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

FINANCIAL REPORTING UPDATES

4Q 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.

OCT - DEC 2021

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Our new FKT Holdings Limited and its subsidiaries - 2021 Illustrative FRS Financial Statements

We will be issuing our new FKT Holdings Limited and its subsidiaries – 2021 Illustrative FRS financial statements for listed entities incorporated in Singapore soon. Please keep a lookout for it!

This 2021 edition includes the additional disclosures that are required on adoption of the new and revised accounting standards effective for the current financial year, as well as the new and revised accounting standards that have been issued but are not yet effective. For more details on these new and revised accounting standards, please refer to the below section "Areas of Changes in SFRS(I)s". As we entered the new normal, more emphasis will also be placed on Covid-19-related disclosures.

IASB and ASC issue amendments to IFRS / IAS and SFRS(I) / FRS Standards, respectively

Amendment to IFRS 17 / SFRS(I) 17 / FRS 117: *Initial Application of IFRS 17 / SFRS(I) 17 / FRS 117 and IFRS 9 / SFRS(I) 9 / FRS 109—Comparative Information*

In December 2021, the International Accounting Standards Board (IASB) and Accounting Standards Council Singapore (ASC) have respectively issued Amendment to IFRS 17: *Initial Application of IFRS 17 and IFRS 9—Comparative Information* and Amendment to SFRS(I) 17 / FRS 117: *Initial Application of SFRS(I) 17 / FRS 117 and SFRS(I) 9 / FRS 109—Comparative Information*.

This is a narrow-scope amendment to the transition requirements in IFRS 17 / SFRS(I) 17 / FRS 117 *Insurance Contracts*, providing insurers with an option aimed at improving the usefulness of information to investors on initial application of the new Standard.

The amendment relates to insurers' transition to the new Standard only—it does not affect any other requirements in IFRS 17 / SFRS(I) 17 / FRS 117.

IFRS 17 / SFRS(I) 17 / FRS 117 and IFRS 9 / SFRS(I) 9 / FRS 109 *Financial Instruments* have different transition requirements. For some insurers, these differences can cause temporary accounting mismatches between financial assets and insurance contract liabilities in the comparative information they present in their financial statements when applying IFRS 17 / SFRS(I) 17 / FRS 117 and IFRS 9 / SFRS(I) 9 / FRS 109 for the first time.

The amendment will help insurers to avoid these temporary accounting mismatches and, therefore, will improve the usefulness of comparative information for investors. It does this by providing insurers with an option for the presentation of comparative information about financial assets.

IFRS 17 / SFRS(I) 17 / FRS 117, including this amendment, is effective for annual reporting periods starting on or after 1 January 2023.

The amendments are effective for annual periods beginning on or after 1 January 2022. Early application is permitted. An entity applies the amendments retrospectively, but only to items of PPE that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. The entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented.

ISCA issues FRB 9 *Accounting Implications of the Interest Rate Benchmark Reform in Singapore*

On 14 October 2021, Institute of Singapore Chartered Accountants (ISCA) published ISCA Financial Reporting Bulletin 9 ("FRB 9") *Accounting Implications of the Interest Rate Benchmark Reform in Singapore*.

FRB 9 helps to address the financial reporting implications of the interbank offered rate (IBOR) benchmark reform, and provides guidance on how entities in Singapore that hold financial instruments affected by the IBOR reform and/or engage in hedge accounting should account for them during the IBOR reform before and when the benchmark interest rates in the financial contracts are replaced by alternative benchmark rates.

This FRB is intended to assist entities holding financial contracts that reference benchmark interest rates that will be replaced by alternative benchmark rates during the IBOR reform to understand the accounting implications.

ACRA has issued Financial Reporting Practice Guidance No. 1 of 2021

On 15 December 2021, ACRA has issued the following:

ACRA's Financial Reporting Practical Guidance No. 1 of 2021

To guide directors in the review and approval of their company's financial statements during the COVID-19 situation, ACRA is publishing the proposed areas of review focus for the financial statements that are affected by the COVID-19 pandemic. It highlights warning signs of some possible non-compliance(s) with accounting standards, and provides directors with questions to ask management and statutory auditors when assessing the impact from COVID-19 pandemic on the financial statements.

Against the backdrop of the COVID-19 pandemic, ACRA's review on FY2021 FS will focus on the following areas.

1. Assessment of going concern and classification in cash flows statement
2. Impairment assessment of non-financial assets
3. Expected credit loss assessment
4. Supply chain financing (an emerging risk)
5. Interbank offered rate reform (a new development)

1. Assessment of going concern and classification in cash flows statement

Cases of gaps in going concern assessments noted were as follows:

- inappropriately assumed that the future events would follow the trend of prior years, despite changes in business environment and business models.
- viewed forecast assumptions or scenarios in silos when they might in fact be interlinked.

In addition, several companies classified their cash flow items incorrectly:

- Two companies had incorrectly classified the proceeds from disposal of an associate within operating cash flows, instead of investing cash flows.
- One other company had also incorrectly classified cash outflows from advancement of a loan within operating cash flows, instead of investing cash flows.
- Another company had incorrectly presented cash paid for the acquisition of non-controlling interests within investing cash flows, instead of financing cash flows.

ACRA's Tips for Directors:

- ❑ Is the Group in a 'close-call' situation, whereby a change in key assumptions may cast significant doubt on the Group's ability to continue as a going concern? If yes, the estimation uncertainties and critical judgements should be disclosed, even if the Board concludes that going concern assumption is valid and there is no material uncertainty on going concern.
- ❑ If the Group has multiple individually immaterial uncertainties that occur simultaneously in a 'worst case scenario', will the company remain a going concern? If not, the going concern assumption should be re-looked.
- ❑ Does the Group have red flags such as delays in project completion, breaches in loan covenants, not paying suppliers on time, and/or not receiving payments on time? If yes, the cash flow forecasts should be inspected in detail.
- ❑ Is management considering new, cheaper and/or innovative ways to finance operations? If yes, it may be wise to examine the financing terms as early as possible and seek advice on the accounting treatments.
- ❑ Does the Group rely on governmental supports? If yes, the impact when the supports taper off should be considered in the cash flow forecasts.

2. Impairment assessment of non-financial assets

Non-compliances noted were as follows:

- Companies failed to perform value-in-use (VIU) calculation.
- They had also incorrectly recognised impairment loss based on recoverable amount determined using solely fair value less cost of disposal (FVLCD), when there was indication that VIU might be higher than FVLCD.
- One company had also incorrectly determined FVLCD by averaging the FVLCD at the beginning and the end of the financial year.
- Other companies failed to consider the latest available market data and industry trends (e.g. expectations of COVID-19 recovery), as well as underlying characteristics of the asset or cash generating unit (CGU) (e.g. useful life, capital expenditure requirements).

ACRA's Tips for Directors:

- ❑ Has the Group re-deployed assets or restructured its business lines recently? If yes, CGUs may need to be re-identified and goodwill re-allocated.
- ❑ Has the Group changed its ways of doing business or servicing its customers recently? If yes, revenue growth rates and margins used should be aligned with industry and market trends. Historical results may no longer be a good indicator of future performance.
- ❑ Does the Group use the same discount rate across all CGUs or assets? Indiscriminate use of group-level discount rates should be avoided; discount rates need to be adjusted to reflect the risk at each CGU or asset level.
- ❑ Are the CGU operations constrained by finite-lived licenses or rights? If yes, cash flow projections should be prepared up to the expiry of those licenses or rights considering probability of renewal.
- ❑ Do cash flow projections in impairment test include inflows and outflows from future expansion? Capital expenditure to sustain operations should be considered but not inflows and outflows for business expansion or uncommitted restructuring.
- ❑ If a reversal of impairment charge is proposed, was the improved cash flows assumption in line with the assumptions used when impairment loss was recognised? If yes, the reversal should not be recognised.

3. Expected credit loss assessment

ACRA's Tips for Directors:

- ❑ Do receivables that are assessed collectively share similar credit risk characteristics and historical loss patterns? If not, they should be further stratified by their profiles and assessed separately.
- ❑ Taking into account the relevant forward-looking information (e.g. expected GDP growth rate, unemployment rate, commodity prices), does the historical loss experience reflect the expected loss rate? If not, adjustments are required to arrive at the expected loss rate.
- ❑ Are there any debtors with deteriorating financial conditions and short-term liquidity issues? If yes, these may be indicators of increase in credit risk, to be adjusted for in the loss rate or singled out for specific impairment assessment.

4. **Supply chain financing**

Supply chain financing (SCFs) refers to arrangements where a buyer receives funding on goods and services it purchased.

SCFs can lead to cash flow issues if facilities are withdrawn abruptly. In addition, under a SCF arrangement, payment terms with finance providers could be extended (beyond the industry standards). Thus, if it continues to be presented as part of trade and other payables, this will obscure the buyer's actual amount of 'borrowings' and other risks/implications that come with it.

Directors should ensure that such balances are appropriately classified and disclosed in the FS.

5. **Interbank offered rate reform**

The Singapore Interbank Offer Rate (SIBOR) and Swap Offer Rate (SOR) are expected to be phased out in June 2023 and December 2024 respectively. These will be replaced by the Singapore Overnight Rate Average (SORA).

Many outstanding borrowing and hedging contracts in the market contain SIBOR and SOR components, which will need to be amended. Companies that apply hedge accounting with instruments that refer to IBORs may also need to take steps to preserve hedge accounting.

ISCA has published Financial Reporting Bulletin 9 to provide guidance. Directors are encouraged to engage professionals early to assess the accounting implications.

SGX RegCo mandates climate and board diversity disclosures

On 15 December 2021, Singapore Exchange Regulation (SGX RegCo) announced that all issuers must provide climate reporting on a 'comply or explain' basis in their sustainability reports from the financial year (FY) commencing 2022. Climate reporting will subsequently be mandatory for issuers in the (i) financial, (ii) agriculture, food and forest products, and (iii) energy industries from FY 2023. The (iv) materials and buildings, and (v) transportation industries must do the same from FY 2024.

Other key changes effective 1 January 2022 include requiring:
- issuers to subject sustainability reporting processes to internal review;
- all directors to undergo a one-time training on sustainability;
- sustainability reports to be issued together with annual reports unless issuers have conducted external assurance; and
- issuers to set a board diversity policy that addresses gender, skill and experience, and other relevant aspects of diversity. Issuers must also describe the board diversity policy and details such as diversity targets, plans, timelines and progress in their annual reports.

Year - end reminders for year ending 31 December 2021

Year 2021 was yet another extraordinary year because of COVID-19. As we approach 31 December 2021, while trying to cope with the new normal, our year – end reminders are similar to those as covered in our FKT Financial Reporting Updates 4Q 2020. We have also discussed some of the financial reporting reminders to take note in the preparation of financial statements (FS) for the year ended 31 December 2020 and beyond in our FKT Financial Reporting Updates 1Q 2021, which are still relevant and applicable for the preparation of financial statements (FS) for the year ending 31 December 2021.

Areas of Changes in SFRS(I)s

SFRS(I)s Update of Standards and Interpretations Issued and effective from the effective date indicated below:

			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***
Amendment to SFRS(I) 16: *COVID-19-Related Rent Concessions*	FKT Financial Reporting Updates 2Q 2020	1 June 2020	2021	2021	2021	2021	2021	2021	2020	2020	2020	2020	2020	2020
Amendments to SFRS(I) 9, SFRS(I) 1-39, SFRS(I) 7, SFRS(I) 4 and SFRS(I) 16: *Interest Rate Benchmark Reform – Phase 2*	FKT Financial Reporting Updates 4Q 2020	1 January 2021	2021	2022	2022	2022	2022	2022	2022	2022	2022	2022	2022	2022
Amendments to SFRS(I) 16: *COVID-19-Related Rent Concessions beyond 30 June 2021*	FKT Financial Reporting Updates 2Q 2021	1 April 2021	2022	2022	2022	2022	2023	2023	2023	2023	2023	2023	2023	2023
Amendments to SFRS(I) 3: *Reference to the Conceptual Framework*	FKT Financial Reporting Updates 4Q 2020	1 January 2022	2022	2023	2023	2023	2023	2023	2023	2023	2023	2023	2023	2023
Amendments to SFRS(I) 1-16: *Property, Plant and Equipment – Proceeds before Intended Use*	FKT Financial Reporting Updates 4Q 2020	1 January 2022	2022	2023	2023	2023	2023	2023	2023	2023	2023	2023	2023	2023
Amendments to SFRS(I) 1-37: *Onerous Contracts – Cost of Fulfilling a Contract*	FKT Financial Reporting Updates 4Q 2020	1 January 2022	2022	2023	2023	2023	2023	2023	2023	2023	2023	2023	2023	2023
Annual Improvements to SFRS(I)s 2018–2020	FKT Financial Reporting Updates 4Q 2020	1 January 2022	2022	2023	2023	2023	2023	2023	2023	2023	2023	2023	2023	2023

SFRS(I)s Update of Standards and Interpretations Issued and effective from the effective date indicated below:

			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**
Amendments to SFRS(I) 1-1: *Classification of Liabilities as Current or Non-current*	FKT Financial Reporting Updates 1Q 2020	1 January 2023	2023	2024	2024	2024	2024	2024	2024	2024	2024	2024	2024	2024
SFRS(I)17 *Insurance Contracts*	FKT Financial Reporting Updates 4Q 2017	1 January 2023	2023	2024	2024	2024	2024	2024	2024	2024	2024	2024	2024	2024
Amendments to SFRS(I)17 *Insurance Contracts*	FKT Financial Reporting Updates 4Q 2020	1 January 2023	2023	2024	2024	2024	2024	2024	2024	2024	2024	2024	2024	2024
Amendments to SFRS(I) 4: *Extension of the Temporary Exemption from Applying SFRS(I) 9*	FKT Financial Reporting Updates 4Q 2020	1 January 2023	2023	2024	2024	2024	2024	2024	2024	2024	2024	2024	2024	2024
Amendments to SFRS(I) 1-1 and SFRS(I) Practice Statement 2: *Disclosure of Accounting Policies*	FKT Financial Reporting Updates 3Q 2021	1 January 2023	2023	2024	2024	2024	2024	2024	2024	2024	2024	2024	2024	2024

SFRS(I)s Update of Standards and Interpretations Issued and effective from the effective date indicated below:

			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**
Amendments to SFRS(I) 1-8: *Definition of Accounting Estimates*	FKT Financial Reporting Updates 3Q 2021	1 January 2023	2023	2024	2024	2024	2024	2024	2024	2024	2024	2024	2024	2024
Amendments to SFRS(I) 1-12: *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*	FKT Financial Reporting Updates 3Q 2021	1 January 2023	2023	2024	2024	2024	2024	2024	2024	2024	2024	2024	2024	2024
Amendment to SFRS(I) 17: *Initial Application of SFRS(I) 17 and SFRS(I) 9—Comparative Information*	FKT Financial Reporting Updates 4Q 2021 (see above)	1 January 2023	2023	2024	2024	2024	2024	2024	2024	2024	2024	2024	2024	2024

Contact us

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

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