Financial Reporting Matters

December 2005 Issue 9

AUDIT

It is the time of the year again to take stock of financial reporting requirements, both new and anticipated, that have a direct impact on the year-end closing. This issue of *Financial Reporting Matters* provides a quick reference for all current and future changes in financial reporting standards and changes in legislation and regulations that impact on financial reporting.

Contents

2005 is a year for the implementation of a slew of changes introduced in 2004. After the announcement of the wave of changes in financial reporting standards in 2004, there were relatively fewer changes announced in 2005. The significant ones in 2005 included the adoption of FRS 40 on accounting for investment property and INT FRS 104 on determining whether an arrangement contains a lease. Not surprisingly, we continue to have to pay attention to various amendments to FRS 39 on accounting for financial instruments.

The Companies (Amendment) Act 2005 that was gazetted in June 2005 introduced changes to rules relating to share capital and share transactions. The changes, however, are anticipated to come into effect only on 30 January 2006.

On the corporate tax front, the loss carry-back system was introduced for the first time in Singapore in 2005 for the year of assessment 2006.

Companies listed in Singapore need to pay attention to the revised Code of Corporate Governance released in July 2005. Also in the air for listed companies are the proposed amendments to the Singapore Exchange's Listing Manual. More recently, the Council on Corporate Disclosure and Governance (CCDG) announced that they would be reviewing the requirements for certain listed companies to report interim financial results on a quarterly basis.

As Singapore continues its policy of adopting international best practices, we consider developments in international financial reporting standards and interpretations to be of interest. The international reporting standards and interpretations, especially the ones that have yet to be adopted in Singapore, are highlighted in the last section of this publication.

A. Changes in Legislation

Companies (Amendment) Act 2005

Proposed effective date: 30 January 2006

Refer to *Financial Reporting Matters* June & August 2005 for details.

The Companies (Amendment) Act 2005 amends the rules relating to share capital and share transactions. In this section, we provide a brief overview of the requirements after the implementation of these changes.

As the proposed effective date of the amendments is 30 January 2006, financial statements for the year ending 31 December 2005 or before will not be affected.

Abolishing the concept of "par value" in share capital

Shares of a company will have no par value. This will apply to shares issued before, on or after, the date of commencement of the Act (the appointed date). New shares issued after the abolition of par values will have the total consideration received recorded as share capital.

On the appointed date, any amount standing to the credit of a company's share premium account and capital redemption reserve are to be transferred to share capital. The balance in the share premium account that existed before the appointed date may be used for specific purposes, but only for commitments entered into before the appointed date.

Allowing share-buyback to be provided out of capital

Currently, a company can buy back its shares only if it has distributable profits. After the amendment, a company may buy back its shares out of its capital or accumulated profits, so long as the company is solvent.

Allowing repurchased shares to be held as treasury shares

Companies will be able to hold repurchased ordinary shares as treasury shares, with the company as the registered owner of those shares. The number of shares that can be held as treasury shares is limited to 10% of the total number of the company's shares.

Treasury shares could be used to meet the obligations under an employee share option scheme, as companies will be able to buy back their own shares and hold them in anticipation of the exercise of options. This would reduce the operational cost of managing option schemes. Treasury shares could also be sold for cash, or used to fund acquisitions.

Under the current Singapore Financial Reporting Standards, treasury shares should be presented in the balance sheet as a deduction from equity, and not as an asset. Gain or loss on the purchase, sale, issue or cancellation of treasury shares should be recognised directly in equity, and not in the profit and loss account.

Introducing an alternative capital reduction process which does not require court sanction

Companies will have the option of either going to court, or use a simplified process that does not require court approval, to effect capital reduction. The alternative process, however, will require a solvency statement to be made by the directors.

Providing additional circumstances under which financial assistance may be provided

Companies will be able to provide financial assistance to third parties to acquire its shares in two other situations:

- where the amount does not exceed 10% of the company's equity; or
- where the shareholders unanimously agree to the assistance.

In both of the above situations, the requirement of a solvency statement applies.

Introducing a more effective and efficient statutory form of merger and amalgamation process

Two or more companies will be able to merge and continue as one company without going through court procedures, provided the combining companies are solvent. There will also be a short-form amalgamation process for mergers involving wholly-owned subsidiaries.

Income Tax (Amendment) Bill 2005

Effective: Year of Assessment 2006

Refer to *Tax Alert* October 2005 for details.

Carry-back of current year unabsorbed capital allowances and losses for companies

With effect from the year of assessment (YA) 2006, companies in Singapore will be able to carry-back its unabsorbed capital allowances and trade losses incurred in the current financial year (for example, year ending 31 December 2005) to set off against the taxable profits of the immediately preceding YA (i.e. year ended 31 December 2004). The limit on the amount that can be carried back is an aggregate of $100,000 of current year unabsorbed capital allowances and trade losses.

In the year the loss arises, the company will recognise the amount of taxes paid in the prior year that is refundable by the current year tax loss carried back, as either an offset against the tax payable or as a separate asset (tax loss carry-back benefit). The corresponding entry is a credit to the current year's income tax expense in the profit and loss account.

B. Singapore Exchange Listing Manual

Code of Corporate Governance 2005

Effective: Annual General Meetings held on or after 1 January 2007

Refer to *Financial Reporting Matters* August 2005 for details.

The revised Code replaces the existing Code issued in 2001 and incorporates the recommendations made by the CCDG after a public consultation exercise. The Code continues to be just a reference for best practice and is not mandatory.

Currently, listed companies are required to disclose in their annual reports whether their corporate governance practices comply with the principles of the Code, and explain any deviations from the guidelines of the Code. The revised Code retains the "Principle" and "Guidelines" sections but includes a "Commentary" section. Companies are not required to disclose and explain deviations from items in the "Commentary" section.

Whistle-blowing arrangements

The role of the Audit Committee (AC) has been expanded to include arrangements for staff of the company to raise concerns, in confidence, about possible improprieties in matters of financial reporting or other matters. The AC should also ensure that there is an independent investigation of such matters and that appropriate follow-up actions are taken.

Independence of the Remuneration Committee

Under the revised Code, the Remuneration Committee (RC) should comprise entirely of non-executive directors, the majority of whom, including the chairman of the RC, should be independent. The current Code only requires a majority of non-executive directors.

Proposed Amendments to the Listing Manual - May 2005

Effective: Not yet available

Refer to *Financial Reporting Matters* August 2005 for details.

The Singapore Exchange proposed a number of amendments to the Listing Manual in its consultation paper issued on 30 May 2005. The comment period closed on 1 July 2005, but the proposals have yet to be issued as final rules.

One proposal that had a fair amount of reaction was the proposal to require the Board to give "negative assurance" that nothing has come to its attention that might make the interim financial results misleading.

Another significant proposal was the proposal to require both the board and the chief executive to sign an annual statement on the internal controls set up to prevent fraud and significant risks. What was being proposed could be considered less onerous compared to requirements in other jurisdictions for broad certification on the effectiveness of internal controls and external audit requirements. Those requirements also attract severe criminal penalties if breached.

Review of quarterly reporting requirement

Effective: Not yet available

The much awaited review of the requirement for larger listed companies to report quarterly results has commenced. The CCDG has set up a special subcommittee, led by CCDG chairman JY Pillay, to carry out the review. CCDG aims to complete the review and submit recommendations to the Ministry of Finance in the first half of 2006.

Since the financial years beginning from 1 January 2003, quarterly reporting has been mandated for listed companies with market capitalisation exceeding $75 million as at 31 March 2003.

The review will study international trends and experience relating to quarterly reporting, the effect on listed companies since the rule was introduced here, recommend changes if necessary, and examine whether to extend quarterly reporting to listed companies with market capitalisation of less than $75 million.

C. Changes in FRS: 2005 - 2007

New/revised FRS effective: 2005

Refer to *Financial Reporting Matters* December 2004 for details.

Companies in the midst of preparing its financial statements for the year ending 31 December 2005, must note that there are numerous new/revised financial reporting standards effective for the first time. These were discussed at length in the December 2004 issue of the *Financial Reporting Matters,* and are summarised here for your reference.

Effective: Annual periods beginning from 1 July 2004

- FRS 103 *Business Combinations*
- FRS 36 *Impairment of Assets*
- FRS 38 *Intangible Assets*

Effective: Annual periods beginning from 1 September 2004

- INT FRS 101 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*

Effective: Annual periods beginning from 1 January 2005

- Improvements to existing FRS
  - FRS 1 *Presentation of Financial Statements*
  - FRS 2 *Inventories*
  - FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
  - FRS 10 *Events after Balance Sheet Date*
  - FRS 16 *Property, Plant and Equipment*
  - FRS 17 *Leases*
  - FRS 21 *Effects of Changes in Foreign Exchange Rates*
  - FRS 24 *Related Party Disclosures*
  - FRS 27 *Consolidated and Separate Financial Statements*
  - FRS 28 *Investments in Associates*
  - FRS 31 *Interests in Joint Ventures*
  - FRS 32 *Financial Instruments: Disclosure and Presentation*
  - FRS 33 *Earnings per Share*
- FRS 39 *Financial Instruments: Recognition and Measurement* (including amendments to FRS 39 relating to transition and initial recognition of financial assets and financial liabilities)
- FRS 102 *Share-based Payment* (for listed companies)
- FRS 104 *Insurance Contracts*
- FRS 105 *Non-current Assets Held for Sale and Discontinued Operations*

An amendment to the scope of INT FRS 12 *Consolidation - Special Purpose Entities (SPEs)*

Effective: Annual periods beginning from 1 January 2005

Refer to *IFRS Briefing Sheet* Issue 8 for details.

INT FRS 12 was amended to remove the scope exclusion for equity compensation plans. With this change, it is likely that many employee benefit trusts would be considered to be controlled by the sponsor and therefore would have to be consolidated. As a result, treasury share accounting must be applied for shares held by a SPE that is required to be consolidated based on the criteria of INT FRS 12.

New/revised FRS effective in 2006

Amendments to FRS 19: *Employee Benefits - Actuarial gains and losses, group plans and disclosures*

Effective: Annual periods beginning from 1 January 2006

Refer to *IFRS Briefing Sheet* Issue 12 for details.

The amendments to FRS 19 relate mainly to accounting for post-employment benefits, specifically, defined benefit plans. It is not expected to apply to the majority of Singapore companies under the Central Provident Fund Scheme, which is a defined contribution plan.

The amendments have changed four aspects of FRS 19 by:

- permitting entities to make an accounting policy election to recognise actuarial gains and losses directly in equity, rather than through the profit and loss account;
- requiring employers participating in a multi-employer plan to recognise additional liabilities or assets in some circumstances;
- including requirements for defined benefit accounting for group plans in the separate financial statements of a group entity; and
- requiring additional disclosures.

Amendments to FRS 39: *Financial Instruments: Recognition and Measurement -Cash flow hedge accounting of forecast intra-group transactions*

Effective: Annual periods beginning from 1 January 2006

Refer to *IFRS Briefing Sheet* Issue 21 for details.

Foreign currency risks arising from highly probable forecast intragroup transactions impact mainly manufacturing and sales companies. Generally, FRS 39 permits the designation of hedged items only when they involve a party external to the entity.

The amendment modifies FRS 39 to permit the designation of the foreign currency risk of a *highly probable forecast intragroup transaction* as a hedged item in the consolidated financial statements of the group provided that the hedged item:

- is denominated in a currency other than the functional currency of the entity entering into the hedge; and
- the foreign currency risk related to the transaction will affect consolidated profit and loss.

The amendment was originally scheduled to be finalised before 1 January 2005. To minimise the impact of the delay, for the year ending 31 December 2005, an entity may continue to apply hedge accounting if the entity has designated as an hedged item an external forecast transaction that:

- is denominated in the functional currency of the entity entering into the transaction;
- gives rise to an exposure that will have an effect on consolidated profit or loss (ie, is denominated in a currency other than the group's presentation currency); and
- would have qualified for hedge accounting if the transactions had been denominated in the functional currency of the entity entering into the hedge.

FRS 102 *Share-based Payment*

Effective: Annual periods beginning from 1 January 2006 (non-listed companies)

Refer to *Financial Reporting Matters* October 2004 for details.

For listed companies, FRS 102 is effective for financial statements covering annual periods beginning from 1 January 2005. The CCDG recognises that the other companies may need more time to address the operational application of the new standard. Therefore, the implementation of FRS 102 for all other companies was deferred for one year, ie 1 January 2006.

In its financial statements for the year ending 31 December 2005, non-listed companies with share option plans and other share-based payments should continue to disclose relevant information under FRS 19 relating to equity compensation benefits.

FRS 106 *Exploration and Evaluation of Mineral Resources*

Effective: Annual periods beginning from 1 January 2006

Refer to *IFRS Briefing Sheet* Issue 14 and 28 for details.

Until the publication of FRS 106, there was no FRS specifying the accounting for the costs incurred in exploration for and evaluation of mineral resources. As a comprehensive project in this area was not feasible in the near term, FRS 106 was issued to permit an entity to develop an FRS accounting policy for exploration and evaluation expenditure based on current national GAAP accounting policies.

FRS 106 is *limited* to exploration for and evaluation of mineral resources and cannot be applied by analogy to similar activities such as research.

INT FRS 104 *Determining whether an Arrangement contains a lease*

Effective: Annual periods beginning from 1 January 2006

Refer to *Financial Reporting Matters* October 2005 for details.

This new accounting interpretation requires certain contracts, previously considered normal executory contracts, to be accounted for as leases. The impact of applying the interpretation could be significant and far-reaching. From the seller's perspective, if the arrangement requires lease accounting, the accounting could result in immediate revenue recognition from a sale of property and equipment (finance lease) or it could result in straight-line revenue recognition from the use of those assets (operating lease). In the same way, from the purchaser's perspective, the interpretation could potentially require the entity to recognise in the financial statements huge amounts of assets that are currently not on the balance sheet.

An important point to keep in mind is that this interpretation is all about substance, rather than the form, of the arrangement. INT FRS 104 gives two main criteria for assessing whether a contractual arrangement contains a lease. They are:

- whether the fulfilment of the arrangement is dependent on the use of a specific asset; and
- whether it conveys the right to control the use of that asset.

INT FRS 105 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*

Effective: Annual periods beginning from 1 January 2006

Refer to *IFRS Briefing Sheet* Issue 17 for details.

An entity may have an obligation to dismantle and remove an asset taken out of service or restore site conditions. The entity may in turn, contribute to a fund that reimburses it for qualifying costs incurred. INT FRS 105 applies to accounting by a contributor for interests arising from decommissioning funds in which the assets are administered separately and a contributor's right to access the assets is restricted.

INT FRS 105 generally requires such an entity to recognise its liability to pay decommissioning costs as a liability and recognise its interest in the fund separately unless the contributor is not liable to pay decommissioning costs even if the fund fails to pay.

New/revised FRS effective in 2007

FRS 40 *Investment Property*

Effective: Annual periods beginning from 1 January 2007

Refer to *Financial Reporting Matters* June 2005 for details.

The international FRS 40 equivalent, the revised IAS 40, is effective for annual periods beginning from 1 January 2005. In Singapore, the CCDG has given a lead-time of two years to give companies and investors time to prepare for the impact of FRS 40 on financial ratios commonly used as indicators of performance. Hence, FRS 40 is only mandatory from 1 January 2007.

Upon transition to FRS 40, an entity has a choice between the cost model and the fair value model, irrespective of whether the current accounting policy is at cost or at valuation. Under the fair value model, all changes in fair value are recognised directly in the profit and loss account instead of through the revaluation reserve. The application of the fair value model would increase the volatility of the earnings of property investment companies and might have an impact on such companies' dividend policy.

D. International standards and interpretations not yet issued in Singapore

Amendments to IAS 39 *Financial Instruments: Recognition and Measurement - The fair value option*

Effective: Annual periods beginning from 1 January 2006

Refer to *IFRS Briefing Sheet* Issue 27 for details.

Under the current FRS 39, entities may designate any financial asset or financial liability as measured at fair value through profit or loss. Many constituents were concerned that an unrestricted fair value option may be used inappropriately.

The amendment restricts the use of the fair value option to situations where the following conditions apply:

- the designation results in more relevant information; or
- a contract contains one or more embedded derivatives.

Detailed guidance is provided in the standard as to the situations where the above criteria will be met.

At the date of application of the amendment for the first time, entities are required to "de-designate" any financial asset or financial liabilities that were previously designated at fair value through profit or loss, but do not qualify for such designation under the amendment.

Amendments to IAS 39 *Financial Instruments: Recognition and Measurement - Financial guarantee contracts and credit insurance*

Effective: Annual periods beginning from 1 January 2006

Refer to *IFRS Briefing Sheet* Issue 36 for details.

A financial guarantee contract is a contract that requires the issuer of the contract to make specified payments to reimburse the holder of the contract for a loss that the holder incurs because a specified debtor fails to make payment when due under the terms of a debt instrument.

The amendments address the accounting for financial guarantee contracts by the issuer. Under the amendments, the issuer generally accounts for financial guarantee contracts as a financial instrument liability.

The requirement applies equally to guarantees granted by parents, subsidiaries or other entities under common control. Thus, if the contract between related parties was not written at market rates, then accounting for the financial guarantee would require initial recognition at fair value. An entity would have to determine whether any difference is a loss (gain) or capital contribution (distribution).

IFRS 7 *Financial Instruments: Disclosures*

Effective: Annual periods beginning from 1 January 2007

Refer to *IFRS Briefing Sheet* Issue 34 for details.

IFRS 7 specifies all disclosure requirements relating to financial instruments and will apply to all entities, including those that have only a few financial instruments. IFRS 7 will supersede the disclosure requirements currently in IAS 32: *Financial Instruments: Disclosure and Presentation.* The presentation requirements in IAS 32 remain unchanged.

As part of this revision, duplicative disclosures were removed and disclosures about concentrations of risk, credit risk, liquidity risk and market risk were simplified and additional disclosures were introduced. For example, IFRS 7 requires an analysis of the age of trade debtors that are past due but not impaired as well as the factors the entity considered in determining the impairment of trade debtors.

Amendments to IAS 1 *Presentation of Financial Statements - Capital Disclosures*

Effective: Annual periods beginning from 1 January 2007

This complementary amendment arising from IFRS 7 introduces requirements for disclosures about an entity's capital as follows:

- the entity's objectives, policies and processes for managing capital;
- quantitative data about what the entity regards as capital;
- whether the entity has complied with any capital requirements; and
- if it has not complied, the consequences of such non-compliance.

IFRC 2 *Members' Shares in Co-operative Entities and Similar Instruments*

Effective: Annual periods beginning from 1 January 2005

Refer to *IFRS Briefing Sheet* Issue 10 for details.

IFRIC 2 focuses on members' shares in co-operative entities, and also provides important new guidance for debt/equity classification issues. This interpretation focuses on members' shares in co-operative entities although it applies directly and by analogy to other classification issues.

Members' shares and similar instruments that convey to the holder the right to request redemption are classified as equity only if:

- the entity has an unconditional right to refuse redemption; or
- local law, regulation or the entity's governing charter, unconditionally prohibits redemption.

IFRIC 6 *Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment*

Effective: Annual periods beginning from 1 December 2005

Refer to *IFRS Briefing Sheet* Issue 35 for details.

IFRIC 6 addresses *when* certain producers of electrical goods would need to recognise a liability for the cost of disposal of waste arising from those electrical goods. Generally, the IFRIC only applies to entities subject to the European Union's (EU) Directive on Waste Electrical and Electronic Equipment.

An issue that has yet to be clarified is whether a company that manufactures electrical goods outside of the EU, but sells the electrical goods in the EU, would be required to comply with the Directives. If the answer is in the affirmative, then entities in Singapore might be affected.

IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*

Effective: Annual periods beginning from 1 March 2006

IFRIC 7 provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period. IFRIC 7 requires such an entity to apply the requirements of IAS 29 as if the economy had always been inflationary.

E. List of FRS and INT FRS extant 1 December 2005

FRS /INT FRS	Title	Effective	Aligned with IFRS?
Preface	*Preface to FRS & Preface to INT FRS*		Yes
FRS Framework	*Framework for the Preparation and Presentation of Financial Statements*		Yes
FRS 1 (Revised)	*Presentation of Financial Statements*	FY 1 Jan 2005	Yes
INT FRS 29	*Disclosure - Service Concession Arrangements*	1 Apr 2002	Yes
FRS 2 (Revised)	*Inventories*	FY 1 Jan 2005	Yes
FRS 7	*Cash Flow Statements*	FY 1 Jan 1995	Yes
FRS 8 (Revised)	*Accounting Policies, Changes in Accounting Estimates and Errors*	FY 1 Jan 2005	Yes
FRS 10 (Revised)	*Events After the Balance Sheet Date*	FY 1 Jan 2005	Yes
FRS 11	*Construction Contracts*	FY 1 Jan 1997	Yes
FRS 12	*Income Taxes*	FY 1 Apr 2001	Yes
INT FRS 21	*Income Taxes - Recovery of Revalued Non-Depreciable Assets*	1 Apr 2001	Yes
INT FRS 25	*Income Taxes - Changes in Tax Status of an Enterprise or its Shareholders*	1 Apr 2001	Yes
FRS 14	*Segment Reporting*	FY 1 Jan 2000	Yes
FRS 16 (Revised)	*Property, Plant and Equipment*	FY 1 Jan 2005	No*
FRS 17 (Revised)	*Leases*	FY 1 Jan 2005	No
INT FRS 104	*Determining whether an Arrangement contains a lease*	FY 1 Jan 2006	Yes
INT FRS 15	*Operating Leases - Incentives*	Lease terms from 1 Jan 2000	Yes
INT FRS-27	*Evaluating the Substance of Transactions in the Legal Form of a Lease*	1 Apr 2002	Yes
FRS 18	*Revenue*	FY 1 Jan 1997	Yes
INT FRS 31	*Revenue - Barter Transactions involving Advertising Services*	1 Apr 2002	Yes
FRS 19	*Employee Benefits*	FY 1 Oct 2000	Yes
FRS 19	*Amendments: Actuarial gains and losses, group plans and disclosures*	FY 1 Jan 2006	Yes
FRS 20	*Accounting for Government Grants and the Disclosure of Government Assistance*	FY 1 Jan 1985	Yes
INT FRS 10	*Government Assistance - No Specific Relation to Operating Activities*	1 Jan 2000	Yes
FRS 21 (Revised)	*The Effects of Changes in Foreign Exchange Rates*	FY 1 Jan 2005	Yes
INT FRS 7	*Introduction of the Euro*	FY 1 Jan 2003	Yes
FRS 23	*Borrowing Costs*	FY 1 Jan 1997	Yes
FRS 24 (Revised)	*Related Party Disclosures*	FY 1 Jan 2005	Yes
FRS 25	*Accounting for Investments*	FY 1 Jan 1988	NA
FRS 26	*Accounting and Reporting by Retirement Benefit Plans*	FY 1 Jan 1988	Yes

Applicable for the first time in 2004 Applicable for the first time in 2005 Issued but not yet effective

* Differences due to transitional provisions

FRS /INT FRS	Title	Effective	Aligned with IFRS?
FRS 27 (Revised)	*Consolidated and Separate Financial Statements*	FY 1 Jan 2005	No
INT FRS 12	*Consolidation - Special Purpose Entities*	FY 1 Jan 2005	Yes
FRS 28 (Revised)	*Investments in Associates*	FY 1 Jan 2005	No
FRS 29	*Financial Reporting in Hyper-inflationary Economies*	FY 1 Apr 2001	Yes
FRS 31 (Revised)	*Interests in Joint Ventures*	FY 1 Jan 2005	No
INT FRS 13	*Jointly Controlled Entities - Non-Monetary Contributions by Ventures*	1 Jan 2000	Yes
FRS 32 (Revised)	*Financial Instruments: Disclosure and Presentation*	FY 1 Jan 2005	Yes
FRS 33 (Revised)	*Earnings per Share*	FY 1 Jan 2005	Yes
FRS 34	*Interim Financial Reporting*	FY 1 Oct 2001	Yes
FRS 36 (Revised)	*Impairment of Assets*	FY 1 Jul 2004	No*
FRS 37	*Provisions, Contingent Liabilities and Contingent Assets*	FY 1 Oct 2000	Yes
INT FRS 101	*Changes in Existing Decommissioning, Restoration and Similar Liabilities*	FY 1 Sep 2004	Yes
INT FRS 105	*Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*	FY 1 Jan 2006	Yes
FRS 38 (Revised)	*Intangible Assets*	FY 1 Jul 2004	No*
INT FRS 32	*Intangible Assets - Web Site Costs*	1 Oct 2002	Yes
FRS 39	*Financial Instruments: Recognition and Measurement*	FY 1 Jan 2005	Yes
Amendments to FRS 39	*Cash Flow Hedge Accounting of Forecast Group Transactions*	FY 1 Jan 2006	Yes
FRS 40	*Investment Property*	FY 1 Jan 2007	No*
FRS 41	*Agriculture*	FY 1 Oct 2001	Yes
FRS 101	*First-time Adoption of Financial Reporting Standards*	FY 1 Jan 2004	Yes
FRS 102	*Share-based Payment*	FY 1 Jan 2005 (listed companies)	No*
FRS 102	*Share-based Payment*	FY 1 Jan 2006 (all others)	No*
FRS 103	*Business Combinations*	FY 1 Jul 2004	No*
FRS 104	*Insurance Contracts*	FY 1 Jan 2005	Yes
FRS 105	*Non-current Assets Held for Sale and Discontinued Operations*	FY 1 Jan 2005	Yes
FRS 106	*Exploration for and Evaluation of Mineral Resources*	FY 1 Jan 2006	Yes

Applicable for the first time in 2004 Applicable for the first time in 2005 Issued but not yet effective

* Differences due to transitional provisions

F. Differences between FRS and IFRS as at 1 December 2005

Ref.	FRS / INT FRS	Comparison with IFRS
A.	Differences in accounting treatment	
1.	FRS 17 *Leases* (effective FY 1 January 2005)	IAS 17 *Leases* Paragraph 14 and 15 of FRS 17 was amended such that leases of land are now classified as operating or finance leases in the same way as leases of other assets.
2.	FRS 25 *Accounting for Investments* (effective FY 1 January 1988)	IAS 25 *Accounting for Investments* (withdrawn with effect from 1 January 2001 when IAS 39 and IAS 40 came into force) With the withdrawal of IAS 25, FRS 25 has no IAS equivalent. With FRS 39 coming into effect for financial periods beginning from 1 January 2005, the scope of FRS 25 had been amended to exclude all investments in financial assets to which FRS 39 applies. Hence, effective from 1 January 2005, FRS 25 only applies to investment properties. FRS 25 will be superceded when FRS 40 comes into effect for annual periods beginning from 1 January 2007. For purpose of offsetting of a revaluation deficit against a revaluation surplus arising out of investment properties, FRS 25 allows the deficit to be offset against the 'same class of asset' rather than restrict it to the 'same asset'.
B.	Differences relating to transitional provisions	
3.	*FRS 16 Property, Plant and Equipment* (effective FY 1 January 2005)	IAS 16 *Property, Plant and Equipment* There are no significant differences between IAS 16 and FRS 16, except for a "grandfathering" clause for one-off revaluations. FRS 16 exempts an enterprise that had revalued its property, plant and equipment before **1 January 1984 or had performed a one-off revaluation between 1 January 1984 and 31 December 1996** (both dates inclusive) from the need to revalue its assets periodically.
4.	FRS 103 *Business Combinations* (effective FY 1 July 2004) FRS 36 *Impairment of Assets* (effective FY 1 July 2004) FRS 38 *Intangible Assets* (effective FY 1 July 2004)	IFRS 3 *Business Combinations* IFRS 3 is applicable to accounting for business combinations for which **agreement date** is on or after **31 March 2004.** IAS 36 *Impairment of Assets* IAS 36 is applicable to: (a) goodwill and intangible assets acquired in business combinations for which **agreement date** is on or after **31 March 2004;** and (b) all other assets prospectively from the beginning of the first annual period beginning from **31 March 2004.** IAS 38 *Impairment of Assets* IAS 38 is applicable to the accounting for: (a) intangible assets acquired in business combinations for which **agreement date** is on or after **31 March 2004;** and (b) all other intangible assets prospectively from the beginning of the first annual period beginning from **31 March 2004.** FRS 103, FRS 36 and FRS 38 are applicable for **annual periods** beginning on or after **1 July 2004.** The predecessor of FRS 103 is FRS 22 and the predecessor of IFRS 3 is IAS 22. Except for implementation dates relating to mandatory capitalisation and amortisation of goodwill, there are no significant differences between IAS 22 and FRS 22. IAS 22 requires goodwill to be capitalised and amortised for all acquisitions with effect from 1 January 1995, whereas FRS 22 only requires this treatment with effect from 1 October 2000.
5.	FRS 40 *Investment Property* effective FY 1 January 2007)	IAS 40 *Investment Property* IAS 40 was first issued to be effective for annual periods from 1 January 2001. IAS 40 (revised) was issued to be effective for annual periods from 1 January 2005. FRS 40 is based on the revised IAS 40, but is effective for annual periods begining from 1 January 2007.

Ref.	FRS / INT FRS	Comparison with IFRS
6.	FRS 102 *Share-based Payment* (effective FY 1 January 2005 for listed companies, and 1 January 2006 for all other companies)	IFRS 2 *Share-based Payment* For equity-settled share-based payment (SBP) transactions, IFRS 2 is applicable for equity instruments granted after **7 November 2002** and had not yet vested at **1 January 2005.** FRS 102 is applicable to equity-settled SBP transactions where the equity instruments were granted after **22 November 2002** and had not yet vested at **1 January 2005** (for listed companies) or **1 January 2006** (for all other companies).
C.	**Differences relating to requirement for consolidated financial statements**	
7.	FRS 27 *Consolidated and Separate Financial Statements* (effective FY 1 January 2005) FRS 28 *Investments in Associates* (effective FY 1 January 2005) FRS 31 *Interests in Joint Ventures* (effective FY 1 January 2005)	IAS 27 *Consolidated and Separate Financial Statements* Under IAS 27, one of the conditions for a parent to be exempted from preparing consolidated financial statements is that the ultimate or any intermediate parent's consolidated financial statements are available for public use and comply with **International Financial Reporting Standards.** IAS 28 *Investments in Associates* Under IAS 28, one of the conditions for an investor to be exempted from using the equity method to account for its investment in an associate is that the ultimate or any intermediate parent's consolidated financial statements are available for public use and comply with **International Financial Reporting Standards.** IAS 31 *Interests in Joint Ventures* Under IAS 31, one of the conditions for a venturer to be exempted from using either the proportionate consolidation or equity method to account for its investment in a jointly-controlled entity is that the ultimate or any intermediate parent's consolidated financial statements are available for public use and comply with **International Financial Reporting Standards.** FRS 27, FRS 28 and FRS 31 only require the ultimate or any intermediate parent's consolidated financial statements to be available for public use. FRS 27, FRS 28 and FRS 31 do not specify the accounting standards that the ultimate or any intermediate parent should use in the consolidated financial statements.
D.	**IFRS/Amendments to IFRS not yet issued in Singapore**	
8.		Amendments to IAS 39 *Financial Instruments : Recognition and Measurement - The fair value option* (issued 16 June 2005, effective 1 January 2006)
9.		Amendments to IAS 39 *Financial Instruments : Recognition and Measurement - Financial guarantee contracts and credit insurance* (issued 18 August 2005, effective 1 January 2006)
10.		IFRS 7 *Financial Instruments: Disclosures* Amendments to IAS 1 *Presentation of Financial Statements - Capital disclosures* (issued 18 August 2005, effective 1 January 2007)
E.	**IFRIC/Amendments to SIC not yet issued in Singapore**	
11.		IFRIC 2 *Members' Shares in Co-operative Entities and Similar Instruments* (issued November 2004, effective 1 January 2005)
12.		IFRIC 6 *Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment* (issued 1 September 2005, effective 1 December 2005)
13.		IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies* (issued 24 November 2005, effective 1 March 2006)

G. Developments in international standards and interpretations

IASB September 2005 meeting

Refer to *IFRS in Brief* Issue 17 for details.

Financial instruments "puttable" at fair value

Financial instruments that give the holders the right to "put" them back to the issuer for cash or other financial assets are *financial liabilities* of the issuer. For example, open-ended mutual funds, unit trusts, partnerships and some co-operative entities may provide their unitholders or members with a right to redeem their interests in the issuer at any time for cash equal to their proportionate share of the asset value of the issuer.

In its September meeting, the IASB decided to continue work on developing an exception from liability classification for certain "puttable" instruments, on the basis that they must be the most subordinated class of instruments of the issuer. An exposure draft of the limited amendments is expected to be issued by March 2006 and the final amendments to be issued by June 2007.

Draft Technical Correction (DTC) to IAS 21 ***The Effects of Changes in Foreign Exchange Rates** - Net investment in a foreign operation*

IAS 21 requires exchange differences arising on a monetary item that is part of net investment in a foreign operation to be recognised in the equity in the consolidated financial statements of the group, if that monetary item is denominated in the functional currency of either the reporting entity or the foreign operation.

The DTC, issued by the IASB on 30 September 2005, proposes to amend IAS 21 so that the monetary items considered to be part of the net investment in a foreign operation can be denominated in any currency.

IASB October 2005 meeting

Refer to *IFRS in Brief* Issue 18 for details.

In its October 2005 meeting, the IASB:

- decided to propose amending IAS 23 *Borrowing Costs* to remove the option to expense borrowing costs incurred in construction or development of qualifying assets;
- discussed issues relating to the definition of control of one entity over another, including de-facto control, and 'autopilot' arrangements; and
- discussed a pre-ballot draft of the Proposed Amendments to IAS 1 *Presentation of Financial Statements.*

IFRS and the E.U. endorsement process: a status report

Refer to *IFRS Briefing Sheet* Issue 37 for details.

This IFRS Briefing Sheet considers the status of the European Union's endorsement of International Financial Reporting Standards.

The KPMG International publications covered in this issue of *Financial Reporting Matters* are:

- IFRS in Brief: issues 17 & 18
- IFRS Briefing Sheet: issues 35 to 37

kpmg.com.sg

Thank you for your feedback

In the last issue of the *Financial Reporting Matters,* we sought your feedback on our publication. We thank you for taking time to give us your valuable comments. We are encouraged by your positive feedback!

Many had indicated that you would like to receive only the electronic form of future issues of the KPMG International publications *IFRS in Brief* and *IFRS Briefing Sheet.* Starting from this issue, we will not be distributing hardcopies of the KPMG International publications. However, highlights of these publications, particularly the relevance of international developments in the local context, will continue to be provided in *Financial Reporting Matters.* You can continue to access the electronic version as follows:

IFRS in Brief:
http://www.kpmg.com.sg/newsletters/ifrs_in_brief.html

IFRS Briefing Sheet:
http://www.kpmg.com.sg/newsletters/ifrs_briefing_sht.html

Should you wish to discuss any matter highlighted in this publication, please contact:

Maria Lee
Partner - Professional Practice Department
Tel: +65 6213 2579
mlee2@kpmg.com.sg

KPMG
16 Raffles Quay
#22-00 Hong Leong Building
Singapore 048581
Tel: +65 6213 3388
Fax: +65 6225 0984

Printed in Singapore. MITA (P) 115/06/2004