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FINANCIAL REPORTING UPDATES

3Q 2021

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.

JULY - SEPT 2021

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ASC issues amendments to SFRS(I) / FRS Standards

On 7 June 2021, the Accounting Standards Council Singapore (ASC) has issued amendments to the following standards:

- Amendments to SFRS(I) 1-1 / FRS 1 and SFRS(I) / FRS Practice Statement 2 *Disclosure of Accounting Policies*
- Amendments to SFRS(I) 1-8 / FRS 8 *Definition of Accounting Estimates*

Both amendments are effective for annual periods beginning on or after 1 January 2023, are applied prospectively, and permit earlier application. Below is summary of the changes arising from the amendments.

Amendments to SFRS(I) 1-1 / FRS 1 and SFRS(I) / FRS Practice Statement 2 *Disclosure of Accounting Policies*

The amendments change the requirements in SFRS(I) 1-1 / FRS 1 with regard to disclosure of accounting policies. Applying the amendments, an entity discloses its material accounting policies instead of its significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. However, accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. In addition, if an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information. In support of the amendments to SFRS(I) 1-1 / FRS 1, amendments are also made to SFRS(I) / FRS Practice Statement 2 to illustrate how an entity could judge whether information about an accounting policy is material to its financial statements.

The amendments to SFRS(I) 1-1 / FRS 1 are effective for annual periods beginning on or after 1 January 2023 and are applied prospectively. Earlier application is permitted. The amendments to SFRS(I) / FRS Practice Statement 2 do not contain an effective date or transition requirements.

Amendments to SFRS(I) 1-8 / FRS 8 *Definition of Accounting Estimates*

The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". Accordingly, an entity develops accounting estimates if the accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty.

The amendments clarify that a change in accounting estimate that results from new information or new developments is not a correction of an error, and that the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors. Illustrative examples are also added to help entities understand and apply the amendments.

The amendments are effective for annual periods beginning on or after 1 January 2023 and are applied prospectively to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted.

Amendments to SFRS(I) 1-12 / FRS 12: *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

On 15 September 2021, ASC has issued Amendments to SFRS(I) 1-12: *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* and Amendments to FRS 12: *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*.

SFRS(I) 1-12 / FRS 12 *Income Taxes* specifies how a company accounts for income tax, including deferred tax, which represents tax payable or recoverable in the future.

In specified circumstances, companies are exempted from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations — transactions for which companies recognise both an asset and a liability.

The amendments clarify that the **exemption does not apply** for transactions such as leases and decommissioning obligations and that companies are required to recognise deferred tax on such transactions. The aim of the amendments is to reduce diversity in the reporting of deferred tax on leases and decommissioning obligations.

The amendments are **effective for annual reporting periods beginning on or after 1 January 2023**, with early application permitted.

SGX RegCo proposes a phased approach to mandatory climate reporting

On 26 August 2021, Singapore Exchange Regulation (SGX RegCo) announced that it is proposing a roadmap for climate-related disclosures to be made mandatory in issuers' sustainability reports (SRs) amid urgent demand for such information from lenders, investors and other key stakeholders. Other matters SGX RegCo is consulting the public on include requiring assurance of SRs and one-time sustainability training for all directors.

At the same time, SGX RegCo also proposes to step up efforts to enhance broad diversity by requiring issuers to have a broad diversity policy and provide disclosures on related targets, plans and timelines in annual reports (ARs).

A **phased** approach to mandatory climate reporting is proposed:
- all issuers to adopt climate reporting on a 'comply or explain' basis for their financial year (FY) commencing in 2022;
- from the FY commencing in 2023 onwards, climate reporting will be mandatory for some sectors of issuers while 'comply or explain' will remain the approach for the others; and
- from the FY commencing in 2024 onwards, more sectors of issuers will adopt mandatory climate reporting with the rest doing so on a 'comply or explain' basis.

In respect of assurance, SGX RegCo proposes to require issuers to subject their SRs to assurance by their internal auditors. The scope should minimally include assurance on whether the data being reported is accurate and complete. Issuers may also choose to have their SRs externally assured through external auditors or an independent assurance services provider.

To ensure boards have common knowledge of their roles and responsibilities, it is proposed that all directors attend a one-time training on sustainability.

Additionally, SGX RegCo is seeking feedback on proposals to mandate issuers having in place a broad diversity policy and to disclose in their ARs:

- a broad diversity policy including targets, accompanying plans and timeline for achieving the stipulated diversity on its board; and
- a description of how the combination of skills, talents, experience and diversity of directors in the board serves the needs and plans of the issuers.

SGX RegCo is also proposing that issuers be required to adopt these enhancements for their sustainability reports and annual reports **for financial years beginning on or after 1 January 2022**.

Common Pitfalls on Adoption of SFRS(I) 16/ FRS 116 *Leases*

We have covered some common pitfalls on revenue recognition (i.e. SFRS(I) 15/ FRS 115), as well as on financial instruments (i.e. SFRS(I) 9/ FRS 109) in our past quarter's publications. In this current issue, we discuss below some of the common errors (mainly disclosure deficiencies) noted in the application of SFRS(I) 16/ FRS 116 *Leases*, which was effective for more than one year since adoption.

Accounting policies disclosed in the financial statements are often boilerplate and lacks entity-specific information. In some cases, companies did not specify an accounting policy for apparently material items (e.g. sale and leaseback transactions). There are also entities which had not fully updated their accounting policies and continued to include the old FRS 17 terminology, such as referring to finance leases or operating leases, in relation to the lessee balances.

Descriptions (entity-specific details) of judgements made by management in the application of the company's accounting policy (e.g. judgements made about the lease term or scope of contracts within the standard) were typically absent or inadequate.

There were also little or no explanations of the difference between the old FRS 17 operating lease commitments and the new SFRS(I) 16/ FRS 116 lease liability. For instance, reconciliation included a material reconciling item with respect to extension options, but there was no explanation of the significant judgement made (such as the factors taken into account in the assessment of the reasonably possible exercise of the options).

Lack of / inadequate disclosures required by SFRS(I) 16/ FRS 116 paragraph 59 were also noted, as follows:

- nature of the lessee's leasing activities
- future cash outflows that are not reflected in the measurement of lease liabilities, arising from:
  - variable lease payments
  - extension options and termination options
  - residual value guarantees
  - leases not yet commenced to which the lessee is committed
- restrictions or covenants imposed by leases

Next steps – to address the above common pitfalls

Areas which will assume greater significance when reporting during and post Covid-19, are:

- The adequacy of estimation uncertainty disclosures in relation to impairment testing of right of use assets.
- The extent of liquidity disclosures, in particular, for shorter term disclosures, if management's assessment of liquidity has an increased focus on short term liquidity, entities should assess whether the time bands disclosed need to be updated.
- Explanations of missed rent payments if these constitute default events impacting other financial instruments or compliance with borrowing covenants. This in turn affects going concern assessment.
- Any significant judgement made associated with Covid-19 related modifications may require additional disclosures in the next annual report.

Contact us

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

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