

# Review Times

JANUARY 2015



## PART 1: FINANCIAL REPORTING

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### 1.1 ASC issues FRS 109 Financial Instruments

On 11 December 2014, the Singapore Accounting Standards Council (ASC) issued Financial Reporting Standard (FRS) 109. This follows the issuance of International Financial Reporting Standard (IFRS) 9 *Financial Instruments* by the International Accounting Standards Board (IASB) on 24 July 2014.

FRS 109 replaces FRS 39 *Financial Instruments – Recognition and Measurement*.

The areas covered by FRS 109 are as follows:

#### Classification and Measurement

FRS 109 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. For the classification and measurement of financial liabilities, there are no material changes from FRS 39.

In addition, FRS 109 addresses the so-called 'own credit' issue, whereby banks and others book gains through profit or loss as a result of the value of their own debt falling due to a decrease in credit worthiness when they have elected to measure that debt at fair value. FRS 109 removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss.

#### Impairment

As part of FRS 109, the IASB has introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.

#### Hedge Accounting

FRS 109 introduces a substantially-reformed model for general hedge accounting, with enhanced disclosures about risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities, enabling entities to better reflect these activities in their financial statements. In addition, as a result of these changes, users of the financial statements will be provided with better information about risk management and the effect of hedge accounting on the financial statements.

FRS 109 is effective for annual periods beginning on or after 1 January 2018. Entities can however choose to apply FRS 109 before then. Early adoption is permitted.



## ***PART 1: FINANCIAL REPORTING (CONT'D)***

### **1.2 ASC issues Q&A No 5 on SFRS for Small Entities**

Following the issuance of FRS 109 on 11 December 2014, the ASC issued on the same day *SFRS for Small Entities Q&A No. 5 Fallback to FRS 109 Financial Instruments*. The Question and Answer (Q&A) clarifies that entities applying the Singapore Financial Reporting Standard for Small Entities (SFRS for SE) are not permitted to apply FRS 109.

Instead, paragraph 11.2(b) of the SFRS for SEs gives an entity the option of applying the recognition and measurement provisions of FRS 39 *Financial Instruments: Recognition and Measurement* (and not FRS 109) to account for all of its financial instruments instead of following the recognition and measurement requirements in Section 11 Basic Financial Instruments and Section 12 Other Financial Instruments Issues of the SFRS for SEs.

### **1.3 IASB issues amendments to IAS 1 to improve the effectiveness of disclosure in financial reporting**

On 18 December 2014, the International Accounting Standards Board (IASB), issued amendments to International Accounting Standard (IAS) 1 *Presentation of Financial Statements* as part of its major initiative to improve presentation and disclosure in financial reports.

These amendments to IAS 1 are designed to further encourage entities to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that entities should use professional judgement in determining where and in what order information is presented in the financial disclosures.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2016. However, early adoption is permitted.

### **1.4 IASB issues ED on proposal to improve disclosure in statement of cash flows**

On 18 December 2014, as part of the Disclosure Initiative, the IASB published an Exposure Draft (ED/2014/6) *Disclosure Initiative: Proposed amendments to IAS 7*. That proposal responds to requests from investors for improved disclosures about an entity's financing activities and its cash and cash equivalents balances.

The Exposure Draft is open for comments until 17 April 2015. Please click [here](#) to access the ED.

### **1.5 IASB issues Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)**

On 18 December 2014, the IASB issued narrow-scope amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investments in Associates and Joint Ventures*. The amendments introduce clarifications to the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances, which will reduce the costs of applying the standards.

The amendments are a result of ED/2014/2 issued by the IASB in June 2014.

The amendments can be applied immediately and become mandatory for annual periods beginning on or after 1 January 2016.

## ***PART 2: TAXATION***

### **Updates on SIATP website**

The Singapore Institute of Accredited Tax Professionals (SIATP) has issued a number of Tax Alerts since the previous issue of the RT Review Times (2014/12).

For details of these tax alerts, please refer to the SIATP's website as follows:

<http://www.siatp.org.sg/index.php/tax-news>





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