capital contribution, entities should look at things such as past practice, payment history, and/or documented terms. For example, if the "loan" (or similar "loans") have been outstanding for some time and repayment has not yet been received, the financing by the Parent would be more akin to a capital contribution rather than a loan within the scope of IFRS 9 SFRS (I) 9 FRS 109. It should also be noted that an entity itself should determine whether an instrument that it holds is an equity or debt instrument, looking to the issuer only for reference. It would not be sufficient for the holder of the instrument to simply replicate the accounting treatment of the issuer, and vice versa, without confirming that such accounting treatment is appropriate.

If within the scope of IFRS 9 SFRS (I) 9 FRS 109, how should the loan be classified and subsequently measured?

Under IFRS 9, a financial asset is classified and subsequently measured at amortized cost if it meets both the:

- Business model test; and
- "SPPI" contractual cash flow characteristics test.

Assuming the loan is within the scope of IFRS 9 SFRS (I) 9 FRS 109 and is repayable on demand of the Parent, the loan would appear to meet these tests and subsequent measurement at amortized cost would be appropriate. However, it would appear that the "repayable on demand" assumption would be something that should be documented between the parties.

Under IFRS 9 SFRS (I) 9 FRS 109, there is an exception to initially recognize trade receivables without a significant financing component at transaction price instead of fair value. However, we have a loan and not a trade receivable. Therefore, it doesn't qualify for this scope exception and must be initially measured at fair value.

Expected credit losses for intercompany loans

Entities applying IFRS SFRS (I) FRS in their stand-alone accounts are required to calculate expected credit losses on all financial assets, including intercompany loans within the scope of IFRS 9 SFRS (I) 9 and FRS 109 *Financial Instruments*, and which are classified at either amortised cost, or fair value through other comprehensive income ('FVOCI').

Certain simplifications from IFRS 9's SFRS (I) 9's FRS 109's general 3-stage impairment model are available for trade receivables (including intercompany trade receivables), contract assets or lease receivables, but these do not apply to intercompany loans. As such, the full impairment model will apply.

Under the full impairment model, the Parent would be required, on initial measurement, to determine the 12-month expected losses. This impairment loss should be added to the cost of the Subsidiary as the "day 1 difference" but booked to profit and loss immediately. Subsequently, if the credit risk of the loan decreases significantly, additional impairment provisions would need to be considered. This becomes a challenge for intercompany loans because the Parent would need to determine how long the loan will remain outstanding (i.e. when will the loan be repaid) to determine the lifetime expected credit losses.

Would the accounting discussed be the same if the loans were between two subsidiaries?

Generally, loans between fellow subsidiaries fall within the scope of IFRS 9 SFRS (I) 9 FRS 109. Such loans would likely meet the tests within IFRS 9 SFRS (I) 9 FRS 109 for subsequent measurement at amortized cost. In addition, the loan would initially be recorded at fair value. However, the difference between the loan's fair value and the cash disbursed, the "day 1 difference," would need to be immediately recorded in profit and loss as a "day 1 loss." Finally, the full impairment model of IFRS 9 SFRS (I) 9 FRS 109 would apply, with any credit losses also recorded in profit of loss.

Tax Accounting Considerations of IFRS SFRS (I) 16 FRS 116 Leases

IFRS 16 SFRS (I) 16 FRS 116 *Leases*

A quick recap
Under IFRS 16 SFRS (I) 16 FRS 116 all leases (both finance as well as operating lease) with limited exceptions need to be reported on the balance sheet for lessees, i.e. lessees are required to reflect on the balance sheet their 'Right Of Use' (ROU) as an asset as well as the associated liability for the future payments. This is a significant change, since under the current guidance of IAS 17 FRS 17 only financial leases are reflected / capitalized on the balance sheet of the lessee.

Consequently, the new standard will affect virtually all commonly used financial ratios and performance metrics for lessees such as EBIT (DA), operating profit and net income, in case of an operating lease agreement. Note that the guidance for lessor accounting remains largely unchanged and therefore probably will not have a tax (accounting) impact.

Expected tax (accounting) consequences
The tax consequences will differ per jurisdiction, given the worldwide differences in treatment of operating leases for tax purposes, and hence so will the tax accounting consequences. The potential tax accounting implications are depicted below:

- **Right of use**
  Current tax can be impacted due to the fact that the depreciation expense on the ROU asset may not be deductible for tax purposes or in case there are specific interest deduction limitations, for example based on debt to equity ratios.

- **Capitalised lease assets and lease liabilities**
  Given the fact that capitalized lease assets and lease liabilities will be recorded on the balance sheet in the financial statements (carrying value), new temporary difference might originate in case the tax treatment and hence the associated tax base is not in line with the new accounting standard. Depending on the circumstances and a company's tax accounting policy, this will potentially have an impact on the deferred tax position in the financial statements.

Additional potential tax consequences depending on local (tax) law and/or points of attention:

- Tax related processes and controls may need to be updated/adjusted to capture all required information;
- The new guidance may have an impact on the transfer pricing policy and KPI's given the fact that certain commercial ratios will change;
- The recognition of deferred tax assets may be affected given the changes in the deferred tax position (and the reversal pattern of the book to tax differences);
- The new guidance may have an impact on current tax agreements with the tax authorities due to changes in facts and circumstances;
- The new guidance may have an impact on interest deductibility due to the change in debt/equity ratios.

SGX amends listing rules after MAS revises corporate governance code

On 6 August 2018, The Singapore Exchange (SGX) will amend its listing rules after the central bank issued on Monday (Aug 6) a revised corporate governance code that aims to encourage board renewal and strengthen director independence.

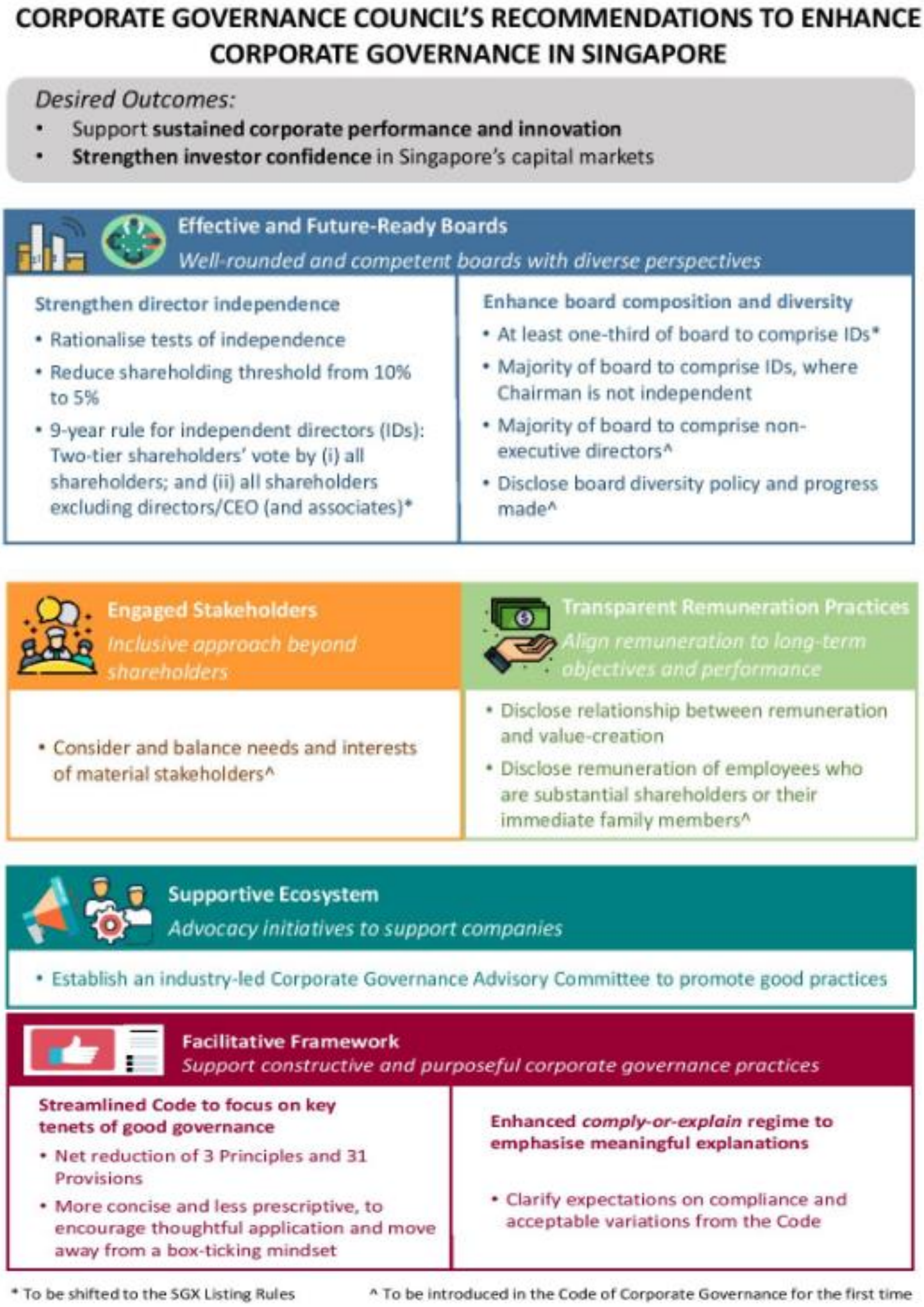
The Code of Corporate Governance was revised after the Monetary Authority of Singapore (MAS) accepted a slew of recommendations by the Corporate Governance Council.

The changes include:

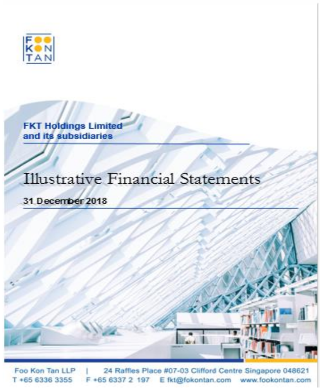
- strengthening director independence by reducing their shareholding threshold from 10 per cent to 5 per cent, and
- limiting the tenure for independent directors to nine years through a two-tier shareholders' vote.
- To enhance board diversity, at least one-third of the board should be made up of independent directors – unless the chairman is not independent, in which case the majority should comprise of independent directors. Otherwise, the majority of the board should comprise of non-executive directors

The amendments to SGX's listing rules will take effect on Jan 1 next year, except for the rules on the nine-year tenure for independent directors and the requirement for independent directors to comprise one-third of the board. These two rules will take effect on Jan 1, 2022.

The Code of Corporate Governance is applicable to listed companies in Singapore on a comply-or-explain basis. It requires companies to adhere to the principles of the code and provide explanations for variations from its provisions or guidelines in their annual reports.



Our new FKT Holdings Limited and its subsidiaries - 2018 Illustrative FRS Financial Statements



We have issued our new FKT Holdings Limited and its subsidiaries – 2018 Illustrative FRS financial statements for listed entities incorporated in Singapore.

This 2018 edition includes:

SFRS (I) 1 First-time Adoption of Singapore Financial Reporting Standards (International)	SFRS (I) 15 *Revenue from customers with contracts*	SFRS (I) 9 *Financial Instruments*

The above are effective for periods beginning on or after 1 January 2018.
In addition, it also includes:

- A: Statement of Profit or Loss and other comprehensive income presented in a single statement
- B: Employee Benefits
- C: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in other Entities
- D: Hedge Accounting
- E: SFRS (I) 16 *Leases*
- F: Areas of changes in SFRS (I)s:

Year - end reminders for year ended 31 December 2018

As we approaching to 31 December 2018, below is our top five year – end reminders:

- **New adoption of accounting standards:**

Changes effective for financial years starting on or after	1 January 2018	1 January 2019
SFRS(I) 15 / SFRS 115 *Revenue from Contracts with Customers*	√	
SFRS(I) 9 / SFRS 109 *Financial Instruments*	√	
Convergence with IFRS (i.e. SFRS(I))	√	
SFRS(I) 16 / SFRS 116 *Lease*		√

Revenue recognition
Companies should be reminded for the adoption of accounting standards. While companies are considering the impact that new standards will have upon adoption, it is important to not forget about the effect of the standards on disclosures after adoption. For example, the new revenue standard has extensive disclosure requirements that may require changes to processes and controls in order to capture the information to be disclosed.

In addition, companies should evaluate and assess if any additional or reduction of taxes arising from adoption of SFRS(I) 15 on 1 January 2018 will be adjusted against current tax payable.

Financial instruments - recognition and measurement
Changes to the financial instruments recognition and measurement model primarily affect the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, companies should recognise expected credit losses instead of Incurred Loss Model under IAS / FRS 39. The companies should recognise the deferred tax arising from SFRS (I) 9 on impairment loss for Stages 1 and 2.

Convergence with IFRS (i.e. SFRS (I))
On 29 December 2017, ASC has issued Singapore Financial Reporting Standards (International) (SFRS(I)s), Singapore's equivalent of the International Financial Reporting Standards (IFRSs).

Singapore-incorporated companies that have issued, or are in the process of issuing, equity or debt instruments for trading in a public market in Singapore are required to apply SFRS (I) s for annual periods beginning on or after 1 January 2018. On 30 November 2016, the ASC reminds Singapore companies that have issued, or is in the process of issuing, equity or debt instruments for trading in a public market in Singapore (i.e. SGX) of full IFRS convergence in 2018.

Singapore-incorporated companies that have issued, or are in the process of issuing, equity or debt instruments for trading in a public market in Singapore should be aware of the trainsition provisions – mandatory exceptions and optional exemptions:

Transition provisions	Description	SFRS (I)s
Mandatory exceptions[1]	○ First – time adopters **are required** to apply **all mandatory exceptions**	SFRS (I) 1.14 to 17 and Appendix B
Optional exemptions[2]	○ First – time adopters are generally allowed (but not mandated) to apply the optional exemptions ○ Optional exemptions are designed to provide reliefs for full retrospective application of SFRS (I)s ○ Frist – time adopters that do not apply the reliefs will need to apply the relevant SFRS (I)s retrospectively,	SFRS (I) 1.18 and Appendices C to E

[1] In order to prevent companies from using hindsight in their transition adjustments. SFRS (I) 1 restricts retrospective applications and provide specific guidance in certain situations. Mandatory exceptions generally prohibit full retrospective application.

[2] Optional exemptions allow first – time adopters to choose to apply certain SFRS (I) accounting polices prospectively from the date of transition.

Leases
IFRS 16 SFRS (I) 16 FRS 116 specifies how an IFRS SFRS (I) FRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's SFRS (I) 's FRS's approach to lessor accounting substantially unchanged from its predecessor The following disclosures should be considered:

- A brief description of the new standard, the date that adoption is required and the date that the company plans to adopt, if earlier.
- A discussion of the methods of adoption allowed by the standard and the method expected to be utilized by the company, if determined.
- A discussion of the impact that adoption of the standard is expected to have on the financial statements of the company, unless not known or reasonably estimable. In that case, a statement to that effect may be made.
- The potential impact of other significant matters that the company believes might result from the adoption of the standard

In addition, given the significance and pervasive impact the new revenue, leasing, and expected credit losses standards are expected to have, ACRA has indicated a heightened expectation that the disclosures will evolve over time and become more robust as the adoption dates near, in order to assist financial statement users in understanding the expected impact of adoption.

Impairment considerations

The global economy is still on an upswing, but the good times may not last beyond the next year or two. We are not expecting a higher than normal level of impairment charges in 2018 for most companies. However, impairment may be an important topic.

Many companies will need to complete year-end impairment tests either as the result of an impairment indicator or as part of their annual goodwill or indefinite-life intangible impairment testing. Companies should assess whether these events represent a trigger for impairment testing, which may result in write-down, write-off, or adjustment of the useful lives of affected assets. Affected assets may include long-lived assets, goodwill or intangibles.

Order of impairment testing

If goodwill and long-lived assets that are to be held and used are being tested at the same time, it is important to remember the order of impairment testing. Prior to testing goodwill for impairment, companies should first test other assets (e.g., accounts receivable, inventory) and indefinite-lived intangible assets. Then long-lived assets, including definite-lived intangible assets, should be tested before any goodwill impairment testing is performed. Any impairment indicated in each test should be recorded before performing the next test.

Taxable vs. non-taxable transaction

In various circumstances, it is necessary to determine the fair value of an asset, asset group, disposal group or reporting unit. These circumstances include when:

- a long-lived asset (asset group) that is held and used is tested for recoverability and determined not to be recoverable (i.e., step 1 of the long-lived asset impairment test is failed);
- a long-lived asset (disposal group) is determined to meet the held-for-sale criteria and is then measured at the lower of its carrying amount or fair value less cost to sell; and
- the qualitative goodwill impairment test (step zero) is failed or bypassed and a reporting unit's carrying value is compared to its fair value under step 1 of the goodwill impairment model.

Fair value is assessed from a market-participant perspective. This means fair value is the price that would be received if the asset, asset group, disposal group or reporting unit were sold in a hypothetical orderly transaction between market participants at the testing date.

In this assessment, the structure of the hypothetical disposal can have tax impacts that affect the amount the seller would receive in a disposal transaction. Therefore, it is important that a company assesses whether a hypothetical sale would be taxable (sale of assets) or non-taxable (sale of shares), as this determination could impact the amount of impairment recorded and whether a company has an impairment to record at all.

Any change in the taxable or non-taxable determination from the prior year should be supported by a change in market-participant circumstances.

Reversal of impairment

SFRS (I) 1 - 36 *Impairment of Assets* specifically prohibits the **reversal of impairment losses** for goodwill. SFRS(I) 1 - 36 requires entities to assess at each reporting date whether there is any indication that a previously recognized impairment loss no longer exists or has decreased.

Paragraph 111 of SFRS (I) 1 - 36 lists the external and internal indicators that an impairment loss recognized in prior periods may no longer exist or may have decreased. SFRS (I) 1 - 36 requires that, if possible, impairment should be assessed for individual assets. For indefinite-lived intangible assets on which an impairment loss has been recognized in the past, an entity must perform an annual review for indicators of reversal. If such an indicator exists, the entity estimates the recoverable amount of the asset(s) in question and previously recognized impairment losses are reversed up to the new recoverable amount, subject to a ceiling of the initial carrying amount.

If the recoverable amount cannot be determined for the individual asset, the entity determines the carrying amount of the cash-generating unit to which the asset belongs. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The issue for consideration is whether an indicator of reversal can arise from an improvement in the estimate of recoverable amount due to the addition of assets to the cash-generating unit. A further consideration is that an impairment loss should be reversed only if there has been a change in the estimates used to determine the asset's or the CGU's recoverable amount (e.g. a change in cash flows or discount rate). In other words, the "service potential" of the asset must genuinely improve if a reversal is to be recognised as opposed to, for e.g. the reversal being the result of the passage of time (sometimes called the "unwinding" of a discount).

When considering the required indicators of reversal, the following are examples of factors that may indicate that an entity should test for a reversal of impairment:

- A siginificant increse in relevant prices (s) such mining prices, or crude oil prices, in particular when using long – term forward prices or long – term price assumptions.
- Significant expansioon of reserves or resources
- Favourable changes in the applicable discount rates or foreign exchange rates.

- **Fair value measurement and related disclosures**

Fair value has become more prevalent in the accounting standards and is frequently subjected to regulatory scrutiny as well as to audit focus. The valuation profession has been focusing on how to make valuation more reliable and relevant.

Update to valuation standards

Although most third-party valuation reports refer to compliance with SFRS (I) 13, Fair Value, some also specify compliance with International Valuation Standards, as issued by the IVS Council (IVSC).

In January 2017, the IVSC released updates to its standards, primarily related to the valuation of intangible assets. The updates included guidance on:

- the selection of approaches and methodologies
- the application of the most frequently used methods,
- the selection of appropriate discount rates, and
- the selection of appropriate economic lives.

These updates address some of the valuation issues more frequently encountered in practice.

Market participant acquisition premiums

On September 6, 2017, the Appraisal Foundation finalized an advisory that provides guidance on the measurement and application of market participant acquisition premiums. Determining an appropriate acquisition premium (sometimes referred to as a control premium) can have a significant impact on a valuation. This guidance may be helpful to companies in assessing the impact of acquisition premiums on their valuations, including as it relates to year-end impairment testing.

Regulators have expressed interest in entities' fair value measurement and related disclosures covered by IFRS 13. SFRS (I) 13 FRS 113. Some key reminders are:

Measurement

- valuation techniques must comply with the IFRS SFRS (I) FRS requirements;
- the use of observable inputs shall be maximised, and the use of unobservable inputs minimised;
- issuers should use quoted prices in an active market without any adjustment (i.e. a Level 1 input) where available; • fair value of derivatives should incorporate counterparty and own credit risk.

Disclosure

Issuers should provide relevant information to meet the standard's objective, including when the fair value is determined by third parties; Issuers should provide a description of:

- the valuation technique;
- the inputs used (e.g. quantitative info for significant unobservable inputs) – Level 2 and 3;
- any changes in the valuation techniques and reasons;

- levels of FV hierarchy;
- the sensitivity to changes in unobservable inputs;
- whether current use differs from its highest and best use.

Note the above list sets out disclosures highlighted by the Regulators, for a complete list of disclosure requirements refer to IFRS 13 SFRS (I) 13 FRS 113.

- **Statement of cash flows**

Preparing the statement of cash flows can be a challenging component of the financial reporting process. Changes to the accounting standards for the statement of cash flows are set to take effect in 2018, with early adoption permitted.

In this section, we have highlighted certain areas for preparers to consider for year-end reporting. We also discuss the changes to the standards and some transition considerations:

The cash flow statement continues to be a common cause of restatements due to inappropriate classification of cash flows and treatment of non-cash items.

The classification of a cash flow is based on its nature, without regard to whether it stems from another item (referred to as the Nature Principle). A cash flow is first evaluated to determine if it meets the definition of an investing activity. If the cash flow does not meet the definition of an investing activity, the cash flow is then evaluated to determine if it is a financing cash flow. If a cash flow does not meet either definition, it is classified as operating.

The determination can be complex, and judgment is often necessary. The following areas are common sources of judgement and complexity.

Investments

Cash inflows and outflows related to investments in marketable debt and equity securities should be classified according to their nature. For example, if the reporting entity's investment strategy is to actively buy and sell securities with the objective of generating trading profits on short-term differences in market prices, cash flows related to the purchases and sales of trading securities should be classified as operating activities. If the acquisition and disposition of marketable securities are not part of such a strategy, the related cash flows should be classified as investing.

Distributions from equity method investees

IAS 7 SFRS (I) 1 – 7 FRS 7 *Statement of Cash Flows*, indicates that cash flows that represent a "return on investment" are operating, and those representing a "return of investment" are investing (except for equity method investments for which the fair value option has been applied).

The two common methods for categorizing distributions are the cumulative earnings approach and the nature approach, each presenting its own challenges. The cumulative earnings approach tracks cumulative distributions received against cumulative equity in earnings to conclude whether a distribution is operating or investing. Timing delays or errors in the financial reporting of the investee can complicate the analysis. The nature approach looks to the substance of the distribution in order to classify the cash flow. For example, if an investee sells an asset and distributes the proceeds from sale to its owners, it could be considered a return of investment (and therefore an investing activity). A company's ability to get the necessary information on a timely basis may be challenging. Even if the information is available, the classification is not always clear cut and judgment may be necessary.

Multiple functional currencies

When an entity has subsidiaries using multiple functional currencies, the process for preparing the cash flow statement can be complex. When preparing the statement of cash flows for a reporting entity with foreign operations, the reporting entity should perform the following steps:

Step 1: The statement of cash flows for each distinct and separable operation that is a foreign entity should be prepared on a standalone basis in its respective functional currency.

Step 2: These individual statements of cash flows should be translated into the reporting entity's reporting currency using the relevant spot or average translation rate based on the nature of the item being translated.

Step 3: The reporting entity should prepare a consolidated statement of cash flows using the individually translated statements of cash flows for each distinct and separable operation. The effect of exchange rate changes on cash and cash equivalents denominated in currencies other than the reporting currency should be calculated for each distinct and separable operation.

Non-cash disclosures

Investing and financing activities that do not result in cash flows are required to be disclosed. This disclosure may be in a narrative or tabular format. The non-cash activities may be included on the face of the statement of cash flows, in a separate footnote, or in other footnotes, as appropriate. Examples of non-cash transactions include:

- Converting debt to equity
- Accrued but unpaid compensation (e.g., an annual bonus) that is capitalized as part of software development costs or other long-lived assets
- Obtaining a building or investment asset as a gift
- Acquiring a business through the issuance of stock
- Exchanging non-cash assets or liabilities for other non-cash assets or liabilities

Companies should ensure that their processes and controls are designed to ensure non-cash items are excluded from the statement of cash flows and appropriate disclosure is made.

Restricted cash

Companies should perform a robust assessment of all sources of restricted and unrestricted cash to ensure completeness of the amounts reflected in the cash flow statement. For instance, companies that maintain escrow or similar accounts for debt service purposes (that may be considered restricted cash) will need to ensure activity from all such accounts is appropriately reflected in the cash flow statement upon adoption of the new guidance. While the guidance does not include a definition, we believe restricted cash should generally include any cash that is legally restricted as to withdrawal or usage. Classification of additional amounts as restricted beyond those that are legally restricted should be subject to a reporting entity's accounting policy.

A reporting entity should also consider the significance of its restricted cash balances and whether its definition should be disclosed as a significant accounting policy.

- **IFRS 3 SFRS (I) 3 Business Combinations**

Although not a new standard, regulators continue stressing the relevance of issues stemming from the application of IFRS 3 SFRS (I) 3 *Business Combinations*.

Issues stemming from the application of IFRS 3

- Measurement of intangible assets;
- Adjustments during the measurement period;
- Bargain purchases;
- Contingent payments;
- Business combinations under common control;
- Disclosures on fair value.

Measurement of intangible assets

Regulators stress the importance of consistency between the assumptions used to measure intangible assets at fair value for a purchase price allocation in a business combination and the assumptions applied for any impairment testing. Similarly, the useful lives used for the amortisation applied for any impairment testing should also be consistent. Also of the importance is performing the analysis of the intangible assets in accordance with the separability criterion in IFRS 3.B33, SFRS (I) 3.B33, and disclosure, where relevant, of the significant judgements underlying the conclusion of whether separation of intangible assets from goodwill was deemed necessary

Adjustments during the measurement period

IFRS 3.B67 SFRS (I) 3.B67 requires preparers to disclose if the initial accounting for a business combination is incomplete at the end of the reporting period in which the business combination occurs. Where this is the case, entities should provide the provisional amount of assets, liabilities, non – controlling interests or items of the consideration paid. In addition, preparers should disclose the reasons why the provisional amounts of assets, liabilities, non – controlling interests or items of the consideration paid. In addition, preparers should disclose the reasons why the business combination accounting is incomplete and the nature and amount of any measurement period adjustments recognised during the reporting period.

Bargain purchases

In providing disclosures on a bargain purchase as required by paragraph IFRS 3.B64 (n), SFRS (I) 3.B64(n), regulators encourage preparers to indicate how the assets and liabilities were reassessed to ensure that recognition of a bargain purchase was appropriate. This might include information, where applicable, of the fact that the gain arises from the application of exemptions in IFRS 3 SFRS (I) 3 for measuring particular items (e.g. restructuring provisions) and why this is the case.

Contingent payments

Another issue highlighted by regulators is distinguishing correctly whether part of the consideration transferred in a business combination qualifies as contingent consideration or as remuneration for post – combination services. This depends mainly on the nature of the arrangement (IFRS 3.B54, SFRS (I) 3.B54). In addition, IFRS 3.B5, SFRS (I) 3.B5. In addition, IFRS 3.B55, SFRS (I) 3.B55 provides guidance on concluding whether arrangements for contingent payments to employees or selling shareholders are a contingent consideration in the business combination or are separate transactions.

Business combinations under common control

Since IFRS 3 SFRS (I) 3 does not apply to business combinations under common control, regulators expect preparers to apply consistently, the accounting policy selected in accordance with IAS 8 FRS (I) 1—8-10 to 12 and disclose it in accordance with IAS 1 SFRS (I) 1 -1 FRS 1.117 and IAS 1 SFRS (I) 1 FRS 1.121. – 122 until the IASB and ASC have addressed this issue.

Areas of Changes in SFRS(I)s

SFR S(I)s Update of Standards and Interpretations Issued and effective from 1 January 2018:

			Effective for financial periods at the end of											
New Pronouncement	**Our Quarterly Updates**	**Effective Date**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sept**	**Oct**	**Nov**
SFRS(I)15 *Revenue from Contracts with Customers*	Financial Reporting Updates 1Q 2015	I January 2018	2018	2019	2019	2019	2019	2019	2019	2019	2019	2019	2019	2019
SFRS(I)9 *Financial Instruments*	Financial Reporting Updates 1Q 2015	1 January 2018	2018	2019	2019	2019	2019	2019	2019	2019	2019	2019	2019	2019
Amendments to SFRS(I)9 *Financial Instruments*	Financial Reporting Updates 3Q 2017	1 January 2018	2018	2019	2019	2019	2019	2019	2019	2019	2019	2019	2019	2019
Amendments to SFRS(I)2 *Classification and Measurement of Share-based Payment Transactions*	FKT Financial Reporting Updates 3Q 2016	1 January 2018	2018	2019	2019	2019	2019	2019	2019	2019	2019	2019	2019	2019

SFRS (I)s - Update of Standards and Interpretations Issued and effective from 1 January 2018: (Cont'd)

Effective for financial periods at the end of														
New Pronouncement	**Our Quarterly Updates**	**Effective Date**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sept**	**Oct**	**Nov**
Amendments to SFRS(I) 1-40 Transfers of Investment Property	FKT Financial Reporting Updates Q1 2017	1 January 2018	2018	2019	2019	2019	2019	2019	2019	2019	2019	2019	2019	2019
Annual Improvements to SFRS(I) 2014-2016	FKT Financial Reporting Updates Q1 2017	1 January 2018	2018	2019	2019	2019	2019	2019	2019	2019	2019	2019	2019	2019
Amendments to SFRS(I)4 Applying SFRS(I) 9 Financial Instruments with SFRS(I)4 Insurance Contracts	FKT Financial Reporting Updates Q2 2017	1 January 2018	2018	2019	2019	2019	2019	2019	2019	2019	2019	2019	2019	2019
SFRS(I) INT 22 Foreign Currency Transactions and Advance Consideration	FKT Financial Reporting Updates Q1 2017	1 January 2018	2018	2019	2019	2019	2019	2019	2019	2019	2019	2019	2019	2019

SFRS (I)s Update of Standards and Interpretations Issued and not effective from 1 January 2018:

			Effective for financial periods at the end of											
New Pronouncement	**Our Publication**	**Effective Date**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sept**	**Oct**	**Nov**
SFRS(I)16 *Leases*	FKT Financial Reporting Updates 2Q 2016	1 January 2019	2019	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020
Amendments to SFRS(I)9 *Financial Instruments*	FKT Financial Reporting 1Q 2017	1 January 2019	2019	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020
Amendments to SFRS(I) 1- 28 *Investments In Associates and Joint Ventures*	FKT Financial Reporting 1Q 2017	1 January 2019	2019	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020
Annual Improvements to SFRS(I) 2015 – 2017 *Cycle*	FKT Financial Reporting 1Q 2018	1 January 2019	2019	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020
SFRS(I)17 *Insurance Contracts*	FKT Financial Reporting Updates 3Q 2016	1 January 2021	2021	2022	2022	2022	2022	2022	2022	2022	2022	2022	2022	2022
Amendments to SFRS(I) 1-19: Plan Amendment, Curtailment or Settlement	FKT Financial Reporting Q2 2018	1 January 2019	2019	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020

SFRS(I) INT 23 *Uncertainty of Tax Treatments*	FKT Financial Reporting 3Q 2016	1 January 2019	2019	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020

Changes on statutory requirements for AGM and filing of AR

Legislative changes relating to Annual General Meetings (AGMs) and Annual Returns (ARs) timelines that will reduce the regulatory burden of companies will take effect on 31 Aug 2018. In addition, the process for Solvent EPCs and dormant private relevant companies to file Annual Returns has also been simplified.

The following legislative amendments to the Companies (Amendment) Act will take effect for companies with FYE ending on or after 31 August 2018.

Alignment of timelines for holding AGMs and filing ARs to the Financial Year End (FYE)
To provide greater clarity for companies and reduce the compliance burden, the timelines for holding Annual General Meetings (AGMs) and the filing of annual returns will be aligned with the company's FYE.

Timeline for holding AGMs and filing of annual returns

Current	For Companies with FYE ending on or after 31 Aug 2018
Holding of AGMs	
(a) Timeline 1: Hold first AGM within 18 months of incorporation, and subsequent AGMs yearly at intervals of not more than 15 months (b) Timeline 2: Financial statements tabled at AGM must be made up to a date within 4 months (for listed company) or 6 months (for any other company) before the AGM date.	**For listed companies:** Hold AGM within 4 months after FYE **For any other company:** Hold AGM within 6 months after FYE
Filing of Annual Returns	
For companies having a share capital and keeping a branch register outside Singapore • File annual returns within 60 days after AGM **For other companies** • File annual returns within 30 days after AGM	**For companies having a share capital and keeping a branch register outside Singapore:** • File annual returns within 6 months (if listed) or 8 months (if not listed) after FYE **For other companies:** • File annual returns within 5 months (if listed) or 7 months (if not listed) after FYE Annual return can be filed only: • after an AGM has been held; • after financial statements is sent if company need not hold AGM; or • after FYE for private dormant relevant company that is exempted from preparing financial statements.

Contact us

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

Irene Lau
Director, Professional Standards & Assurance
Foo Kon Tan LLP
D +65 6304 2341
F +65 337 2197
E irene.lau@fookontan.com

Foo Kon Tan LLP
24 Raffles Place #07-03
Clifford Centre
Singapore 048621
T: +65 6336 3355
F: +65 6337 2197

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