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Financial Reporting Update - 4Q 2024

This is your quarterly update related to financial reporting matters. We will bring you up to speed on topical issues and significant developments.

October – December 2024

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Annual Improvements to SFRS(I)s / FRSs – Volume 11

Amendments to	Subjects	Details
SFRS(I) 1 / FRS 101 First-time Adoption of International Financial Reporting Standards	**Hedge accounting by a first-time adopter**	Amends paragraphs B5–B6 of SFRS(I) 1 / FRS 101 to improve consistency with the requirements in SFRS(I) 9 / FRS 109 Financial Instruments, and to add cross-references to improve the understandability of SFRS(I) 1 / FRS 101.
SFRS(I) 7 / FRS 107 Financial Instruments: Disclosures	**Gain or loss on derecognition**	Amends paragraph B38 of SFRS(I) 7 / FRS 107 to replace an obsolete reference to paragraph 27A of SFRS(I) 7 / FRS 107 with a reference to paragraphs 72–73 of SFRS(I) 13 / FRS 113 Fair Value Measurement, and to replace the phrase 'inputs that were not based on observable market data' with 'unobservable inputs' to make the wording consistent with the wording in paragraph 72 of SFRS(I) 13 / FRS 113.
SFRS(I) 7 / FRS 107 Financial Instruments: Disclosures (implementation guidance only)	**Disclosure of deferred difference between fair value and transaction price**	Amends paragraph IG14 to make its wording consistent with the requirements in paragraph 28 of SFRS(I) 7 / FRS 107 and with the wording and concepts in SFRS(I) 9 / FRS 109 and SFRS(I) 13 / FRS 113.
SFRS(I) 7 / FRS 107 Financial Instruments: Disclosures (implementation guidance only)	**Introduction and credit risk disclosures**	Improved clarity by amending paragraph IG1 to clarify that the guidance does not necessarily illustrate all the requirements in the referenced paragraphs of SFRS(I) 7 / FRS 107, and amending paragraph IG20B to simplify the explanation of the aspects of the requirements that are not illustrated.
SFRS(I) 9 / FRS 109 Financial Instruments	**Lessee derecognition of lease liabilities**	Amends paragraph 2.1(b)(ii) of SFRS(I) 9 / FRS 109 to add a cross-reference to paragraph 3.3.3 of SFRS(I) 9 / FRS 109 to clarify that when a lease liability has been extinguished in accordance with SFRS(I) 9 / FRS 109, the lessee is required to apply paragraph 3.3.3 and recognise any resulting gain or loss in profit or loss.
SFRS(I) 9 / FRS 109 Financial Instruments	**Transaction price**	Amends paragraph 5.1.3 of SFRS(I) 9 / FRS 109 to replace 'their transaction price (as defined in SFRS(I) 15 / FRS 115 Revenue from Contracts with Customers)' with 'the amount determined by applying SFRS(I) 15 / FRS 115' due to an inconsistency between paragraph 5.1.3 of SFRS(I) 9 / FRS 109 and the requirements in SFRS(I) 15 / FRS 115. As a result, SFRS(I) 9 / FRS 109 Appendix A was also amended to remove the term.
SFRS(I) 10 / FRS 110 Consolidated Financial Statements	**Determination of a 'de facto agent'**	Amends paragraph B74 of SFRS(I) 10 / FRS 110 Consolidated Financial Statements to use less conclusive language and to clarify that the relationship described in paragraph B74 is just one example of a circumstance in which judgement is required to determine whether a party is acting as a de facto agent.
SFRS(I) 1-7 / FRS 7 Statement of Cash Flows	**Cost method**	Amends paragraph 37 of SFRS(I) 1-7 / FRS 7 to replace the term 'cost method' with 'at cost'.

Amendments to SFRS(I) 9 / FRS 109 and SFRS(I) 7 / FRS 107 : Amendments to the Classification and Measurement of Financial Instruments

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The amendments are effective for annual reporting periods beginning on or after 1 January 2026 with earlier application permitted. An entity is required to apply the amendments retrospectively, in accordance with SFRS(I) 1-8 / FRS 8 Accounting Policies, Changes in Accounting Estimates and Errors, unless specified otherwise. An entity is not required to restate prior periods.

Derecognition of a financial liability settled through electronic transfer

The amendments permit an alternative that the reporting entity can elect to deem a financial liability (or part of it) that will be settled in cash using an electronic payment system to be discharged before the settlement date if, and only if, the entity has initiated a payment instruction that has resulted in:

- the entity having no practical ability to withdraw, stop or cancel the payment instruction;
- the entity having no practical ability to access the cash to be used for settlement as a result of the payment instruction; and
- the settlement risk associated with the electronic payment system being insignificant.

Classification of financial assets

Contractual terms that are consistent with a basic lending arrangement

The amendments clarify the assessment of whether the compensation to the lender is consistent with a basic lending arrangement. The focus should be on ‘what’ the lender is compensated for rather than ‘how much’. Even so, the amount of compensation may indicate that the lender is being compensated for something other than the basic lending risk and cost. The contractual cash flows would be inconsistent with a basic lending arrangement if they are indexed to a variable that is not a basic lending risk or cost (e.g. value of an equity instrument, price of a commodity) or if they represent a share of the debtor’s revenue or profit, even if such terms are common in the market.

The amendments also cover how the contractual terms that change the timing or amount of the contractual cash flows should be assessed i.e. whether the contractual cash flows that could arise before and after the change would meet the SPPI requirements irrespective of the probability of the contingent event occurring, and whether the nature of the contingent event relates directly to, and the contractual cash flows change in the same direction as, the change in the basic lending risk and cost.

The amendments explain that when the nature of the contingent event does not relate directly to the change in the basic lending risk and cost, the SPPI requirement may still be met provided that the contingent feature gives risk to the contractual cash flows that are consistent with a basic lending arrangement both before and after the change and that are not ‘significantly different’ from the cash flows for an identical financial asset without such a contingent feature.

Financial assets with non-recourse features

The amendments enhance the description of the term 'non-recourse'. Under the amendments, a financial asset has non-recourse features if the reporting entity's ultimate right to receive cash flows is contractually limited to the cash flows generated by the specified assets. That is, the entity is primarily exposed to the specified assets' performance risk rather than the debtor's credit risk. If a creditor has a contractual right to require a debtor to 'top up' pledged assets, the creditor has recourse to the debtor. If a financial asset has non-recourse features, a 'look through' assessment of the link between the underlying assets or cash flows and the contractual cash flows is required.

Contractually linked instruments

The amendments clarify the characteristics of contractually linked instruments that distinguish them from other transactions, and specifically highlight that, in such instruments, a prioritisation of payments to the holders of financial assets using multiple contractually linked instruments (tranches) is established through a waterfall payment structure, resulting in concentrations of credit risk and a disproportionate allocation of losses between the holders of different tranches.

The amendments also note that not all transactions with multiple debt instruments meet the criteria of transactions with multiple contractually linked instruments. Some are instead lending arrangements that are structured to provide enhanced credit protection to a creditor (or group of creditors).

Disclosures

Investments in equity instruments designated at FVTOCI

The amendments require the reporting entity to disclose the fair value gain or loss presented in OCI during the period, showing separately the fair value gain or loss that relates to investments derecognised in the period and the fair value gain or loss that relates to investments held at the end of the period. In addition, if an entity derecognises investments in equity instruments measured at FVTOCI during the reporting period, it is required to disclose any transfers of the cumulative gain or loss within equity during the reporting period related to the investments derecognised during that reporting period.

Contractual terms that could change the timing or amount of contractual cash flows

The amendments introduce disclosure requirements for financial instruments that include contractual terms that could change the timing or amount of contractual cash flows on the occurrence (or non-occurrence) of a contingent event that does not relate directly to changes in a basic lending risks and costs (such as the time value of money or credit risk), including a qualitative description of the nature of the contingent event, quantitative information about the possible changes to contractual cash flows as well as the gross carrying amount of financial assets and the amortised cost of financial liabilities subject to those contractual terms.

SFRS(I) 18 / FRS 118 Presentation and Disclosure in Financial Statements

SFRS(I) 18 / FRS 118 aims to improve how companies communicate in their financial statements, with a focus on information about financial performance in the statement of profit or loss, and is accompanied by limited amendments to the requirements in SFRS(I) 1-7 / FRS 7 Statement of Cash Flows.

The new Standard is effective from 1 January 2027. Companies are permitted to apply the new Standard before that date.

SFRS(I) 18 / FRS 118 replaces SFRS(I) 1-1 / FRS 1 Presentation of Financial Statements. Requirements in SFRS(I) 1-1 / FRS 1 that are unchanged have been transferred to SFRS(I) 18 / FRS 118 and the other Standards.

SFRS(I) 18 / FRS 118 will affect all companies in all industries. Although the new Standard will not affect how companies measure financial performance, it will affect how companies present and disclose financial performance.

Key requirements	Details
Presentation of new defined subtotals in the statement of profit or loss	Companies are required to report operating profit and profit before financing and income taxes. These subtotals provide a consistent structure for the statement of profit or loss, thereby improving comparability. The requirement will not affect how companies measure their financial performance and the overall profit figure.
Disclosure of management-defined performance measures	Many companies report alternative performance measures or non-GAAP measures. When those measures meet the definition of management-defined performance measures (MPMs), companies are required to disclose reconciliations between those measures and subtotals listed in SFRS(I) 18 / FRS 118 or totals or subtotals required by the Standards. MPMs are subtotals of income and expenses used in public communications to communicate management's view of an aspect of the financial performance of the company as a whole.
Enhanced requirements for grouping (aggregation and disaggregation) of information	Requirements are set out to help companies determine whether information about items should be in the primary financial statements or in the notes and provides principles for determining the level of detail needed for the information. Requirements are also included for the presentation of operating expenses in the statement of profit or loss, disclosure of specified expenses by nature, and further information on items grouped together and labelled as 'other'.

SFRS(I) 19 / FRS 119 Subsidiaries without Public Accountability: Disclosures

SFRS(I) 19 / FRS 119 works alongside the other Standards. An eligible subsidiary applies the requirements in the other Standards except for the disclosure requirements and instead applies the reduced disclosure requirements in SFRS(I) 19 / FRS 119, which balance the information needs of the users of eligible subsidiaries' financial statements with cost savings for preparers.

SFRS(I) 19 / FRS 119 is a voluntary standard for eligible subsidiaries. A subsidiary is eligible if:

- it does not have public accountability; and
- it has an ultimate or intermediate parent that produces consolidated financial statements available for public use that comply with the Standards.

A subsidiary has public accountability if:

- its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
- it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (e.g. banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks often meet this second criterion).

SFRS(I) 19 / FRS 119 is a disclosure-only standard. It does not include:

- recognition, measurement and presentation requirements. Those requirements in the other Standards remain applicable.
- guidance on applying disclosure requirements. The guidance in the other Standards remains available.

The new Standard applies for annual reporting periods beginning on or after 1 January 2027. Earlier application is permitted.

SFRS(I) 19 / FRS 119 will be amended as necessary to ensure it remains up to date and consistent with any new or amended disclosure requirements in the other Standards.

Financial Reporting Practice Guidance No. 1 of 2024 : Areas of Review Focus for FY2024 Financial Statements

The publication outlines the areas of review focus for FY2024 FS and serves as a guide for directors, particularly those in the Audit Committees (ACs), in fulfilling their duties as directors. ACs, in reviewing the FS, are advised to be vigilant about the current and anticipated market shifts, their potential risks and opportunities, and how these factors may impact the FS under their purview.

Areas	Subjects	Details
Shifting macroeconomic environment	**Expected credit losses**	Use reliable and updated macroeconomic information pertinent to borrowers, including forward-looking assumptions, liquidity challenges and financial conditions, in the assessment of ECL. Evaluate a range of possible outcomes by applying unbiased judgement to assign probabilities to each scenario and reflect a probability-weighted amount in determining the ECL. Disclose key judgements and assumptions made on significant estimates applied in determining ECL.
Shifting macroeconomic environment	**Impairment**	Consider how changes in inflation and interest rates might impact cash flow projections. Disclose key assumptions used in determining the recoverable amount that would comply with the accounting standards requirements. Disclose specific basis for impairment testing, while ensuring overall consistency within the FS. Should there be an impairment recognised on assets held by subsidiaries in consolidated FS, also evaluate for potential impairment of the parent company's investment in subsidiaries. Impairment may be reversed (except for goodwill impairment, which is irreversible), only when estimates used to determine an asset's recoverable amount have changed since the last impairment loss. This requires judgement. Disclose events and circumstances leading to the reversal.
Shifting macroeconomic environment	**Fair value measurement**	Consider current market and macroeconomic conditions such as interest rates, inflation and yields in fair value measurement. Disclose details of valuation techniques and inputs used. In determining a non-financial asset's fair value, consider its highest and best use, either through a market participant's ability to generate economic benefits by using it or by selling it to another market participant that would use the asset in its highest and best use even if it differs from the company's intended use. Provide a narrative description of the sensitivity of Level 3 fair value measurements to changes in unobservable inputs, if such changes significantly affect the fair value measurement. For each class of assets and liabilities not measured at fair value in the statement of financial position but for which the fair value is disclosed, disclose the fair value hierarchy level, valuation techniques and inputs used in Level 2 and Level 3 financial instruments.

Areas	Subjects	Details
Shifting macroeconomic environment	**Business acquisition**	Determining the acquisition date and assessing levels of power and participation in investees are crucial and often judgemental. The outcome frequently depends on the specific terms and conditions of the agreements. Companies pursuing synergistic benefits or restructuring through business acquisitions should evaluate these aspects to accurately determine whether they have joint control, significant influence or control over investees. The current economic environment may propel an increase in unique transactions structured as unconsolidated investments and joint ventures. As such, companies should consider their essence and underlying rationale when determining accounting, classification and disclosure. For material business acquisitions, evaluate whether goodwill includes premiums for specific intangible assets that may need to be separately identified and recognised.
Climate-related considerations	**Connectivity between sustainability reporting and financial reporting**	Companies' operational and financial performance could be influenced by climate-related risks or initiatives such as the impact from net-zero commitments, green financing, and involvement in the voluntary carbon market. As key climate-related assumptions involve the use of judgements and estimates, a coherent and connected reporting between the sustainability report and FS will enable stakeholders to understand the financial implications and their alignment with the companies' strategies and business models.
Climate-related considerations	**Accounting and disclosure of renewable energy projects and emission schemes**	As companies adopt cleaner energy through PPAs to address climate change, key characteristics of PPAs, such as the terms of pricing, contracted energy volume, objectives, and duration, should be carefully evaluated to determine how PPAs should be accounted for, with reference to the applicable accounting standards. Accounting for PPAs often requires the use of significant judgements, which should be disclosed in the FS. Consider provisions and disclosures in the FS, in scenarios where local regulations on GHG emission create obligations to purchase GHG emission rights that exceed the current rights held by the issuer.
Climate-related considerations	**Impairment of non-financial assets**	Valuation of non-financial assets may be affected if companies fail to consider relevant climate-related risks as part of the impairment assessment. Consider climate-related risks when assessing recoverable amounts and disclose how climate-related events are taken into account when estimating future cash flows, useful lives of assets, discount rates or growth rates in cash flow projections used for VIU measurements. Key assumptions underlying the VIU should be reasonable and supportable, and reflect management's best estimate of the range of economic conditions expected over the assets' remaining useful life. Disclose management's judgement and estimates used in the VIU computation. Consider reassessing whether the identification of CGUs remain appropriate in light of the challenges and opportunities posed by climate-related events such as those arising from reorganisation.

Areas	Subjects	Details
Spotlight on specific accounting standards	**Amendments to SFRS(I) 1-12 / FRS 12 International Tax Reform – Pillar Two Model Rules Related to Base Erosion and Profit Shifting (BEPS) Pillar Two**	Following the announcement in the 2024 Budget for the implementation of the Domestic Top-Up Tax and Income Inclusion Rule under Pillar Two for in-scope businesses (annual group revenue of 750 million euros or more in at least two of the four preceding financial years) from their financial years commencing on or after 1 January 2025, Singapore has introduced the Multinational Enterprise (Minimum Tax) Bill. In view of the current development, companies are reminded on the disclosure requirements related to the Pillar Two. While the amendments introduce a mandatory temporary exception for treating deferred taxes related to Pillar Two income taxes, affected companies should disclose that they have applied this exception and provide any known or reasonably estimable information, in both qualitative and quantitative terms. If such information is not known or is not reasonably estimable, companies should include a statement to that effect and information about their progress in assessing their exposure. For jurisdiction where the Pillar Two legislation is already effective, companies must separately disclose current tax expenses or income related to Pillar Two.
Spotlight on specific accounting standards	**Scope of SFRS(I) 17 / FRS 117 Insurance Contracts**	SFRS(I) 17 / FRS 117, mandatory for annual reporting periods beginning on or after 1 January 2023, supersedes SFRS(I) 4 / FRS 104 and establishes the accounting and disclosure requirements for insurance contracts. Additionally, it modifies the definition of an insurance contract and introduces new scope exemptions. SFRS(I) 17 / FRS 117 applies to all issued contracts meeting its criteria, not just those from insurers. Companies should assess whether any of their contracts meet the definition of insurance contracts and fall within the scope of SFRS(I) 17 / FRS 117. This assessment requires a thorough understanding of how to identify an insurance contract issued. Conversely, not all contracts meeting the definition within SFRS(I) 17 / FRS 117 are necessarily accounted for under this standard. SFRS(I) 17 / FRS 117 includes various scope exclusions and, in some cases, allows companies to choose to account for certain contracts using other standards (e.g. SFRS(I) 9 / FRS 109 Financial Instruments, SFRS(I) 15 / FRS 115 Revenue from Contracts with Customers)
Spotlight on specific accounting standards	**The upcoming SFRS(I) 18 / FRS 118 Presentation and Disclosure in Financial Statements**	SFRS(I) 18 / FRS 118, effective for annual reporting periods beginning 1 January 2027, will replace SFRS(I) 1-1 / FRS 1 Presentation of Financial Statements. SFRS(I) 18 / FRS 118 restructures income statements into operating, investing and financing categories and could herald a significant overhaul in FS presentation for companies. The new standard requires the exercise of more judgement, introduces management-defined performance measures and standardises cash flow classifications. These extensive changes could demand substantial updates to a company's financial reporting systems, processes and controls. As the new standard requires retrospective application, early planning, with specific timeline and actions, is vital for a smooth transition to SFRS(I) 18 / FRS118 and to capitalise on the enhanced transparency that the standard aims to provide.

Contact us

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

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