

Technical Highlights

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**Annual Public Accountants
Conference**

15 July 2010

Key changes to SFRS from FY09 onwards



New/revised SFRS issued	Effective Date
FRS 39 Financial Instruments <ul style="list-style-type: none">-Embedded Derivatives-Eligible hedged items	30 Jun 09 1 Jul 09
FRS 101 First-time Adoption of FRS <ul style="list-style-type: none">- Cost of investment in subsidiary, jointly controlled entity or associate- Improvements on structure of the Standard- Additional Exemptions for First-time Adopters	1 Jan 09 1 Jul 09 1 Jan 10

Key changes to SFRS from FY09 onwards



New/revised SFRS issued	Effective Date
FRS 102 Share based payments	
-Vesting conditions and cancellations	1 Jan 09
-Group cash-settled share-based payment transactions	1 Jan 10
FRS 103 Business Combinations (revised 2009)	1 Jul 09
FRS 107 Financial Instruments: Disclosures	1 Jan 09
FRS 108 Operating Segment (new)	1 Jan 09

Key changes to INT FRS from FY09 onwards



New/revised INT FRS issued	Effective Date
INT FRS 109 Embedded Derivatives	30 Jun 09
INT FRS 117 Distribution of Non-cash Asset to Owners	1 Jul 09
INT FRS 118 Transfer of Asset from customers	1 Jul 09
INT FRS 119 Extinguishing Financial Liabilities with Equity Instruments	1 Jul 10

Out for comments....



Exposure Drafts	ASC Due Date
ED Fair Value Option for Financial Liabilities	17 Jul 10
ED IAS 19 Defined Benefits Plan	23 Jul 10
ED IAS 1 Presentation of Items of Other Comprehensive Income	30 Jul 10
ED Measurement Uncertainty Analysis Disclosure for Fair Value Measurements	01 Aug 10
ED Revenue from Contracts with Customers	10 Sep 10
Consultation Papers	ASC Due Date
Statement of Intent – SFRS for Small Entities	18 Aug 10

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**Please refer to Handout A for latest IASB work plan
for upcoming projects**

IFRS for SMEs

IFRS for SMEs

- Issued in July 09

- IASB scope - Intended for entities that:
 - have no public accountability; and
 - publish general purpose FS for external users

- Effective date & eligibility
 - Individual jurisdictions to decide

- Standalone document
 - No cross reference to full IFRS (except for IAS 39)

IFRS for SMEs

- Simplified framework - 10% of full IFRS
 - Omitting irrelevant topics
 - Removing complex options
 - Simplifying recognition & measurement
 - Reducing disclosure requirements

- Stable framework - to be updated every 3 yrs

- Training materials available for free
<http://www.iasb.org/IFRS+for+SMEs/Training+material.htm>

- To date, over 60 jurisdictions have adopted or intend to adopt

Local developments

- ❑ ASC has tentatively decided to adopt as “***SFRS for Small Entities***”
- ❑ “Statement of Intent” issued in Jun 2010 (Handout B)
- ❑ Comment period till 18 August 2010
- ❑ To be available as an option for eligible entities
- ❑ To be effective from 1 Jan 2011

Eligibility for SFRS for Small Entities



- ❑ No public accountability
 - Not listed on any stock exchange
 - Does not hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary business

- ❑ Satisfies 2 out of 3 size criteria (*consolidated basis*):
 - (1) Total annual revenue < S\$10m;
 - (2) Total gross net assets < S\$10m;
 - (3) No. of employees < 50;

- ❑ Not a public company under Companies Act;

- ❑ Not a charity under Charities Act

- ❑ Not a credit society under the Co-operative Societies Act

SFRS for Small Entities

- Fully compliant with IFRS for SMEs
- Stabilizing mechanism for “marginal companies”
 - SFRS for Small Entities => Full SFRS
(if fail to meet prescribed criteria for 2 consecutive years)
 - Full SFRS => SFRS for Small Entities
(if meet prescribed criteria for 2 consecutive years)
- Transitional relief
 - Once only for first-time adopter
 - Full retrospective application required with several exceptions and exemptions

SFRS for Small Entities

□ Transitional relief (cont'd)

- 5 mandatory exceptions – same as those in IFRS 1
- 12 optional exemptions, e.g.
 - ❖ PPE, investment property or intangible assets;
 - ❖ Business combinations;
 - ❖ Share-based payment transactions
- 1 general exemption (“impracticability”)

Some issues to consider before adopting...



- ❑ Change in accounting policies and system?
- ❑ Possibility of future listing on domestic / foreign stock exchange?
- ❑ Potential in financial / operational growth?
- ❑ Group reporting requirements?
- ❑ Training requirements?

Leases

Leases

- Joint project between IASB and FASB
- Why a leases project?
 - To meet the needs of users, who often adjust FS to recognise assets / liabilities arising in operating leases
 - To reduce complexity in distinguishing between operating leases versus finance leases, and enhance comparability

Leases

- Objective:
 - To create a single accounting framework for all leases → ensure that all assets & liabilities from lease contracts are recognised
- ED in early Q3'2010, Final IFRS in 2011
- More information at

[http://www.iasb.org/Current+Projects/
IASB+Projects/Leases/Leases.htm](http://www.iasb.org/Current+Projects/IASB+Projects/Leases/Leases.htm)

Leases – Scope

- Include:
 - Lessee & lessor accounting
 - Simplified accounting for short-term leases
- Exclude:
 - Leases of intangible assets, biological assets, natural resources
 - Contracts that represent purchase / sale of underlying asset
 - Lessor accounting for investment properties accounted using fair value model

Lessee accounting

□ “Right-of-use” model

- Lessee has acquired a right to use the underlying asset and is paying for that right with its rental payments

B/S	Obligation to pay rentals	=	Right-of-use asset	=	PV of lease payments
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P&L	Amortisation of right-of-use asset	Interest expense
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Accounting would significantly change for leases that are now classified as operating leases!

Lessee accounting – Measurement



	Initial Measurement	Subsequent Measurement
Obligation to pay rentals	<ul style="list-style-type: none"> - PV of lease payments discounted using incremental borrowing rate or interest rate implicit in lease 	<ul style="list-style-type: none"> - At amortised cost using effective interest method - No revision of incremental borrowing rate
Right-of-use asset	<ul style="list-style-type: none"> Cost 	<ul style="list-style-type: none"> - At amortised cost over shorter of lease term or economic life - Option to revalue – can revalue even if no active market - Assess impairment : IAS 36

Lease term with option to extend



- Address uncertainty about lease term through recognition
- **Longest possible lease term that is more likely than not to occur, *consider all relevant factors***
- *Example:*
 - Retail space is leased for 3 years.
 - Lease includes option to extend for an additional 3 years.
 - Lessee must decide whether to recognise obligation to pay 3 years or 6 years of rental.

Significant change to existing requirements!

Contingent rentals

□ Expected outcome technique

- Not every possible scenario would need to be taken into account

□ *Example:*

- Retail space is leased for 3 years.
- Retailer pays monthly rental comprising fixed rent of \$100 plus variable rent based on 0.5% of its gross monthly sales.
- Lessee needs to include the estimated contingent rentals in its lease obligation, based on its expected sales.

Significant change to existing requirements!

Leases with options & contingent rentals

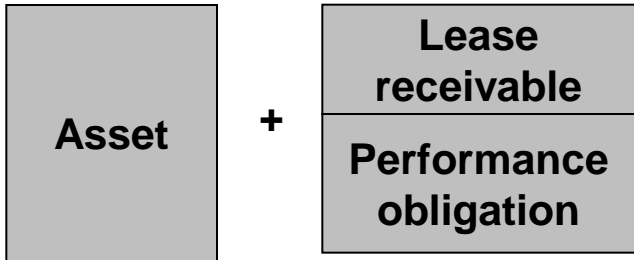
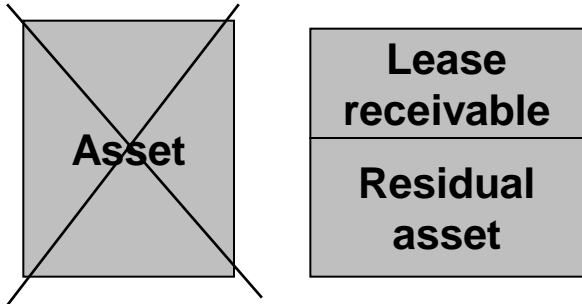


- ❑ Included in all lease obligations
- ❑ Reassessed at each reporting date (if there has been change in facts or circumstances)
- ❑ Subsequent changes adjusted to lessee's right-of-use asset and lessor's performance obligation
- ❑ Purchase options – account for in the same way as renewal options
- ❑ Residual value guarantees – account for in the same way as contingent rentals

Lessor accounting

- **IASB's tentative decision in June 2010 Meeting**
 - Hybrid approach
 - **Performance obligation model** for leases that expose the lessor to significant risks and benefits associated with the underlying asset (similar to criterion for operating leases) or
 - **Derecognition model** for all other leases (similar to criterion for finance leases)
- FASB supports the performance obligation model

Lessor accounting

Performance obligation model	Derecognition model
<p>Lease contract creates a new asset. Underlying asset is retained.</p>	<p>Lessor transfers a portion of underlying asset in exchange for a right to receive payments over the lease term</p>
	
<p>Recognises revenue as that performance obligation is satisfied (<i>no upfront recognition</i>)</p>	<p>May (or may not) recognise revenue upfront</p>

Performance obligation model - Measurement



Lease receivable	Performance obligation
Initially measured at PV of lease payments discounted using the rate implicit in the lease	Initially measured at transaction price (= PV of lease payments discounted using the rate implicit in the lease)
Subsequently measured at amortised cost, no revision of discount rate. Assess impairment	Subsequent measurement reflects decrease in obligation to permit the lessee to use the leased item

Derecognition model – Measurement



Lease receivable (LR)	Residual asset
Initially measured at PV of lease payments discounted using the rate implicit in the lease	Measured at allocated carrying value (CV) of underlying asset ie. <i>(PV of lease receivable / FV of underlying asset) * (CV of underlying asset)</i>
Subsequently measured at amortised cost, no revision of discount rate. Assess impairment	No remeasurement (except for impairment)

Lessor accounting

□ Leases with options

- Longest possible lease term that is more likely than not to occur
- Reassess at each reporting date

□ Leases with contingent rentals and residual value guarantees

- Included if amount can be *measured reliably*
- Performance obligation (PO) model - changes adjusted to PO
- Derecognition model - changes recognised in P & L

Leases – Presentation

Statement of Financial Position - Lessee	Right-of-use model	
	PPE: - Right-of-use asset] (<i>separate</i>) - Assets owned but not leased]	
	Obligation to pay rentals Other financial liabilities	
Statement of Financial Position - Lessor	Performance obligation model	Derecognition model
	Underlying asset] (<i>separate</i>) Lease receivable]	Residual asset] (<i>separate</i>) Lease receivable]
	Performance obligation	NA
	Net leasing asset / liability	NA
	(<i>Gross with linked presentation</i>)	

Significant changes to existing presentation!

Leases – Presentation & Disclosures



- **Presentation – Statement of Comprehensive Income**
 - Lessee: Amortisation and interest expense separately presented
 - Lessor: Lease income, interest income and depreciation separately presented

- **Disclosures**
 - More qualitative & quantitative disclosures!

Leases – Other issues

- Sales & leaseback transactions
 - If underlying asset has been sold, account for sale and leaseback
- Lease contracts with service component
 - Allocate lease payments between service and lease components
- Subleases
 - Disclose nature and amount of significant subleases
- Transition
- First time adoption

How will companies be impacted?



- **Impact on financial statements and performance measures**
 - EBITDA and operating cash flows improve, leverage ratios deteriorate
 - Accelerated expense recognition in initial years
- **Changes in accounting processes and information systems**
 - To estimate contingent rentals and renewal options throughout lease term
- **Influence “lease versus buy” decisions**

Significant impact on financials and processes!

Conclusion

- ❑ Major overhaul to accounting standards
- ❑ Stakeholder feedback is crucial to influence the standard-setting process
- ❑ Be engaged early!

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Thank You