# Q2 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.

## April 2018

## In this issue:

- International Accounting Standards Board issues narrow-scope amendments to pension accounting
- ASC issued the following amendments to Singapore Financial Reporting Standards (International) (SFRS(I)s) and Financial Reporting Standards (FRSs):
- Tax payable arising adoption of SFRS(I) 15 Revenue from Contracts with Customers
- Deferred tax arising adoption of SFRS(I) 9 Financial Instruments
- Impact of transition provisions of IFRS 1 then to SFRS(I) 1
- SGX rules changes and 2018 review of Corporate Governance Code
- Extension of Wage Credit Scheme

www.fookontan.com

# International Accounting Standards Board issues narrow-scope amendments to pension accounting

### What is the clarification?

*Plan Amendment, Curtailment or Settlement* (Amendments to IAS 19) specifies how companies determine pension expenses when changes to a defined benefit pension plan occur.

IAS 19 Employee Benefits specifies how a company accounts for a defined benefit plan. When a change to a plan - an amendment, curtailment or settlement - takes place, IAS 19 requires a company to remeasure its net defined benefit liability or asset.

### Changes

The amendments in Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) are:

- If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the re-measurement are determined using the assumptions used for the re-measurement.
- In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

### Effective date and transition

An entity applies the amendments to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019. Early application is permitted but must be disclosed.

# ASC issued the following amendments to Singapore Financial Reporting Standards (International) (SFRS(I)s) and Financial Reporting Standards (FRSs): Annual Improvements to SFRS(I)s 2015-2017 Cycle & Improvements to FRSs (March 2018)

On 8 March 2018, the ASC has issued the following amendments to Singapore Financial Reporting Standards (International) (SFRS(I)s) and Financial Reporting Standards (FRSs):

1. Annual Improvements to SFRS(I)s 2015-2017 Cycle, effective for annual reporting periods beginning on or after 1 January 2019; and
2. Improvements to FRSs (March 2018), effective for annual reporting periods beginning on or after 1 January 2019.

### What are the amendments?

| SFRS (I) , FRS | Subject of amendment |
|---|---|
| SFRS (I) 3, FRS 103 *Business Combinations* and SFRS (I) 11, FRS 11 *Joint Arrangement* | The amendments to SFRS (I) 3, FRS 103 clarify that an entity obtains control of a business that is a joint operation, it re-measures previously held interests in that business.<br><br>The amendments to SFRS (I) 11, FRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity obtains joint control of a business that is a joint operation, the entity does not re-measure previously held interests in that business. |
| SFRS (I) 1 -12, FRS 12 *Income Taxes* | The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the taxes arises. |
| SFRS (I) 1 – 23, FRS 23 *Borrowing Costs* | The amendments clarify that any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings. |

# Tax payable arising adoption of SFRS(I) 15 Revenue from Contracts with Customers

SFRS(I) 15 *Revenue from Contracts with Customers* will be effective for annual periods beginning on or after 1 January 2018.

**Transition to SFRS (I) 15**

SFRS(I) 15 requires retrospective application to all of the periods presented or a modified retrospective adoption. Entities electing the modified retrospective method should apply the standard retrospectively to only the most current period presented in the financial statements (i.e. the initial period of application. The entity must recognise the cumulative effect of initially applying SFRS (I) 15 as an adjustment to the opening balance of retained earnings. However listed companies will need to take note that the application of IFRS 1 *First-time Adoption of International Financial Reporting Standards* will effectively remove one of the transition approaches in SFRS(I) 15 – the cumulative effect approach.

**Tax impact on adoption of SFRS(I) 15**

A new tax Section 34 (I) is to allow adjustment to be made to the amount of statutory or exempt income of a person for the year of assessment corresponding to the basis period in which SFRS (1) 15 is first applied. Where the adoption of SFRS(I) 15, the excess income or deduction must be adjusted against the person's total income for the first year of assessment of which SFRS(I) 15 is adopted.

For example, with adoption of SFRS(I) 15, if a company is required to record an increase in revenue by adjusting the retained earnings and the increase is solely due to the contracts qualifying for pioneer incentive. In accordance to the proposed tax section S34(1)(3)(b), it is then required to allocate the difference against the respective income streams using the formula prescribed. This would result in additional taxes on the amount allocated to the normal tax category notwithstanding that the increase solely relates to pioneer trade and hence would have qualified for tax exemption absent the application of SFRS(1) 15.

**Tax payable arising adoption of SFRS(I) 15**

Any additional or reduction of taxes arising from adoption of SFRS(I) 15 on 1 January 2018 will be adjusted against current tax payable.

# Deferred tax arising adoption of SFRS(I) 9 Financial Instruments

SFRS(I) 9 *Financial Instruments* which will apply to entities for financial periods beginning on or after 1 January 2018, replaces the existing FRS 39 *Financial Instruments: Recognition and Measurement.*

**Impairment in SFRS(I) 9**

The new impairment requirements in SFRS(I) 9 are based on an expected credit loss (ECL) model and replace the FRS 39 incurred loss model. The amount of ECLs recognised as a loss allowance or provision depends on the extent of credit deterioration since initial recognition.

Under the general approach there are two measurement bases:

- 12-month ECLs (Stage 1), which applies to all items (from initial recognition) if there is no significant deterioration in credit quality
- Lifetime ECLs (Stages 2 and 3), which applies when a significant increase in credit risk has occurred on an individual or collective basis and if the credit is impaired, lifetime ECL (Stage 3) will apply.

**Tax impact of impairment in SFRS(I) 9**

Impairment loss is deductible, in so far, as amount is in respect of credit – impaired financial instrument on revenue account, i.e. those classified within lifetime ELCs (Stage 3). Write-back of impairment loss is taxable, in so far, as amount was allowed.

**Deferred tax arising from SFRS(I) 9 on impairment loss for Stages 1 and 2**

Hence, 12 months ECLs (Stage 1) and lifetime ECLs (Stages 2) should be considered for deferred tax as they are not considered as deductible by tax of SFRS (I) 9.

### Transition to SFRS(I) 9

When the SFRS(I) 9 was first applied for accounting purposes at the date of initial application of the SFRS(I) 9 (DIA), a taxpayer would have to reclassify its financial assets and financial liabilities and re-measure their carrying amounts.

**Tax impact of impairment in SFRS(I) 9**

When the unrealised gain or loss and the impairment loss or gain (arising from the reclassification and re-measurement exercise) recognised at DIA, are recognised in other components of equity at DIA, there will be some tax adjustments.

**Deferred tax on transition to SFRS(I) 9**

In such cases, deferred tax is arisen arising from the unrealised gain or loss (arising from the reclassification and re-measurement exercise) recognised at DIA. Please refer to the table below:

| Taxpayers currently on pre-FRS 39 tax treatment | Taxpayers currently on FRS 39 tax treatment |
|---|---|
| Under pre-FRS 39 tax treatment, taxpayer is taxed on its gain on sale of shares only on a realisation basis. | Gains or losses recognised in the profit or loss account will be taxed or allowed notwithstanding that such gains or losses are not realised. |
| These taxpayers who are currently on the pre - FRS 39 tax treatment would need to pay extra attention. Given that there will be no option to opt out of the SFRS(I) 9 tax treatment, taxpayers currently on pre - FRS 39 tax treatment sitting on significant amounts of accumulated unrealised revenue gains would be taxed on the gains when they adopt the SFRS(I) 9. | Hence, for the assets classified as available-for-sale, all gains or losses which are recognised in balance sheet (as a separate item in the equity) will not be taxed or allowed as a deduction. Given that the adoption of SFRS(I) 9 tax treatment, taxpayers currently on FRS 39 tax treatment sitting on significant amounts of accumulated unrealised revenue gains would be taxed on the gains when they adopt the SFRS(I) 9. |
| **Deferred tax arising from pre - FRS 39 tax treatment** | **Deferred tax arising from FRS 39 tax treatment** |
| Those entities that apply pre - FRS 39 tax treatment should crystallise any deferred tax arising for those financial assets at fair value through profit or loss when adopting SFRS(I) 9. Deferred tax arising from those financial assets at fair value through profit or loss previously recognised should crystallise when adopting SFRS(I) 9. | Those entities that apply FRS 39 tax treatment should crystallise any deferred tax arising for those available-for-sale when adopting SFRS(I) 9. Deferred tax arising from those available-for-sale previously recognised should crystallise when adopting SFRS(I) 9. |

## Impact of transition provisions of IFRS 1 then to SFRS(I) 1

If an asset is carried at revaluation ("deemed cost") under the transitional rules of SFRS (I) 1 but the entity has no ongoing accounting policy of revaluation, the effect of changes in the tax base are recognised in profit or loss.

This accounting treatment applies regardless of whether a deferred tax liability was recognised on transition to IFRSs then to SFRS (I)s. The fact that a deferred tax liability recognised on transition to IFRS was charged to equity (as part of the transition adjustment) does not mean that changes in the liability will also be recognised in equity.

Instead, management should use the entity's current accounting policies to determine where the items that gave rise to the original deferred tax would have been recognised if IFRS had applied in the earlier periods. The changes in the deferred tax should be recognised in the profit or loss if it is not possible to assess whether the items that gave rise to the original deferred tax would have been recognised if IFRS had been applied in the earlier periods. The changes in the related deferred tax liability arising as a result of tax revaluation are not regarded as relating to an accounting revaluation recognised in other comprehensive income in this case. Therefore, the impact of the tax revaluation should be recognised in profit or loss.

Similarly, an entity might have recognised deferred tax relating to business combination on transition to IFRS and taken it under IFRS 1 to retained earnings. If the entity does not have an accounting policy of revaluating its assets, it results in a one-off entry in lieu of adjusting goodwill (which IFRS 1 only permits in limited circumstances). A later tax revaluation does not relate to an accounting revaluation that has been recognised in other comprehensive income. So the increase in the tax base as a result of the tax revaluation would be recognised in profit or loss.

---

## SGX rules changes and 2018 review of Corporate Governance Code

SINGAPORE-LISTED companies will have to justify the independence of long-serving independent directors.

**Nine-year rule**
To encourage firms to refresh and introduce more diversity into their boardrooms, the Council is proposing to enforce a "nine-year rule" that will reassess whether an independent director (ID) still qualifies as independent after nine years in the role. The nine – year rule is just one of 12 other practices that the Council intends to add to the SGX Listing Rules.

**SGX listing rules for mandatory compliance**
The ID has to win a mandate from all shareholders as well as from majority of all non-controlling shareholders. Otherwise, he can only be retained as a non-independent director. The Council has recommended a transition period of three years to be provided.

**A third of any board to comprise independent directors to the SGX Listing Rules**
The Council has moved the guideline for a third of any board to comprise independent directors to the SGX Listing Rules.

**Independent director own less than 10 per cent**
A director can still count as independent if he owns less than 10 per cent of a firm's shares. Under this change, the threshold will be above 5 per cent.

*Below is the 2018 review of corporate governance code:*

## 2018 review of corporate governance code


**Guidelines to be shifted to SGX Listing Rules**

- At least one-third board to comprise independent directors (IDs)
- Lower the shareholding threshold for assessing director independence to 5%, from 10%
- A director is not independent if he or immediate family member is a substantial shareholder with a 5% stake or more
- Impose the nine-year limit on IDs as a hard limit, or:
- Relationship between chairman and CEO must be disclosed if they are immediate family members
- Appointment of IDs who have served more than nine years to be put to an annual vote requiring approval from majority of all shareholders and majority of non-controlling shareholders; A transition period of three years to be provided regardless of the option adopted
- Directors must be submitted for renomination and reappointment at least once every three years
- If dividends are not paid, companies must disclose the reasons

**Other key revisions**

- Shift away from instructive style
- 15 overly prescriptive guidelines, some already in listing rules, to be dropped
- Provides greater clarity on director independence
- Separate disclosure on non-controlling shareholders' votes on ID appointments
- Majority of board to comprise IDs, if chairman is not independent
- Companies to disclose board diversity policy and progress
- Companies to disclose relationship between remuneration and value creation
- Sets up an industry-led Corporate Governance Advisory Committee

# Extension of Wage Credit Scheme

In the 2018 Singapore Budget, it was announced that the Government will be extending the WCS wage credit scheme ("WCS") for 3 more years, to fund 20% of wage increases in 2018, 15% in 2019, and 10% in 2020.

**How should employers recognise WCS?**
WCS payments will be made based on employees' incomes paid in respective years. Employers should determine when the WCS payments will be paid.

# 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

For more updates, visit us on our social channels:

www.fookontan.com

https://sg.linkedin.com/company/foo-kon-tan

www.facebook.com/fookontanllp/