



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

FINANCIAL REPORTING UPDATES

2Q 2019

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 2019

IN THIS ISSUE:

- Amendments to SFRS(I) 3 and FRS 103: Definition of Business
- Amendments to SFRS(I) 1-1 and SFRS(I) 1-8 and FRS 1, FRS 8: Definition of Material
- Capitalisation of borrowing costs - Revenue recognised over time
- Physical settlement of contracts to buy or sell a non-financial item (IFRS 9, SFRS(I) 9 and FRS 109: Financial Instruments)
- Amendments to SGX's listing rule
- Corporate Governance Revisions

Amendments to SFRS(I) 3 and FRS 103: Definition of Business

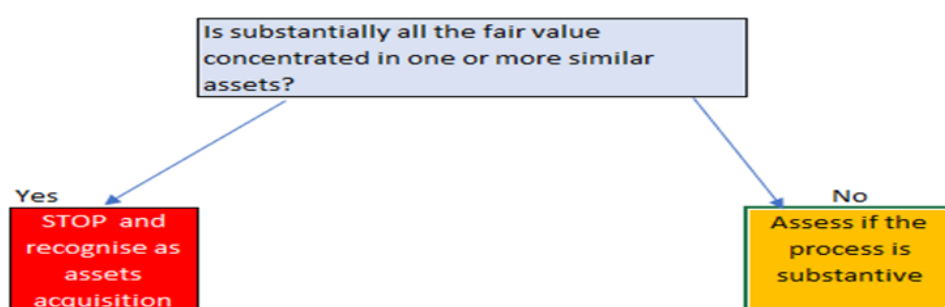
On 11 March 2019, ASC issued Amendments to SFRS(I) 3 and Amendments to FRS 103: Definition of a Business and Amendments to SFRS(I) 1-1 and SFRS(I) 1-8: and Amendments to FRS 1 and FRS 8: Definition of Material

Amendments to SFRS(I) 3: and Amendments to FRS 103: Definition of a Business

The amendments narrows and clarifies the definition of a business to make it easier for companies to decide whether activities and assets they acquire are a business or merely a group of assets.

Under the amendments, preparers can now elect to use a fair value concentration test. This is a simplified assessment that entities can determine an asset acquisition and have to be chosen on a transaction-by-transaction basis. If, substantially, all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets, then the test is passed and the transaction results in an asset acquisition.

Fair value concentration test



“Substantially all” is commonly considered to be approximately 90%. While it is not a bright line, if it meets or exceeds the threshold it’s an asset acquisition, i.e. assets is determined not to be a business and no further assessment is needed. As with all policy elections, it is important for entities to consider the full range of impact and the need for policy elections to be consistently applied.

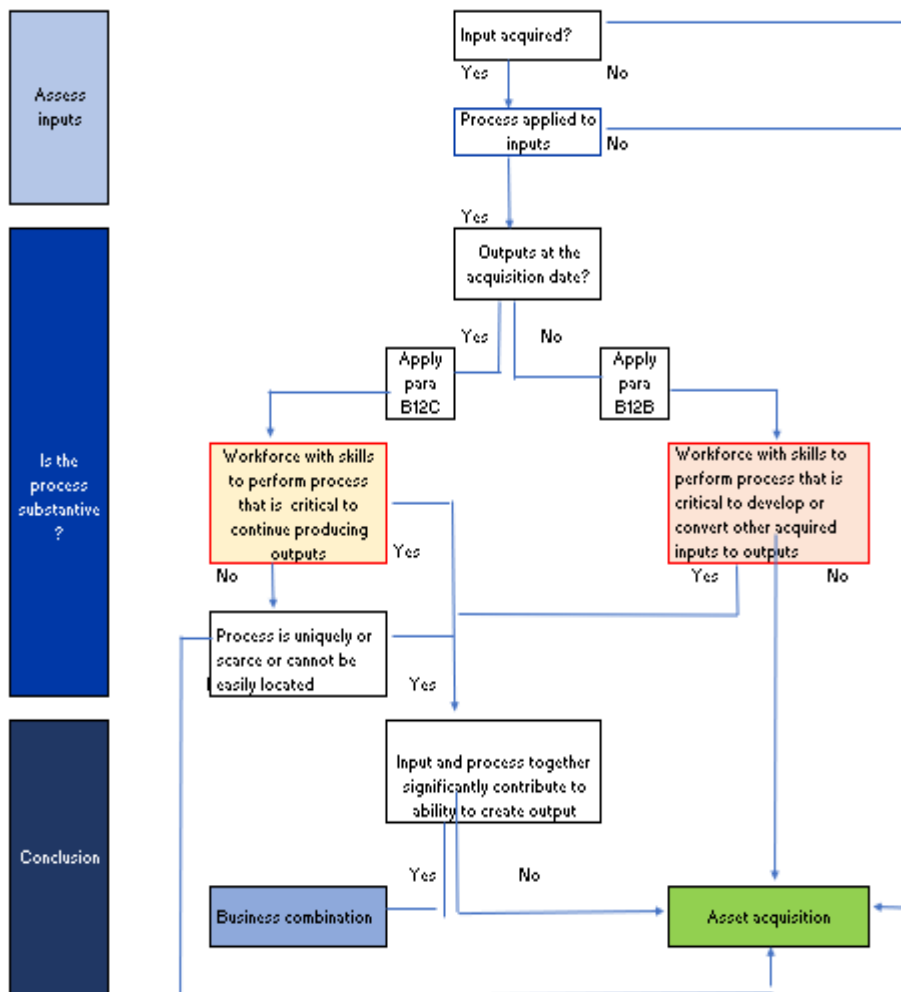
How business combination accounting differs from accounting for an asset purchase? The distinction is important because it affects the recognition and measurement of assets acquired and liabilities assumed, both initially and subsequently. The table below summarizes accounting differences for asset purchases vs. business combinations:

Item	Business Combination	Asset Purchase
Transaction costs	Expense as incurred	Capitalise as a component of the cost of assets are acquired
In process research and development (IPR&D) assets	Capitalise as indefinite – lived intangible asset, regardless of whether the IPR&D asset has an alternative future use	Expense unless IPR&D has an alternative future use
Purchase price allocation	Allocate to assets acquired and liabilities assumed based on fair values	Allocate on a relative fair value basis to non – current, non – financial assets

Item	Business Combination	Asset Purchase
Goodwill	Recognise to extent that purchase price exceeds assets liabilities assumed	Do not recognise in an asset purchase. Any excess consideration transferred over the fair value of the net assets and acquired is allocated on a relative fair value basis to the identifiable net assets (other than “non-qualifying” assets).
Contingent consideration	Recognise at its acquisition – date fair value as part of the consideration transferred	Generally recognise when the contingency is resolved (i.e. when the contingent consideration is paid or becomes payable)

If a preparer chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process. If the fair value of the assets acquired is not concentrated in a single asset, the amendments provide guidance on how to assess whether or not an acquired process (or processes) is (are) substantive. The guidance covers situations in which the activities and assets acquired have the ability to generate outputs, and situations in which they do not.

The diagram below sets out the steps an entity takes for this assessment whether or not an acquired process (or processes) is (are) substantive:



A business must include, at a minimum, inputs and processes applied to those inputs that have the ability to create outputs, although outputs are not necessarily required for an integrated set to qualify as a business". This means that the transaction needs to contain inputs and at least one substantive process. The amendments of SFRS(I) 3 include guidance on how can an entity assess whether a process is substantive or not.

When will these amendments effective?

The amendments to SFRS(I) 3 and FRS 103 must be applied to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020. Consequently, entities do not have to revisit such transactions that occurred in prior periods. Earlier application is permitted and must be disclosed.

Amendments to SFRS(I) 1-1 and SFRS(I) 1-8 and FRS 1 and FRS 8: Definition of Material

On 11 March 2019, ASC issued Amendments to SFRS(I) 1-1 and SFRS(I) 1-8 and Amendments to FRS 1 and FRS 8: Definition of Material. The amendments to its definition of material to make it easier for companies to make materiality judgements.

The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary user.

The **new definition of material states that** "Information is material if omitting, misstating or **obscuring** it **could reasonably be expected to influence** the decisions that the **primary users** of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

Three new aspects of the new definition should especially be noted:

- **Obscuring.** The existing definition only focused on omitting or misstating information, however, the Board concluded that obscuring material information with information that can be omitted can have a similar effect. Although the term obscuring is new in the definition, it was already part of SFRS(I) 1- 1 and FRS 1 (SFRS(I) 1-1.30A and FRS 1.30A).
 - if the language regarding a material item, transaction or other event is vague or unclear;
 - if information regarding a material item, transaction or other event is scattered in different places in the financial statements;
 - if dissimilar items, transactions or other events are inappropriately aggregated;
 - if similar items, transactions or other events are inappropriately disaggregated; and
 - if material information is hidden by immaterial information to the extent that it becomes unclear what information is material.
- **Could reasonably be expected to influence.** The existing definition referred to 'could influence' which the Board felt might be understood as requiring too much information as almost anything 'could' influence the decisions of some users even if the possibility is remote.
- **Primary users.** The existing definition referred only to 'users' which again the Board feared might be understood too broadly as requiring to consider all possible users of financial statements when deciding what information to disclose.

The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

When are these amendments effective?

The amendments to SFRS(I) 1-1 and SFRS(I) 1-8 and FRS 1 and FRS 8 are required to be applied for annual periods beginning on or after 1 January 2020. The amendments must be applied prospectively and earlier application is permitted.

Capitalisation of borrowing costs - revenue recognised over time



In Singapore, revenue from sale of individual residential units that are subject to the Housing Developers (Project Accounts) Rules are recognised over time, using the percentage of completion method, as it is considered that the developers transfer control of the housing unit and satisfy performance obligations over time. This is in accordance with IFRS 15, SFRS(I) 15, and FRS 115 *Revenue from Contracts with Customers*, paragraph 35(c).

A Tentative Agenda Decision was written by the IFRS Interpretations Committee (IFRIC) in November 2018 on the capitalisation of borrowing costs in relation to the construction of a residential multi-unit real estate development (building) where revenue is recognised over time using the percentage of completion method. IFRIC published the tentative agenda decision that based on the fact pattern described in the request, borrowing costs should not be capitalised when revenue is recognised overtime as the inventory (work-in-progress) is not a qualifying asset in accordance with paragraph 5 of IAS 23 SFRS(I) 1-23, FRS 23.

[On 5 March 2019, the agenda decision is finalised as published in IFRIC Update in March 2019 with no changes.](#)

The nature of borrowing costs incurred is different in contracts for which an entity recognises revenue over time and those for which it recognises revenue at a point in time. The nature of the assets recognised by an entity is also different in 'over-time' contracts versus 'point-in-time' contracts. As SFRS(I) 1-23 and FRS 23 and SFRS(I) 15 and FRS 115 are aligned to IAS 23 and IFRS 15 respectively, the above agenda decision would also be relevant to Singapore entities reporting under SFRS(I) or FRS.

[Sue Lloyd, Vice-Chair of the International Accounting Standards Board \(Board\) and Chair of the IFRS Interpretations Committee, explains the Board's position on agenda decisions.](#) The Board comments on the timing relate to the time needed to *implement* accounting policy changes that result from an agenda decision.

The following table illustrates the differences between Contract Point-in-Time and Contract Over-Time:

	Contract point in time	Contract Overt time
Nature of promise in the contract	Transfer a constructed property	Transfer a property as it is being constructed – i.e. to provide construction services (together with embedded materials).

	Contract point in time	Contract Overt time
Timing of transfer of promised goods or services (and thus recognition of revenue)	At the point in time at which construction is complete	Over time as the property is being constructed
Nature of any borrowing costs incurred	To finance a construction of property	To provide financing services to customer

Accordingly, the assessment of whether an entity capitalises borrowing costs applying IAS 23 differs in these situations and could result in different outcomes. Differences in outcomes reflect the differing nature of the entity's promise to the customer in the respective contracts.

As disclosed in the [ISCA's technical bite No. 8 Capitalisation of borrowing costs](#), it will be considered an adjusting event for entities whose financial statements have yet to be authorised for issue on the date that the agenda decision is finalised, i.e. capitalisation of borrowing costs ceases when units are made for sale, and Singapore entities had previously capitalised such borrowing costs even after the units are made for sale (presumably ceasing capitalisation only on TOP).

As IFRS(I) 1-23 FRS 23 and SFRS(I) 15 FRS 115 are aligned to SFRS(I) 1-23 FRS 23 and SFRS(I) 15 FRS 115 respectively, the above Tentative Agenda Decision would also be relevant to Singapore entities reporting under SFRS(I) or FRS. Since the agenda decision is finalised by IFRIC on 5 March 2019, then entities who have capitalised borrowing costs after the units are made for sale (presumably till TOP), then it is likely that prior period adjustments will have to be made in 2019 to the 2018 financial statements in respect of such capitalised borrowing costs.

Physical settlement of contracts to buy or sell a non-financial item (IFRS 9, SFRS(I) 9 and FRS 109: Financial Instruments)

IFRS 9, SFRS(I) 9 and FRS 109 must be applied to contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if those contracts were financial instruments, with one exception. That exception applies to contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements ('own use scope exception' in paragraph 2.4 of IFRS 9, SFRS(I) 9 and FRS 109).

The contracts are within the scope of IFRS 9, SFRS(I) 9 and FRS 109 because they do not meet the own use scope exception. Consequently, the entity accounts for the contracts as derivatives measured at FVPL. The entity does not designate the contracts as part of a hedging relationship for accounting purposes.

The accounting for contracts that do not meet the own use scope exception in IFRS 9, SFRS(I) 9 and FRS 109 (and are accounted for as a derivative) is different from the accounting for contracts that meet that exception (and are not accounted for as a derivative). Similarly, the accounting for contracts designated in a hedging relationship for accounting purposes is different from the accounting for contracts that are not designated in such relationships. Those differences in accounting reflect differences in the respective requirements. IFRS 9, SFRS(I) 9 and FRS 109 neither permits nor requires an entity to reassess or change its accounting for a derivative contract solely because that contract is ultimately physically settled.

Under IFRIC Interpretation Physical settlement of contracts to buy or sell a non-financial item (IFRS 9 Financial Instruments)—Agenda Paper 3, the Committee concluded that IFRS 9 neither permits nor requires an entity to make the additional journal entry described in the request. However, the Committee observed that an entity is required to present gains and losses on the derivative, and disclose information about those amounts, in accordance with relevant IFRS Standards, such as IAS 1, SFRS(I) 1-1 and FRS 1: Presentation of Financial Statements and IFRS 7, SFRS(I) 7 and FRS 107: Financial Instruments: Disclosures. In determining what line items are presented in profit or loss, the requirements in IAS 1, SFRS(I) 1-1 and FRS 1 (including those related to aggregation) are applicable. These do not include explicit requirements for the presentation of amounts related to the remeasurement of derivatives. However paragraph 20(a)(i) of IFRS 7, SFRS(I) 7 and FRS 107 sets out disclosure requirements related to net gains or net losses on financial assets or financial liabilities that are mandatorily measured at FVPL applying IFRS 9, SFRS(I) 9 and FRS 109. For these purposes, in the fact patterns submitted, there is no net gain or loss on the derivative caused by settlement. Similarly the entity is required to apply relevant IFRS, SFRS(I) and FRS Standards to determine how to present any other revenue amounts that arise from the contracts described in the submission, and what information must be disclosed about those amounts.

Amendments to SGX's listing rule

SGX has amended the listing rules, most of which come into effect on 1 January 2019.

Listing
Rules

- Mandatory compliance
- Non – compliance is a breach and will be subject to

The amendments of SGX's listing rules as follows:

Listing Rules Amendments		
Establishment of AC	Establish AC with written terms of reference clearly setting out authority and duties of the AC.	MR ¹ 210(5)(e)/ CR ² 406(3)e
Establishment of internal audit function	Establish and maintain an independent, effective and adequately resources internal audit function.	MR 739(3) / CR 719(3)
Comment on internal audit function	AC must comment on whether internal audit function is independent, effective and adequately resourced.	MR 1207(10C) / CR 1204(10C)
Comment on adequacy and effectiveness of internal controls & risk management systems	AC must provide a statement on whether it concurs with board's comment on the adequacy and effectiveness of internal controls (including financial, operational, compliance and information technology controls) and risk management systems. Where material weaknesses are identified by board and AC, they must be disclosed together with steps taken to address them.	MR 610(5), MR 1207(10) / CR 407(4)(b), CR 1204(10)

¹ MR – SGX's listing main rules

² CR – SGX's catalyst listing rules

Corporate Governance Revisions

The revised Code of Corporate Governance was published on 6 August 2018. It will apply to annual reports covering financial years commencing from 1 January 2019.



- Principles are mandatory
- Describe in annual report the corporate governance practices with reference to provisions
- Disclose in annual report any variation from provisions, with reasons and how practices are consistent with intent of the relevant principle.

Code of Corporate Governance Amendments		
Revision of CEO/ CFO	Review assurance from CEO and CFO on financial records and financial statements.	Provision 10.1(c)
Review of external and internal audit functions	Review adequacy, effectiveness, independence, scope and results of external audit and company's internal audit function	Provision 10.1(e)
Composition of AC	AC membership should not have a former partner or director of the company's existing auditing firm or auditing corporation: (a) within a period of two years commencing on the date their ceasing to be a partner of the auditing firm or director of the auditing corporation and in any case (b) for as long as they have any financial interest in the auditing firm or auditing corporation.	Provision 10.3
Reporting line of internal audit function	The primary line of reporting of the internal audit function is to the AC which decides on the appointment, termination and remuneration of the head of the internal audit function.	Provision 10.4

SGX proposes stricter rules for auditing of listed firms

First, SGX is asking for the power to order a listed company to appoint a second auditor, in addition to the existing one, in "exceptional circumstances".

Second, SGX will propose a change in the listing rules to require all listed companies to appoint a Singapore-based auditor.

SGX will be proposing a new power to require the appointment of a second auditor, on top of the existing statutory auditor, but only in exceptional circumstances. This will complement SGX's current power to require the appointment of a special auditor, who will typically only look into a specific area, whereas the second auditor will jointly sign off on the year-end audit together with the first auditor.

SGX also plans for all listed companies to appoint either a Singapore-based auditor, or in the case of companies with significant overseas operations with a foreign auditor, to have a Singapore-based auditor jointly sign off on the year-end audit done by the foreign auditor.

SGX also plans to raise valuation standards for listed companies. It has signed an agreement with the Institute of Valuers and Appraisers of Singapore so that SGX may approach the institute for advice on valuation concerns of listed companies or those applying to get listed.

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/

© 2019 Foo Kon Tan LLP. All rights reserved.

'Foo Kon Tan' (FKT) refers to the brand name under which Foo Kon Tan and its associated companies provide assurance, tax and advisory services to their clients, or refer to one or more service providers, as the context requires. Services are delivered by the respective entities.

Foo Kon Tan LLP is a principal member of HLB International, a world-wide network of independent accounting firms and business advisers, each of which is a separate and independent legal entity and as such has no liability for the acts and omissions of any other member. HLB International Limited is an English company limited by guarantee which co-ordinates the international activities of the HLB International network but does not provide, supervise or manage professional services to clients. Accordingly, HLB International Limited has no liability for the acts and omissions of any member of the HLB International network, and vice versa.