FOO KON TAN

Financial Reporting Updates

Quarter 3 2017

Principal Member of HLB International

Welcome to Financial Reporting Updates.

This is your quarterly update on all things relating to International Financial Reporting Standards or Financial Reporting Standards. We'll bring you up to speed on topical issues, provide comment and points of view and give you a summary of any significant developments.

Our third edition of 2017 starts with some important amendments on international financial reporting standards and ends with regulatory matters.

Read this issue to find out:

- Modification of financial liabilities – IFRS 9 changes accounting
- The International Accounting Standards Board has proposed minor amendments to IFRS 9 *Financial Instruments*
- International Accounting Standards Board finalises fundamental overhaul of insurance accounting
- IFRIC 23 *Uncertainty over Income Tax Treatments*

In addition, we end with regulatory matters such as:

- New Investors' Guide on the Enhanced Auditor's Report
- Related Party vs Interested Persons Transactions and New Reporting of Related Party Transactions required from YA 2018
- Sustainability reporting vs Integrated reporting
- Accounting for Good – Helping Charities Do Good Better

Modification of financial liabilities – IFRS 9 changes accounting

The Interpretations Committee was asked to clarify whether an entity recognises a gain or loss in profit or loss when a financial liability is modified or exchanged and that modification or exchange does not result in the derecognition of the financial liability.

Modification or exchange of debt instruments is a common practice, particularly when the borrower is in financial difficulty or when market interest rates are low (as is currently the case) and borrowers wish to alter the amount and timing of coupon payments by 'locking in' lower contractual cash flows.

The Board confirmed that when a financial liability measured at amortised cost is modified without this resulting in derecognition, a gain or loss should be recognised in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. (IFRS 9, paragraph B5.4.6).

Illustrative example

A financial liability is initially recognised at an amortised cost of CU98m, reflecting proceeds at par of CU100m less transaction costs of CU2m. The financial liability has a term of seven years and bears a fixed interest rate of 6 per cent paid annually.

Table 1 illustrates the cash flows arising from the financial liability described above

TABLE 1 - Cash flows arising from the financial liability throughout its expected life (in millions of CU)

Period	0	1	2	3	4	5	6	7
Proceeds	100							
Coupon		-6	-6	-6	-6	-6	-6	-6
Principal								-100
Transaction costs	-2							
	98	**-6**	**-6**	**-6**	**-6**	**-6**	**-6**	**-106**

Table 2 provides the allocation of interest expense using the EIR of 6.36 per cent results in the following amortisation schedule

TABLE 2 - Amortisation schedule - Interest expense allocated using EIR of 6.36% (in millions of CU)							
Period	**1**	**2**	**3**	**4**	**5**	**6**	**7**
Opening carrying amount	98.00	98.24	98.49	98.75	99.04	99.34	99.66
Interest expense	6.24	6.25	6.27	6.28	6.30	6.32	6.34
Cash	-6	-6	-6	-6	-6	-6	-106
Closing carrying amount	**98.24**	**98.49**	**98.75**	**99.04**	**99.34**	**99.66**	**0.00**

The financial liability is modified as follows:

At the end of year 2, the coupon of the financial liability is reduced to CU4m per annum and the final redemption amount is increased to CU130m. In addition, the term of the financial liability is extended for a further two years. Third party costs amounting to CU3m are incurred as part of the modification.

Table 3 shows the modified contractual cash flows for the period from year three to year nine, discounted at the original EIR of 6.36 per cent.

TABLE 3 - Modified cash flows based on a modification at the end of year 2 (in millions of CU)								
Period	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
Modified coupon payment		-4	-4	-4	-4	-4	-4	-4
Modified principal								-130
Total Cash Flows		**-4**	**-4**	**-4**	**-4**	**-4**	**-4**	**-134**
Discount factor at the original EIR (6.36%)		0.94	0.88	0.83	0.78	0.73	0.69	0.65
Discounted cash flows		**-3.76**	**-3.54**	**-3.32**	**-3.13**	**-2.94**	**-2.76**	**-87.01**
Sum of discounted cash flows	**-106.46**							

As shown in Table 2, the amortised cost of the financial liability at the end of year two is CU98.49m. As shown in Table 3, the modified contractual cash flows of the financial liability discounted at the original EIR equal CU106.46m. The modification does not lead to the derecognition of the financial liability.

Question:

Whether the entity recognises the difference between the modified contractual cash flows and the amortised cost before the modification (i.e. CU106.46 – CU98.49 = CU7.97m) immediately in profit or loss at the modification date (i.e. at the end of year 2)

Or

Whether it should, instead, amortise the difference over the remaining expected term of the financial liability.

Immediate recognition of the difference in profit or loss

The amortised cost of the modified financial liability is CU106.46m at the date of the modification (see Table 3). Consequently, the entity recognises a loss of CU7.97m (i.e. CU106.46 – CU98.49 = CU7.97m) in profit or loss at the date of the modification.

According to paragraph B3.3.6 of IFRS 9, any costs or fees incurred in the modification adjust the amortised cost of the modified financial liability and are amortised over the remaining life of the modified financial liability. In this illustrative example, the entity adjusts the amortised cost of the financial liability to account for the third party costs arising from the modification amounting to CU3m. This results in an adjusted amortised cost of the financial liability of CU103.46m (i.e. CU106.4m – CU3m).

For the purposes of allocating interest expense throughout the modified expected life of the financial liability, the entity computes a revised EIR that discounts the modified contractual cash flows back to the adjusted amortised cost of the financial liability (i.e. CU103.46m) at the date of the modification. In this case, the revised EIR is 6.84 per cent.

Table 4 illustrates these calculations:

TABLE 4 - View 1 - Difference due to modification recognised in PL immediately								
Periods		**3**	**4**	**5**	**6**	**7**	**8**	**9**
Carrying amount at the end of year 2	98.49							
Difference due to modification	7.97	Recognised immediately in profit or loss						
Sum of discounted cash flows	**106.46**	Amortised						
Transaction costs	-3							
Revised carrying amount	**103.46**	-4	-4	-4	-4	-4	-4	-134
New effective interest rate	6.84%							
Opening carrying amount		**103.46**	**106.54**	**109.83**	**113.35**	**117.11**	**121.12**	**125.42**
Interest expense (using new EIR 6.84%)		7.08	7.29	7.52	7.76	8.02	8.29	8.58
Cash		-4	-4	-4	-4	-4	-4	-134
Closing carrying amount		**106.54**	**109.83**	**113.35**	**117.11**	**121.12**	**125.42**	**0.00**

The difference between the modified contractual cash flows of the financial liability discounted using the original EIR and the amortised cost of the original financial liability (i.e. CU106.46 – CU98.49 = CU7.97m) adjusts the latter at the date of the modification.

	Dr	(Cr)
Financial liability		CU7.97m
Profit or loss	CU7.97m	

What is its effective date?

IFRS 9 is required to be applied retrospectively, therefore modification gains and losses arising from financial liabilities that are still recognised at the date of initial application (e.g. 1 January 2018 for calendar year end companies) would need to be calculated and adjusted through opening retained earnings on transition.

How will it impact entities?

Under IAS 39 *Financial instruments: Recognition and measurement* ("IAS 39"), many preparers did not recognise a gain or loss at the date of modification of a financial liability. Instead the difference between the original and modified cash flows was amortised over the remaining term of the modified liability by re-calculating the effective interest rate. This will need to change on transition to IFRS 9 because the accounting will change. Whilst it is not expected that entities are required to change their existing accounting policy under IAS 39, the impact on transition to IFRS 9 should be considered.

The International Accounting Standards Board has proposed minor amendments to IFRS 9 *Financial Instruments*

On 21 April 2017, the International Accounting Standards Board has proposed minor amendments IFRS 9 *Financial Instruments* to enable companies to measure at amortised cost certain prepayable financial assets with so-called negative compensation.

Currently there are two prepayable debt instruments where the prepayment feature is held solely by the borrower as follows:

Symmetric make whole provision	A formula that could result in the lender receiving a payment that includes negative prepayment compensation (a "symmetric make whole provision");	If the current market interest rate is lower than the effective interest rate of the debt instrument, then the prepayment amount will be more than the unpaid amounts of principal and interest. However, if the current market interest rate is higher than the effective interest rate of the debt instrument, then the prepayment amount will be less than

		the unpaid amounts of principal and interest. In this case, the lender must accept a prepayment amount that effectively 'pays' the borrower to make up for the increase in interest rate, even though the borrower chose to prepay the debt instrument.
Fair value prepayment option	This option allows the borrower to prepay at the current fair value of the debt instrument.	The fair value prepayment amount will correspond to a discounted value of the remaining contractual cash flows at a current rate that reflects a current benchmark interest rate, a current credit spread for the borrower, and potentially a liquidity premium or profit margin.

Both of these options have the following characteristic in common: depending on the market conditions at the prepayment date, the lender / investor – who is subject to the borrower's decision as to whether or not to exercise the prepayment option – may effectively receive negative prepayment compensation.

In both cases, the prepayment amount may be more or less than the unpaid amounts of principal and interest. If the borrower chooses to prepay the instrument, either the borrower or the lender could in substance receive compensation for early termination – i.e. the compensation could be symmetric. IFRS 9 addresses contractual terms that permit either the borrower or the lender to terminate the contract early.

Asymmetric Prepayment Options – depends on which party chooses to exercises its option to terminate the contract early	Symmetric Prepayment Options (known as negative compensation)
If the borrower chooses to terminate the contract early, the prepayment amount may be more than unpaid amounts of principal and interest to compensate the lender. Alternatively if the lender chooses to terminate the contract early, then the prepayment amount may be less than unpaid amounts of principal and interest to compensate the borrower.	This would result in the party that triggers the early termination of the contract effectively receiving a payment from the other party, instead of paying compensation to the other party. The lender could be forced to settle the contract and repay more than it owes.
When applying the effective interest method for amortised cost measurement, the entity would consider at initial recognition the contractual cash flows arising from a prepayment feature when it estimates the future cash flows and determines the effective interest rate. Subsequently, the entity would make a catch-up adjustment through profit or loss if it revises its estimated cash flows, including any revisions relating to the exercise of the prepayment option.	The effective interest method could work in the same way for these instruments as long as the symmetric prepayment option does not introduce any different or additional contractual cash flow amounts compared with instruments with asymmetric prepayment options.

If the prepayment amount reflects only unpaid amounts reflects only unpaid amounts of principal and interest plus (or minus) the effect of changes in market interest rates, a symmetric option – compared to an asymmetric option – changes only the frequency with which compensation is paid and the direction in which it is paid.

This narrow exception for particular financial assets with symmetric prepayment options. The scope of exception is restricted to those symmetric prepayment options that would have met the existing prepayment requirements in IFRS 9 except for the fact that they could incur "reasonable negative compensation for the early termination of the contract. Such financial assets could be measured at amortised cost or at FVOCI if they meet the other relevant requirements of IFRS 9.

To be eligible for the exception, the fair value of the prepayment feature would have to be insignificant on initial recognition of the asset. If this is impracticable to assess based on the facts and circumstances that existed on initial recognition of the asset, then the exception would not be available.

What is the effective date?

The effective date for the narrow-scope amendment for annual periods beginning on or after 1 January 2018 (the same as that of IFRS 9) where retrospective application of the amendment is to apply.

How does these amendments affect entities?

Entities could have to determine the fair value of the prepayment feature to be insignificant on initial recognition of the asset. If this is impracticable to assess based on the facts and circumstances that existed on initial recognition of the asset, then the exception would not be available.

International Accounting Standards Board finalises fundamental overhaul of insurance accounting

On 18 May 2017, the International Accounting Standards Board (the Board) has issued IFRS 17 Insurance Contracts. This first truly international IFRS Standard for insurance contracts will help investors and others better understand insurers' risk exposure, profitability and financial position.

IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches. As a consequence, it is difficult for investors to compare and contrast the financial performance of otherwise similar companies.

General model of IFRS 17

The general model is the Building Blocks Approach ("BBA") and is based on a discounted cash flow model with a risk adjustment and deferral of up-front profits through the Contractual Service Margin ("CSM") which cannot be negative. The majority of life insurance contracts will be measured under the new BBA. The structure of this approach will feel natural to those familiar with the requirements of determining Solvency II technical provisions.

Market consistent inputs:

- it is based on best estimate projected cash flows,
- it uses a market consistent risk-free discount rate with an allowance for an illiquidity premium, and
- it includes a risk adjustment ("RA") to reflect all risks other than those reflected through the use of market consistent inputs.

What is CSM?

CSM is a new quantity which represents unearned profits in contracts. Understanding how the CSM is released over time, including how changes in market and insurance assumptions affect it, will be one of the key activities for insurers in the coming months. The creation of the CSM means that all day one profits from contracts are eliminated, with profits instead being released systematically over the lifetime of the contracts on a basis consistent with customers benefiting from the underlying insurance risk. One of the most significant difficulties that the CSM generates for insurers is the level of granularity required for calculation and monitoring of the CSM. Contracts need to be grouped into portfolios, with a portfolio being defined as a group of contracts within a single product line with similar risks.

Level of aggregation for CSM and onerous contracts test

IFRS 17 will provide guidance that contracts within each product line (such as annuities or whole-life) would be expected to have similar risks, and, hence, contracts from different product lines would not be expected to be in the same portfolio.

Entities will be required at inception to group onerous contracts separately from contracts that are not onerous by dividing portfolios, at a minimum, into two groups:

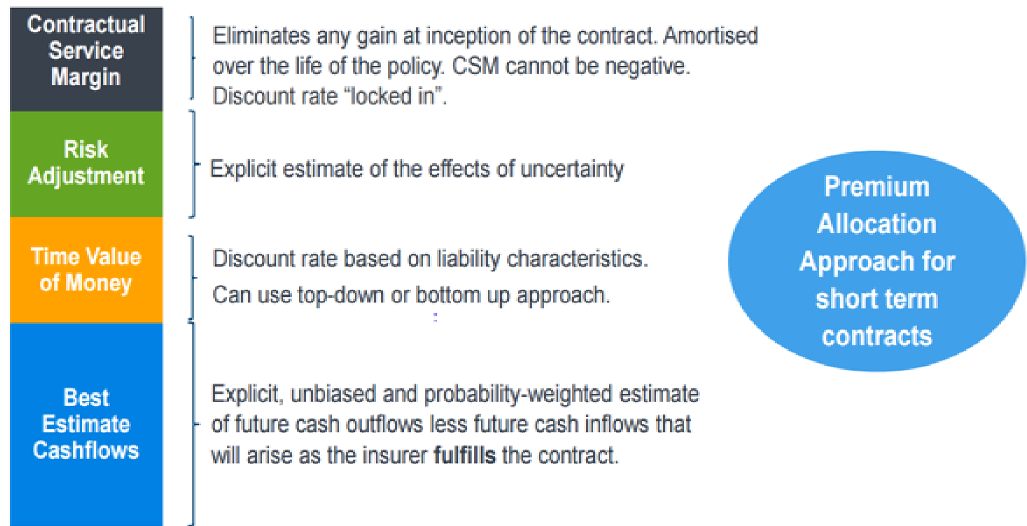
- group of contracts that have no significant risk of becoming onerous and
- a group of other profitable contracts.

IFRS 17 will provide guidance for this exercise, embodying assessments of the risk of the contracts in a group becoming onerous.

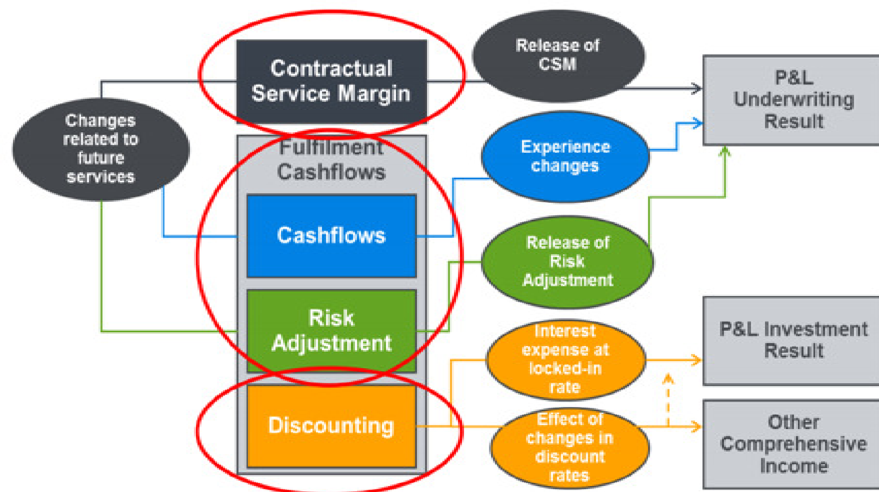
In a manner consistent with the entity's internal reporting about changes in estimates

- Based on the sensitivity of the fulfilment cash flows to changes in estimates which, if they occurred, would result in the contracts becoming onerous
- An entity can only group contracts issued within the same year into a single group. (i.e., this prohibits grouping contracts that are issued more than one year apart in the same group).

Building Block Approach for Insurance Liabilities



Subsequent Measurement & Impact on Profit or Loss



Model	Key features	Type of contracts
BBA - Default model for all insurance contracts	• Discounted cash flow model with allowance for risk • Market-consistent valuation of options and guarantees • Discount rates reflect characteristics of the insurance contracts • No day one profits – recognised as a CSM and amortised in P&L over contract term (straight line basis) • New income statement presentation and definition of revenue • OCI option for changes in discount rates to reduce P&L volatility • Transition approach allows significant simplifications and judgement • More transparent disclosures	• Long-term and whole life insurance, protection business • Inflation-linked annuity contracts • Immediate annuities • US style universal life, certain fixed annuities (BBA with some adjustments) • Reinsurance written (BBA with some adjustments) • Certain general insurance contracts

Model	Key features	Type of contracts
Premium Allocation Approach (“*PAA”)* - To simplify for short term contracts with little variability	Optional simplified model allowed for short duration contracts (coverage period up to one year) or reasonable approximation of BBA. Applied to measure the pre-claims liability – akin to unearned premium accounting. The BBA is applied to determine the liability for incurred claims.	• Short-term general insurance • Short-term life and certain group contracts
Variable fee approach - To deal with participating business where policyholder liability is linked to underlying items and thus accounting should reflect this	Reflects the link to underlying returns for contracts that participate in a clearly identified pool of underlying items, where policyholders are paid a substantial share of the returns and a substantial proportion of the cash flows vary with the underlying items. As per BBA with additional features, notably: • Changes in insurers’ share of assets recognised in CSM • Accretion of interest on CSM at current rates • Profit or loss movement in liabilities mirrors treatment on underlying assets with balance in OCI (if policy choice taken)	• Unit-linked contracts, US variable annuities and equity index-linked contracts • Continental European 90/10 contract • UK with profits contracts

[1] Other Comprehensive Income (OCI) comprises items of income and expenditure that are not recognised in P&L

New presentations and disclosures illustrated in the report

- The statement of profit or loss.
- The statement of other comprehensive income.
- Movements in insurance contract assets and liabilities analyzed by building block component, including analysis of new business.
- Movements in insurance contact assets and liabilities analyzed between liabilities for remaining coverage and incurred claims.
- Inputs used in determining insurance contract revenue.
- An analysis of insurance investment expense.

These disclosures will be required both for insurance contracts issued and reinsurance ceded. Separate movement analysis will also be required for insurance contracts and reinsurance contracts issued.

When are IFRS 17 effective?

An entity should apply IFRS 17 for annual periods beginning on or after 1 January 2021 with early adoption permitted if entities also apply IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers.*

Transition

Fully retrospective approach

An entity should apply the requirements of IFRS 17 retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to groups of insurance contracts, unless retrospective application is impracticable.

For insurance contracts for which an entity cannot identify a group retrospectively, and for groups of insurance contracts for which retrospective application is impracticable, an entity is permitted to choose between a modified retrospective approach and a fair value approach. However, if a modified retrospective approach is impracticable, the entity must apply the fair value approach.

A simplified retrospective approach

If such an approach were impracticable, then a simplified retrospective approach could be used. An entity is allowed to use a number of specified modifications, but must use the minimum modifications necessary to achieve the above objective without undue cost or effort. For example, an entity will not be prohibited from grouping contracts issued more than one year apart into a single group.

When applying a modified retrospective approach, an entity maximises the use of information that would have been used to apply a fully retrospective approach, but need only use information available without undue cost or effort.

Fair value approach

Finally, a fair value approach could be used to determine the liability and CSM at transition if the other two approaches were impracticable.

An entity must determine the contractual service margin using permitted modifications for the variable fee approach, determined at the beginning of the earliest period presented (rather than at the date of initial application). An entity will be allowed to make the following assessments either as at inception of a contract or as at the beginning of the earliest period presented under the fair value approach (consistent with the modifications recommended for the modified retrospective approach):

- Whether a contract is eligible for the variable fee approach

- How to group contracts
- How to determine the effect of discretion on estimated cash flows for contracts subject to the general model

The entity can make the above assessments either as at inception of a contract based on reasonable and supportable evidence for what the entity would have determined given the terms of the contract and the market conditions at inception, or at the beginning of the earliest period presented.

Also consistent with the modifications recommended for the modified retrospective approach, the entity when applying the fair value approach is:

- Not prohibited from grouping contracts issued
- more than one year apart into a single group;
- Permitted to use the discount rate at the beginning of the earliest period presented:
- To accrete and adjust the resulting CSM for groups of contracts to which the entity applies the general model; and
- To determine the finance income or expenses in profit or loss when the entity makes an accounting policy choice to disaggregate the insurance finance income or expenses between profit or loss and other comprehensive income for non-participating contracts.

How does IFRS 17 affect entities?

Due to the range of accounting methods in use today, some countries will see more significant changes than others with the introduction of the new Standard.

The effective date of 2021 will give insurers approximately three-and-a-half years for implementation. The new accounting standard will represent a significant change for many insurers both in terms of financial results and operating model. A core component of these changes are the new presentations and disclosures. The complexity of IFRS 17 will be such that companies cannot afford to wait and will need to start preparing for implementation soon.

IFRIC 23 *Uncertainty over Income Tax Treatments*

The IFRS Interpretations Committee observed diversity in practice regarding the recognition and measurement of current tax, deferred tax liabilities and deferred tax assets as defined by paragraph 5 of IAS 12 *Income Taxes*, when there are uncertainties in the amount of income tax payable (recoverable). As a consequence, on 7 June 2017, the International Accounting Standards Board (Board) has issued IFRIC 23 *Uncertainty over Income Tax Treatments*.

In summary, the Interpretation provides the following structure for assessing uncertain tax positions:

Scope	It provides guidance on how to determine an entity's taxable profits (or tax losses), tax bases, unused tax losses, unused tax credits and tax rates where there is uncertainty over income tax to be accounted for under IAS 12. It therefore impacts both current and deferred tax where there is uncertainty.
Unit of account	It provides guidance on how to determine an entity's taxable profits (or tax losses), tax bases, unused tax losses, unused tax credits and tax rates where there is uncertainty over income tax to be accounted for under IAS 12. It therefore impacts both current and deferred tax where there is uncertainty.
Detection risk	An entity must assume the tax authority will examine the position (if entitled to do so) and will have full knowledge of all the relevant information.
Recognition and measurement	There is a two stage test. If it is probable (i.e. a probability of more than 50%) that a tax authority will accept a particular UTP (or group of such UTPs), then the tax position recorded in the entity's accounts should be consistent with what is or will be used in its tax returns. However, if it is not probable that a tax authority will accept a particular (group of) UTP(s) then the entity must use

	either the most likely amount or the expected value, depending on which is thought to give a better prediction of the resolution of each (group of) UTP(s). Will tax authorities accept treatment in the tax return? Yes / Probable Amount in financial statements is the same as in tax return No / Not probable Amount in financial statements is NOT the same as in tax return The uncertainty would be reflected using the measure that provides a better prediction of how the uncertainty will be resolved – either: • the most likely amount; or • the expected value. The amendments also provide specific guidance for when and how to subsequently update the uncertain tax in the accounts if circumstances change – e.g. when a tax authority's right to challenge a treatment expires, or when a clarification is issued.
Changes in recognition and measurement	An entity must reassess a UTP if new information comes to light or if facts or circumstances change (e.g. if a period within which the tax authority may examine the tax treatment expires).
Disclosures	The Interpretation does not introduce any new disclosure requirements. However, it reinforces the need to comply with existing disclosure requirements in relation to judgements made, assumptions and estimates used, and tax-related contingencies.

Illustrative examples

The Interpretation - Uncertainty over Income Tax Treatments have included the following IFRIC Examples:

<table>
<tr><th>Example</th><th>Details</th><th>At end of reporting period</th></tr>
<tr>
<td>Example 1:

When one tax treatment is considered independently and when the most likely amount is used to reflect the effect of uncertainty</td>
<td>Entity A has an unresolved dispute over whether a specific item should be deductible in determining the taxable profit for a specific period. A tax investigator did not accept this tax treatment but the entity appealed against this to the court, which makes a final decision on the acceptability under the tax law.

Entity A noted that this uncertain tax treatment affects neither accounting for deferred tax nor tax rates and it concluded that it is probable that the taxation authority will accept the other tax treatments used in its tax filing.
Entity A has no similar disputes and it therefore decides that this tax treatment should be considered independently.

If the taxation authority does not accept the tax treatment (i.e. if the court's final decision does not accept the tax treatment), the taxable profit for the specific period will increase by CU100.</td>
<td>At the end of the reporting period, Entity A determines that it is not probable that the taxation authority will accept the tax treatment on the basis of an evaluation of all available evidence and that the most likely amount (an additional CU100 of taxable profit) will provide the better prediction of the resolution of the uncertainty.

Entity A therefore recognises and measures a current tax liability in accordance with IAS 12 Income Taxes, based on a taxable profit that includes CU100 in addition to the amount reported in its tax filing.</td>
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<td>Example 2:

When multiple tax treatments are considered collectively and when the expected value is used to reflect the effect of uncertainty</td>
<td>Entity B's tax filing included a number of deductions related to transfer pricing. The taxation authority in its jurisdiction may challenge those tax treatments. Entity B notes that the taxation authority's decision on one transfer pricing matter would affect, or be affected by, the other transfer pricing matters.

Entity B determines that the tax treatments should be considered collectively, because it concludes that this will provide the best prediction of the resolution of the uncertainty.</td>
<td>At the end of the reporting period, Entity B concludes, on the basis of an evaluation of all available evidence, that it is not probable that the taxation authority will accept all of the tax treatments. Entity B notes that this group of uncertain tax treatments affect neither accounting for deferred tax nor tax rates and it concludes that it is probable that the taxation authority will accept the other tax treatments used in its tax filing.

Entity B estimates the probabilities of what would be added to the taxable profits, as follows:
<table>
<tr><th></th><th>Estimated outcome, CU</th><th>Individual probability, %</th><th>Estimate of expected value, CU</th></tr>
<tr><td>Outcome 1</td><td>–</td><td>5%</td><td>–</td></tr>
<tr><td>Outcome 2</td><td>200</td><td>5%</td><td>10</td></tr>
<tr><td>Outcome 3</td><td>400</td><td>20%</td><td>80</td></tr>
<tr><td>Outcome 4</td><td>600</td><td>20%</td><td>120</td></tr>
<tr><td>Outcome 5</td><td>800</td><td>30%</td><td>240</td></tr>
<tr><td>Outcome 6</td><td>1,000</td><td>20%</td><td>200</td></tr>
<tr><td></td><td></td><td>100%</td><td>650</td></tr>
</table>

Entity B observes that the possible outcomes are widely dispersed and notes that the most likely amount of CU800 does</td>
</tr>
</table>

		not provide the better prediction of the resolution of the uncertainty. Entity B therefore concludes that the expected value (CU650) would provide the better prediction of the resolution of the uncertainty. Consequently, Entity B recognises and measures a current tax liability in accordance with IAS 12, based on the taxable profit, which includes CU650 in addition to the amount of the taxable profit in its tax filing. Entity B notes that the tax treatments may affect income taxes for other tax jurisdictions. It also notes that the relevant tax rules indicate that this particular tax jurisdiction's decision would not affect decisions to be made by taxation authorities in other tax jurisdictions, in respect of these tax treatments. Consequently, Entity B considers tax treatments in income taxes separately for these other tax jurisdictions.
Example 3: When a deferred tax asset is recognised and measured based on the most likely amount for a tax base that reflects the effect of uncertainty	Entity C acquired a separately identifiable intangible asset for CU100 that has an indefinite life and is, therefore, not amortised in accordance with IAS 38 *Intangible Assets*. It is certain that the full amount of the intangible asset is deductible for tax purposes, but the timing of deductibility (i.e. period of amortisation under the tax law) is uncertain. Entity C has no similar intangible assets and it therefore decides that this tax treatment should be considered independently. Entity C deducted CU100 from taxable income for tax purposes for Year 1. At the end of Year 1, Entity C concludes, on the basis of an evaluation of all available evidence (e.g. information about disputes for other entities' similar transactions), that it is not probable that this tax treatment will be accepted, although Entity C believes that the entity's interpretation of the tax law could be appropriate and therefore retains the amounts reported to the taxation authorities in the tax return. Consequently, Entity C uses the most likely amount, rather than the amount to be used in its tax filings, to reflect the uncertainty in determining the tax base, because Entity C concluded that this amount would provide the better prediction of the resolution of uncertainty. Entity C observes that the most likely amount that the taxation authority will accept as the deductible amount for Year 1 will be CU10. Consequently, the most likely amount for the corresponding tax base for the intangible asset will be CU90.	At the end of Year 1, Entity C recognises and measures a deferred tax liability by applying the relevant requirements in IAS 12, based on the amount of the temporary difference between the carrying amount of the intangible asset in its financial statements and the most likely amount of the tax base (i.e. the difference between CU100 and CU90). Entity C also concludes that it should reflect the effect of the uncertainty in determining the taxable profit for Year 1, because this uncertain tax treatment also affects the taxable profit. Entity C recognises and measures a current tax liability, based on the estimates and judgements that are consistent with those made for deferred tax accounting. Entity C therefore recognises and measures a current tax liability in accordance with IAS 12, based on the taxable profit that includes CU90, in addition to the amount in its tax filing. (This is because Entity C deducted CU100 from taxable income for Year 1, whereas the most likely amount was CU10. Entity C concluded that it is not probable that the tax treatment will be accepted).

When is this Interpretation effective?

The IFRIC decided that the effective date of the Interpretation will be January 1, 2019, with earlier application permitted. An entity has a choice on initial adoption of the Interpretation. It can recognise the cumulative effect in retained earnings or equity, at the start of the first reporting period when it first adjusts for the Interpretation, without adjusting comparative information. Alternatively, it can apply the Interpretation retrospectively to each prior reporting period in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

What is the impact for entities?

Entities may need to increase your tax liability or recognise an asset, and the timing of derecognition may also change.

The amendments highlight the existing disclosure requirements about:

- judgements made;
- assumptions and other estimates used; and
- the potential impact of uncertainties that are not reflected.

Although no new disclosures are proposed, users may expect more meaningful disclosures.

The amendments may also affect how you deal with tax inspections. For example, if a tax authority examines different taxes in combination and issues a report with a single amount due, then it may be challenging to estimate the income tax due.

Next steps

You may want to discuss the proposals with your advisers and tax specialists. Alternatively you can contact our tax specialists:

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New Investors' Guide on the Enhanced Auditor's Report

We have highlighted the enhanced auditors' report in our 4Q2016 Financial Reporting Quarterly Updates. The Accounting Corporate Regulatory Authority ("ACRA"), the Institute of Singapore Chartered Accountants ("ISCA") and the Securities Investors Association Singapore ("SIAS") have jointly produced a Guide to help investors better engage company directors, management and auditors.

This Guide on the enhanced auditor's report will help investors identify significant risk areas in listed companies' financial statements and understand how these areas are audited.

The Guide focuses on key matters that auditors of listed companies are now required to provide in their reports, following the adoption of the enhanced auditor reporting standards with effect from 15 December 2016. It explains the different types of audit opinions, how unfavourable audit opinions could be identified, and the issues investors should look out for. The Guide also includes a list of relevant questions relating to key audit matters that investors could consider raising with directors, management and auditors during AGMs.

You can obtain a copy of the Guide here.

Related Party vs Interested Person Transactions and New Reporting of Related Party Transactions required from YA 2018

What are related party transactions?

FRS 24 *Related Party Disclosures*, being an accounting standard, focuses on the disclosure of related party transactions ("RPT") in the periodic financial statements.

The need to review related party transactions to ensure that they are at arms' length is not spelt out as a specific requirement of FRS 24.

Instead, the duty to review and approve RPTs is driven by corporate governance requirements and practices, and the Companies Act.

What are interested person transactions?

Chapter 9 of the Listing Manual defines an Interested Person Transaction ('IPT') as a transaction between an entity at risk and an interested person regardless of whether: · it is

entered into in the ordinary course of business or not; and · the transaction is entered into directly or indirectly through one or more interposed entities.

The objective of Chapter 9 is to guard against the risk that interested persons could influence the listed company, its subsidiaries or associated companies, to enter into transactions that may adversely affect the interests of the company or its shareholders.

Who are related parties and interested person?

Directors, CEOs, controlling shareholders, their spouses, children, adopted children, step-children and parents, are both simultaneously interested persons *and* related parties under Chapter 9 and FRS24, respectively.

Where a controlling shareholder is a company, then its subsidiary, holding company or a fellow subsidiary, or a company in which the controlling shareholder has control are also generally considered as interested persons *and* related parties under Chapter 9 and FRS24.

Who are interested person but not related party?

Siblings of a director, CEO and controlling shareholder.

Who are related parties but not interested persons?

Related parties" who may not be considered "interested persons" include:

- a key management person who is not a director or CEO;
- companies that provide key management personnel services to the reporting entity or its parent.

Who are not related parties?

The following are not related parties:

(a) two entities simply because they have a director or other member of key management personnel in common or because a member of key management personnel of one entity has significant influence over the other entity or

(b) two joint venturers simply because they share joint control of a joint venture.

  (i) providers of finance,
  (ii) trade unions,
  (iii) public utilities, and
  (iv) departments and agencies of a government that does not control, jointly control or significant influence the reporting entity.

Materiality Thresholds of IPT

The materiality thresholds being 3% and 5% of net tangible asset value ('NTA') respectively), all transactions with the same IP in the same financial year are now to be aggregated. Additionally, IPTs with IPs who are members of the same group are deemed to be transactions between the entity at risk with the same IP. Transactions below S$100,000 are to be disregarded

Disclosure in The Annual Report

Rule 907 of the Listing Manual has introduced a disclosure requirement. An issuer must now disclose the aggregate value of IPTs entered into during the financial year under review in its annual report in the following format:

Name of IPT	Aggregate value of all IPTs during the financial year under review (excluding transactions less than S$100,000 and transactions conducted under shareholders' mandate pursuant to rule 920)	Aggregate value of all IPTs conducted under shareholders' mandate pursuant to rule 920 (excluding transactions less than S$100,000)

Conflict of interests

The main provision in the Companies Act dealing with conflicts of interest is Section 156 and it applies to both IPTs and RPTs of Singapore companies.

The board and, especially the audit committee, should ensure that management has a formal and robust process to identify, differentiate and manage both IPTs and RPTs. All deliberations by the board and audit committee on IPTs and RPTs should be comprehensively documented as minutes. Additionally, the conflicted person should recuse himself from all discussions and abstain from voting on the transaction.

Most critically, directors must ensure that there is prompt and comprehensive disclosure where needed to comply with the relevant laws and regulations.

New reporting of related party transactions required from YA 2018

A taxpayer must complete an RPT Form and submit it together with the corporate income tax return (Form C) if the aggregated value of RPT exceeds S$15m for the relevant YA 2018.

The value of RPT as disclosed in the audited accounts is the aggregate of:

- All amounts of RPT as reported in the Income Statement but excluding compensation paid to key management personnel and dividends, and
- Year-end balances of loans and non-trade amounts due to/ from all related parties.

For companies with cross-border related party sales or purchases of goods and services, the top five foreign related parties that it transacts with (by value of sales or purchases respectively) has to be listed together with entity details including entity names, countries, relationship and amounts transacted.

Sustainability reporting vs Integrated reporting

In our Financial Reporting Updates 3Q2016, it was highlighted on 20 June 2016, Singapore Exchange introduced sustainability reporting on a "comply or explain" basis for listed companies with financial years ending on or after 31 December 2017 to promoting effective financial reporting, sustainability reporting is also an area of priority for ISCA, there is a need to clarify the difference between sustainability reporting vs integrated reporting.

Sustainability reporting	Integrated reporting
Communicating the organisation's approach to managing its key environmental and social issues. It is about communicating publicly how the company assesses which environmental and social issues are most significant to the company "materiality", how these issues are managed and how the company is performing against each of these key issues (performance data).	About communicating, how the company manages its long term value creation by taking an integrated approach to both traditional risks and these wider sustainability risks. Instead of reporting on financial performance and sustainability performance separately, or even within the same annual report, Integrated Reporting intends to show how the company integrates environmental & social thinking into its business.
Climate change, talent retention and employee diversity, for example, can pose both risks and opportunities for companies, so it is about communicating how the organisation is identifying and managing these risks and opportunities. The sustainability report should comprise the following primary components: (a) Material ESG factors. The sustainability report should identify the material ESG factors, and describe both the reasons for and the process of selection, taking into considering their relevance to the business, strategy, business model and key stakeholders. (b) Policies, practices and performance. The sustainability report should set out the issuer's policies, practices and performance in relation to the material ESG factors identified, providing descriptive and quantitative information on each of the identified material ESG factors for the reporting period. Performance should be described in the context of previously disclosed targets. (c) Targets. The sustainability report should set out the issuer's targets for the forthcoming year in relation to each material ESG factor identified. (d) Sustainability reporting framework. The issuer should select a sustainability reporting framework (or frameworks) to	An integrated report goes beyond financial, employee, environmental and social data, to also demonstrate how the company integrates these broader risks and opportunities into its long term strategy, into its risk management, into operating policies and procedures, and what the trade-offs between these issues are. Integrated reporting pulls together information that sits in separate reporting strands to explain how the firm creates value. In the Singapore context, these reporting strands will include the following: (i) Corporate Governance Statement, (ii) Operating and Financial Review, (iii) Financial Statements and more recently, (iv) Sustainability Reporting.

guide its reporting and disclosure. The sustainability reporting framework(s) selected should be appropriate for and suited to its industry and business model. The issuer should state the name of the framework(s), explain its reasons for choosing the framework(s) and provide a general description of the extent of the issuer's application of the framework(s). (e) Board statement. The sustainability report should contain a statement of the Board on the Board having considered sustainability issues as part of its strategic formulation, determined the material ESG factors and overseen the management and monitoring of the material ESG factors.	

Accounting for Good – Helping Charities Do Good Better

On 26 May 2017, ISCA and the Centre for Social Development (Asia), Department of Social Work, Faculty of Arts and Social Sciences, National University of Singapore (NUS), supported by the Charity Council and Chartered Institute of Management Accountants (CIMA) have come together to produce an electronic book, titled 'Accounting for Good' – the first article.

You can obtain the print version here.

You can also obtain the flip version here.

How we can assist

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

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