Financial Reporting Updates - 2Q 2024

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

April – June 2024

In this issue:

- IASB issued new IFRS Accounting Standard and amendments to IFRS
- ISCA issued FRB 3 (Revised April 2024) *Classification of Liabilities as Current or Non-current (Amendments to SFRS(I) 1-1)*
- ISCA issued FRB 9 (Revised June 2024) *Accounting Implications Of The Interest Rate Benchmark Reform In Singapore*

IASB issued new IFRS Accounting Standard and amendments to IFRS

During the 2nd quarter of 2024, the International Accounting Standards Board (IASB) has issued the new Standard, IFRS 18 *Presentation and Disclosure in Financial Statements*, and narrow-scope amendments to classification and measurement requirements for financial instruments.

Below is summary of the changes arising from the amendments.

IFRS 18 Presentation and Disclosure in Financial Statements

On 9 April 2024, the International Accounting Standards Board (IASB) completed its work to improve the usefulness of information presented and disclosed in financial statements. The new Standard, IFRS 18 *Presentation and Disclosure in Financial Statements*, will give investors more transparent and comparable information about companies' financial performance, thereby enabling better investment decisions. It will affect all companies using IFRS Accounting Standards.

IFRS 18 introduces three sets of new requirements to improve companies' reporting of financial performance and give investors a better basis for analysing and comparing companies:

- Improved comparability in the statement of profit or loss (income statement)
- Enhanced transparency of management-defined performance measures
- More useful grouping of information in the financial statements

IFRS 18 is **effective for annual reporting periods beginning on or after 1 January 2027**, but companies can apply it earlier. Changes in companies' reporting resulting from IFRS 18 will depend on their current reporting practices and IT systems.

IFRS 18 **replaces IAS 1** *Presentation of Financial Statements*. It carries forward many requirements from IAS 1 unchanged. IFRS 18 is the culmination of the IASB's Primary Financial Statements project.

Amendments to IFRS 9 and IFRS 7 Amendments to the Classification and Measurement of Financial Instruments

On 30 May 2024, the International Accounting Standards Board (IASB) issued amendments to the classification and measurement requirements in IFRS 9 *Financial Instruments*. The amendments will address diversity in accounting practice by making the requirements more understandable and consistent.

These amendments respond to feedback from the 2022 Post-implementation Review of the Accounting Standard and clarify the requirements in areas where stakeholders have raised concerns, or where new issues have emerged since IFRS 9 was issued.

These include:

- **Clarifying the classification of financial assets with environmental, social and corporate governance (ESG) and similar features** – ESG-linked features in loans could affect whether the loans are measured at amortised cost or fair value. Stakeholders asked how to determine how such loans should be measured based on the characteristics of the contractual cash flows. To resolve any potential diversity in practice, the amendments clarify how the contractual cash flows on such loans should be assessed.

- **Settlement of liabilities through electronic payment systems** – stakeholders highlighted challenges in applying the derecognition requirements in IFRS 9 to the settlement of a financial asset or a financial liability via electronic cash transfers. The amendments clarify the date on which a financial asset or financial liability is derecognised. The IASB also decided to develop an accounting policy option to allow a company to derecognise a financial liability before it delivers cash on the settlement date if specified criteria are met.

With these amendments, the IASB has also introduced additional disclosure requirements to enhance transparency for investors regarding investments in equity instruments designated at fair value through other comprehensive income and financial instruments with contingent features, for example features tied to ESG-linked targets.

The amendments are **effective for annual reporting periods beginning on or after 1 January 2026**.

ISCA issued FRB 3 (Revised April 2024) *Classification of Liabilities as Current or Non-current (Amendments to SFRS(I) 1-1)*

On 30 April 2024, Institute of Singapore Chartered Accountants (ISCA) published ISCA Financial Reporting Bulletin 3 ("FRB 3") (Revised April 2024) *Classification of Liabilities as Current or Non-current (Amendments to SFRS(I) 1-1)*.

FRB 3 (Revised), published on 30 October 2020, guides readers in understanding and applying the amendments to SFRS(I) 1-1 *Presentation of Financial Statements* issued in 2020 ("2020 amendments") to certain common scenarios in Singapore such as long-term loans with callable clauses and term loans with rollover facilities.

FRB 3 (Revised April 2024) has been issued to incorporate the clarifications ("2022 amendments") to the 2020 amendments for SFRS(I) 1-1, which together with the 2020 amendments, would be effective for annual reporting periods beginning on or after 1 January 2024 retrospectively.

One salient clarification is on the classification of liabilities with the right to defer settlement which are conditional on the compliance with specified conditions (commonly known as covenants). Only covenants which an entity must comply with on or before the end of the reporting period will affect a liability's classification as current or non-current.

The following is a summary of the Amendments and other related accounting requirements:

A. Amendments to SFRS(I) 1-1: Right to defer settlement must exist at the end of the reporting period3 and must have substance

Under the existing SFRS(I) 1-1 requirements, a liability is classified as non-current if the entity has an unconditional right to defer settlement of that liability for at least 12 months after the reporting period.

The word "unconditional" has been deleted as part of the amendments to SFRS(I) 1-1. The rationale is that rights to defer settlement of a loan are rarely unconditional – they are often conditional on compliance with specified conditions (commonly known as "covenants").

If an entity's right to defer settlement of the liability may be subject to the entity complying with covenants, the entity has the right to defer settlement of the liability at the end of the reporting period if it complies with those covenants that an entity is required to comply with on or before the end of the reporting period (i.e. present covenants). Covenants that an entity is required to comply with only after the reporting period (i.e., future covenants) do not affect an entity's right to defer settlement of the liability at the end of the reporting period.

In the event that an entity has breached a covenant of a non-current liability on or before the end of the reporting period, the entity can continue to classify the liability as non-current if:

- the lender has agreed by the end of the reporting period to provide a grace period of at least 12 months after the reporting period, within which the entity can rectify the breach; and
- the lender cannot demand immediate repayment during the grace period.

B. Amendments to SFRS(I) 1-1: Additional disclosures for covenants to be complied with within 12 months after reporting period

An entity is required to provide disclosures when it classifies a liability arising from a loan arrangement as non-current and the right to defer settlement is subject to the entity complying with covenants within twelve months after the reporting period.

Additional disclosures include:

(a) information about the covenants (including the nature of the covenants and when the entity is required to comply with them) and the carrying amount of related liabilities; and

(b) facts and circumstances, if any, that indicate the entity may have difficulty complying with the covenants. Such facts and circumstances could also include the fact that the entity would not have complied with the covenants based on its circumstances at the end of the reporting period. Appropriate disclosure of a non-adjusting event should also be provided if the breach occurred subsequent to the end of the reporting period but before the financial statements are authorised for issue.

C. Amendments to SFRS(I) 1-1: Classification of a liability is unaffected by whether the entity exercises its right to defer settlement after the reporting period

It has been clarified that events occurring after the reporting period (until the date the financial statements are authorised for issue) do not impact the classification of the liability that was determined at the end of the reporting period.

If a liability has been determined to be non-current at the end of the reporting period, it continues to be classified as non-current even if management intends or expects the entity to settle the liability within 12 months after the reporting period or even if the entity settles the liability between the end of the reporting period and the date the financial statements are authorised for issue.

In a nutshell, the classification of a liability is determined by the facts and circumstances that exist as at the reporting date.

D. Amendments to SFRS(I) 1-1: Meaning of settlement of a liability

It has been clarified that a liability is settled if the liability is extinguished with the transfer of cash, other economic resources (for example, goods or services) or an entity's own equity instruments.

Settlement using the entity's own equity instruments (e.g. convertible debt settled by conversion into the entity's own shares) also affects the current and non-current classification of the liability, except where the conversion option is classified as an equity instrument under SFRS(I) 1-32.

If the conversion option is classified as equity under SFRS(I) 1-32, the conversion option does not affect the current or non-current classification of the host liability.

If the conversion option is classified as liability under SFRS(I) 1-32, the conversion option (that is, whether the option is exercisable within 12 months after the reporting period) affects the current or non-current classification of the host liability.

E. Others: Going concern assumption for breaches of loan covenants

The breach of a loan covenant may indicate the existence of issues with a borrower's financial health. While all breaches may give rise to repayment issues, when a breach remains unremedied and the lender has obtained a right to demand immediate or accelerated repayment of the loan, this may have a more pressing impact on a borrower's ability to continue as a going concern.

In accordance with SFRS(I) 1-1 paragraph 25, management is required to consider the impact of covenant breaches and other relevant events and conditions and assess whether there are material uncertainties that may cast significant doubt over the entity's ability to continue as a going concern.

ISCA issued FRB 9 (Revised June 2024) *Accounting Implications Of The Interest Rate Benchmark Reform In Singapore*

On 28 June 2024, Institute of Singapore Chartered Accountants (ISCA) published ISCA Financial Reporting Bulletin 9 ("FRB 9") (Revised June 2024) *Accounting Implications of the Interest Rate Benchmark Reform in Singapore*.

Practical Expedient for Changes to Contractual Cash Flows Required by the Reform

The entity is not required to apply the derecognition requirements or modification accounting to the financial instrument so as to account for the change in contractual cashflows arising from the Interbank Offered Rate ("IBOR") reform. This practical expedient is applied if the following conditions are met:
(a) The contractual changes are a direct consequence of interest rate benchmark reform; and
(b) The new basis for determining the contractual cash flows as a result of the interest rate benchmark reform is economically equivalent to the previous basis.

This FRB helps to provide guidance by giving examples of:
- contractual changes that would generally be a direct consequence of interest rate benchmark reform
- contractual changes that would generally not be a direct consequence of interest rate benchmark reform
- contractual changes that are economically equivalent to the previous basis

FRB 9 (Revised June 2024) has been updated from FRB 9 (issued on 16 January 2023) for the following:
- Additional background information on the approach for the transition of Singapore Interbank Offered Rate ("SIBOR") loans; and
- Updates on accounting considerations on the transition of SIBOR loans.

Contact us

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

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