Financial Reporting Matters

December 2004 **Issue 3**

AUDIT

As the year-end closing session begins, the time is apt for a look-back at developments in financial reporting requirements over the last year. In this issue of Financial Reporting Matters, we provide a quick reference of changes to the Companies Act, the Income Tax Act, the Singapore Exchange Listing Manual and new/revised Financial Reporting Standards being implemented in 2004 and 2005.

Contents

During the past year, the Council on Corporate Disclosure and Governance has kept pace with the many changes to International Financial Reporting Standards. Many new standards, new interpretations and revisions were rolled out by the International Accounting Standards Board in time for all European listed entities adopting IFRS from 1 January 2005 for the first time.

The more significant new standards are the standards on acquisition accounting, financial instruments and share-based payments. The improvements to 12 existing standards, whilst individually not major, could have significant impact on financial statements of most companies upon implementation.

Companies need to prepare for the implementation of the new and revised standards, especially the following:

- Financial instruments - affects the way an entity records staff loans, inter-company loans below market interest rates, provision for doubtful debts and impairment of investments in equity securities.
- Share-based payment - requires the expensing of employee share options, including cases where the share options are issued by the holding company for services rendered to the company.
- Business combinations - requires annual impairment review of goodwill (in place of amortisation) and more specific identification of intangible assets.
- Improvements - require certain exchange differences currently recognised in equity to be taken to the profit and loss account of the company and more detailed recording of fixed assets to comply with the requirements of component accounting.

A. Companies Act and Income Tax Act

Companies (Amendment) Act 2004

Effective: 1 April 2004

Refer to Business Alert April 2004 for details.

One shareholder/ one director company

The amendment allows both public and private companies incorporated in Singapore to have only one shareholder and one director, who shall be ordinarily resident in Singapore. The single shareholder and director can be the same person. However, the sole director cannot concurrently be the company secretary.

Review of auditors' remuneration

A public company is now required to undertake a review of its auditors' fees, expenses and emoluments if the total amount of the fees paid to the auditor for non-audit services in any financial year of the company exceeds 50% of the total fees. The results of the review should be sent to its shareholders.

Exemption from preparation of consolidated financial statements

The statutory exemption from preparing consolidated financial statements is now aligned with the relevant accounting standard. With the amendment, any holding company that is itself a wholly owned (or a virtually wholly-owned) subsidiary need not present consolidated financial statements, provided that certain conditions are met.

Issuance of consolidated financial statements

Directors are now able to issue consolidated financial statements when they are satisfied that they have obtained sufficient information relating to their subsidiaries, even before receiving the statutory financial statements of every subsidiary in the group.

Companies (Amendment) Act 2004

Effective: 1 October 2004

Inclusion of company's registration number

Every company is required to include its registration number (in addition to its registered name) on all business letters, statements of account, invoices, official notices and publications of or purporting to be issued or signed by or on behalf of the company. The registration number should also be printed on the cover page of the annual report.

Companies (Amendment) Regulations 2004

Effective: Financial years beginning from 1 June 2004

Threshold for audit exemption

The audit exemption threshold for private exempt companies has increased from "less than $2.5 million in revenue" to "less than $5 million in revenue". The earlier threshold of $2.5 million was effective for financial years beginning from 15 May 2003.

Budget 2004

Effective: Year of Assessment 2005

Reduction in corporate income tax rate from 22% to 20%

The tax rate of 20% should be used to provide for the current and deferred taxes in financial statements relating to financial periods that ended after 27 February 2004 (date of Budget speech).

Budget 2004

Effective: Any of the first three consecutive years of assessment falling within the period from Year of Assessment 2005 to 2009

Tax exemption for newly incorporated companies

Companies currently enjoy partial tax exemption on the first $100,000 of their normal chargeable income as follows:

- 75% of the first $10,000 of chargeable income is tax exempt
- 50% of the next $90,000 of chargeable income is tax exempt

Qualifying new companies will now enjoy full exemption on the first $100,000 of their normal chargeable income.

B. Singapore Exchange Listing Manual

Changes to the Listing Manual

Effective: 2 January 2004

Refer to Business Alert Special January 2004 for details.

Format of quarterly reporting

The information required for quarterly announcements may be in any format provided that the same format is used for each quarter. However, the full year announcements for these companies must be presented in the format used in the most recently audited annual financial statements.

Companies that do not report on a quarterly basis must present the required information for their half-year and full year announcements in the format used in the most recently audited annual financial statements.

Dividend rate

The amount of dividends declared or recommended must be expressed in cents per share. The disclosure of dividend rate is now optional.

Interested person transactions mandate

An independent financial adviser's (IFA) opinion is not required for the renewal of a general mandate provided that the audit committee confirms that:

- the methods and procedures for determining the transaction prices have not changed since the last shareholders' approval; and
- the methods and procedures are sufficient to ensure that the transactions will be carried out on normal commercial terms that will not prejudice the interests of the issuer and its minority shareholders.

Operating and Financial Review Guide

Effective: Financial year beginning from 1 January 2004 (voluntary)

Voluntary adherence to the OFR Guide

The Operating and Financial Review (OFR) Guide is a principle-based guide that provides guidance to listed companies on the preparation of the OFR in their annual reports. One of the principles in the OFR Guide is that it is good practice for a listed company to present its OFR in a distinct section of the annual report. Adherence to the OFR Guide is voluntary.

Changes to the Listing Manual

Effective: Financial year beginning from 1 January 2004

Extension of deadline for full year financial reporting

The timeline for listed companies to announce their full year financial results will continue to be 60 days after the financial year-end, instead of the planned change to 45 days. However, the 45-day deadline will be applicable for quarterly and half-yearly announcements of financial results.

C. New FRS effective in 2004

FRS 101 *First-time Adoption of FRS*

Effective: Annual periods beginning from 1 January 2004

Refer to Business Alert April 2004 for details.

FRS 101 is adopted from IFRS 1 *First-time adoption of International Financial Reporting Standards* without any significant modification.

FRS 101 is applicable when a company adopts Singapore Financial Reporting Standards (FRS) for the first time. It is not expected to apply to the majority of Singapore companies who are currently reporting under FRS. For companies previously reporting under Statements of Accounting Standard, the switch to FRS does not represent a change in accounting standards and therefore is not a first-time adoption of FRS.

When a Singapore company that is currently preparing its financial statements in accordance FRS decides to switch to International Financial Reporting Standards (IFRS), it is required to comply with IFRS 1.

In addition, the Singapore branch or subsidiary company of any listed EU entity will need to apply IFRS 1 if the Singapore branch or company prepares the reporting package for the first time based on IFRS.

FRS 103 *Business Combinations*

Effective: Annual periods beginning from 1 July 2004

Refer to Financial Reporting Matters August 2004 for details.

FRS 103 was issued to replace FRS 22 *Business Combinations*. As a consequence of the requirements in FRS 103, the standards on intangible assets (FRS 38) and impairment of assets (FRS 36) were revised. These revised standards, which affect accounting for intangibles and impairment outside of business combinations, should be implemented at the same time as FRS 103.

Treatment of existing goodwill when implementing the standard

FRS 103 should be applied prospectively from the effective date as follows:

- Existing goodwill at the effective date - the carrying amount of this goodwill should be frozen and no longer amortised. It should be tested for impairment in accordance with revised FRS 36 from the effective date.
- Existing negative goodwill at the effective date - the carrying amount of the negative goodwill should be eliminated from the balance sheet via a corresponding credit to opening accumulated profits.

Early adoption of the standard

Companies are allowed under FRS 103.85 to apply FRS 103 to business combinations occurring from any date before the effective date, provided:

- the company also applies revised FRS 36 and FRS 38 prospectively from that same date; and
- the valuations and other information needed to apply FRS 103, FRS 36 and FRS 38 to past business combinations were obtained at the time those business combinations were initially accounted for.

Accounting for goodwill previously written off against reserves when the investment is disposed/impaired

Goodwill that had previously been taken directly to equity should not be recycled to the profit and loss account on disposal of the business or on impairment of the cash-generating unit to which the goodwill relates. Although not explicitly stated, we believe that the above clarification relating to goodwill should similarly apply to negative goodwill.

Main changes arising from FRS 103

- Merger accounting prohibited - All business combinations must be accounted for using the purchase method. The accounting for common control transactions continues to be excluded from the scope of FRS 103 and therefore "as-if pooling" method may continue to be applied to such transactions.
- Goodwill - Goodwill is no longer amortised, but is subject to impairment testing annually and when there are impairment indicators. The revised FRS 36 also requires a more rigorous impairment test to be applied to goodwill. Reversal of goodwill impairment losses is now prohibited.
- Negative goodwill - Any excess of fair value of net assets acquired over the acquisition cost, after re-assessment, should be recognised in profit or loss immediately on acquisition.
- Intangible assets - More categories of intangible assets are expected to be recognised as a result of FRS 103 providing a more definitive basis for identifying and recognising intangible assets.
- Contingent liabilities - An acquirer must recognise the acquiree's contingent liabilities at fair value on acquisition. Subsequently, the contingent liabilities will be recognised at the higher of the amount recorded on acquisition (and after amortisation) and the amount that would be recorded under FRS 37 on provisions.
- Initial accounting determined on a provisional basis - FRS 103 limits the period for goodwill adjustment to 12 months from the date of acquisition, instead of the longer period allowed in FRS 22 of up to the first full annual reporting period after the acquisition.
- Intangible assets - The assumption that the useful life of an intangible asset is always finite has been removed. Intangibles with indefinite useful lives must be tested for impairment at least annually, but these intangibles are not amortised.

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

Effective: Annual periods beginning from 1 September 2004

This interpretation is relevant to companies with any significant liability to dismantle and remove an asset taken out of service (often at the end of the useful life) or restore site conditions.

The interpretation requires changes in the liability on capitalised costs (resulting from changes in estimated amounts required to settle the obligation or from changes in discount rate) to be adjusted to the cost of the related asset and depreciated prospectively over its useful life.

D. New/revised FRS effective in 2005

Improvements to existing FRS

Effective: Annual periods beginning from 1 January 2005

Refer to Accounting Bulletin May 2004 for details.

Revisions were made to 12 existing accounting standards. The more significant changes are highlighted in the following paragraphs.

FRS 1 *Presentation of financial statements*

- The revised standard requires a company to present minority interests within equity, separately from the parent shareholder's equity. The presentation affects the consolidated balance sheet, profit and loss account and the statement of changes in equity.
- New disclosure requirements:
  - Significant judgements made by management in applying accounting policies; and
  - Key assumptions concerning the future, and other sources of estimation uncertainty.

FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

- Voluntary changes in accounting policies and correction of errors must be accounted for by presenting comparative information as if the accounting policies had always been applied or prior period errors had never occurred.

FRS 16 *Property, Plant and Equipment* (PPE)

- All exchanges of non-monetary assets should be measured at fair value unless the transaction lacks economic substance.
- An item of PPE should be considered as a combination of various units with separate useful lives or consumption patterns. These separate useful lives are used to calculate depreciation, test for derecognition, and for the treatment of expenditure to replace that component.

FRS 17 *Leases*

- A lease of land and buildings should be split into two elements - a lease of land and a lease of buildings.

FRS 21 *The Effects of Changes in Foreign Exchange Rates*

- In determining the functional currency, greater emphasis is placed on the currency that determines the pricing of transactions (sales and purchases) than on the currency in which transactions are denominated (financing and retention of receipts). This may result in the conclusion that a foreign operation, previously considered to be integral to the operations of the parent, having a functional currency that is different from the parent's functional currency.
- Contrary to current practice, exchange differences arising on a quasi-equity monetary item are required to be recognised in the profit and loss account in the separate financial statements of the parent company. Such exchange differences are only reclassified to a separate component of equity in the consolidated financial statements.

FRS 27 *Consolidated and Separate Financial Statements*

- The use of the equity method of accounting by a parent in its separate financial statements is prohibited. A parent should account for its investments in subsidiaries either at cost or as financial instruments.
- The exemption from preparing consolidated financial statements is expanded to include a parent who is a partially owned subsidiary where its other shareholders do not object to the parent not preparing consolidated financial statements.
- A parent is now required to consolidate a subsidiary it continues to control even though the subsidiary operates under severe long-term restrictions that impairs its ability to transfer funds to the parent.

FRS 28 *Investments in Associates*

- Investments in associates held by venture capital organisations, mutual funds, unit trusts and similar entities need not be equity-accounted if they are accounted for under FRS 39 as financial assets held for trading. (This exemption does not apply to investments in subsidaries held by similar entities.)
- A company that has only investments in associates but not investments in subsidiaries is required to equity account for the investments in associates. Currently, only disclosure of the equity accounting information is required.
- The carrying amount of an investment in an associate includes other long-term interests that, in substance, forms part of the investor's net investment in the associate. Accordingly, an investor cannot restructure its investment to fund the majority in non-equity instruments to avoid recognising the losses of the associate.

FRS 39 *Financial Instruments: Recognition and Measurement*

Effective: Annual periods beginning from 1 January 2005

Refer to Financial Reporting Matters October 2004 for common items affected by FRS 39; and Accounting Bulletin August 2003 for an update on the accounting standards relating to financial instruments.

Implementation

Companies that had not adopted the predecessor standard on financial instruments before 2005 should apply the standard prospectively. Comparative figures are not to be restated. Assets and liabilities are required to be classified under FRS 39 and fair value information may be required for the comparative figures for disclosure purposes.

Scope

The scope of FRS 39 is very wide and applies to all types of financial instruments, except for those specifically covered by other accounting standards (e.g. interests in subsidiaries, associates and joint ventures, leases, employee benefit plans, business combination, insurance contracts and the company's own equity). Contracts to buy or sell commodities are not within the scope of FRS 39 if they are for the company's own usage.

Common examples of financial instruments include cash and fixed deposits, commercial papers, accounts and notes receivables and payables, debt and equity securities and derivatives. Common examples of derivatives include forwards, swaps, futures, options, caps and floors.

Contracts that are not financial instruments may have financial instruments embedded within them. An example of an embedded derivative is the equity conversion feature in a convertible bond. The embedded derivative is required to be separated and recorded at fair value, with gains and losses taken to the profit or loss account, if the risks and characteristics of the embedded derivative are not closely related to the host contract.

Initial recognition and measurement

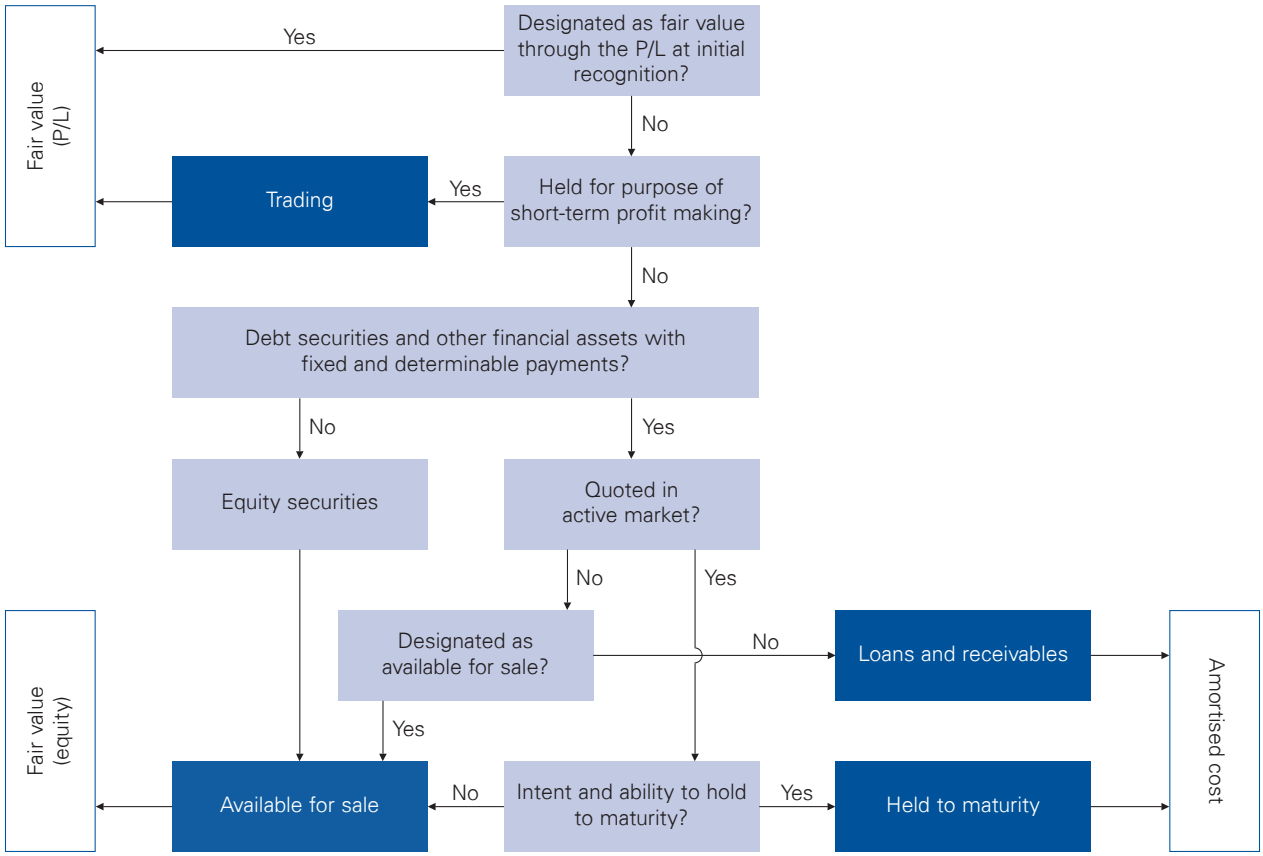
Financial assets and liabilities are initially measured at cost, which should normally equal its fair value i.e. the consideration given or received.

Transaction costs should also be included in the initial carrying amount of financial assets and liabilities. Where the financial assets or liabilities are measured at fair value through the profit and loss account, the transaction costs should be recognised in the profit and loss account immediately.

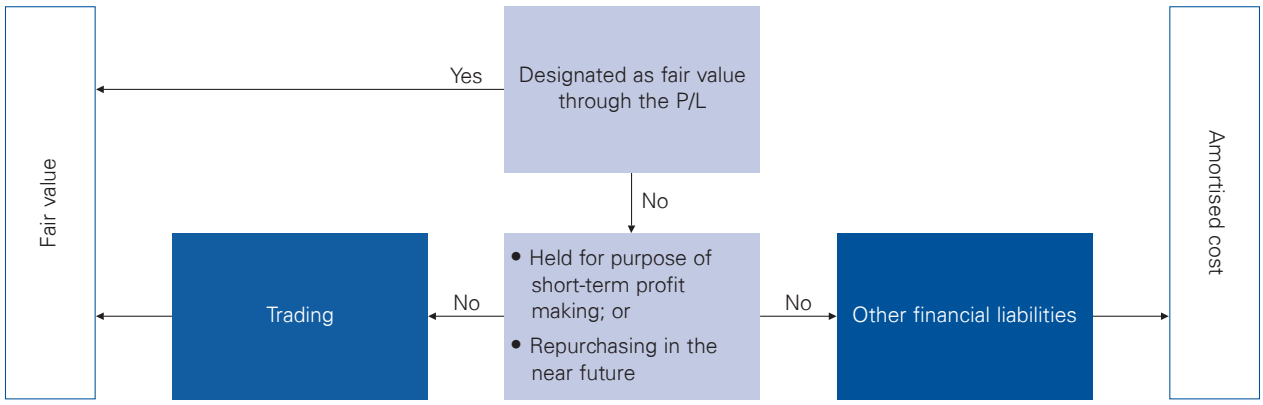
Classification of financial assets and financial liabilities and subsequent measurement

Subsequent measurement of financial assets and financial liabilities depends on its classification as illustrated in the following page. Amortised cost is calculated using the effective interest method.

Financial assets' classification into the four categories and its subsequent measurement



Financial liabilities' classification into the two categories and its subsequent measurement



Impairment of financial assets

At each balance sheet date, the company should assess whether there is objective evidence that impairment has occurred for its financial assets. The treatment of impairment loss is summarised in the table below:

Classification	Impairment test required?	Impairment loss recognised in	Reversal of impairment loss recognised in
Fair value through profit and loss	No	-	-
Loans and receivables	Yes	P/L	P/L
Held to maturity	Yes	P/L	P/L
Available for sale	Yes	Cumulative loss reversed from equity to profit and loss	P/L (for debt instruments only)

Derecognition

A financial asset is derecognised when:

- the rights to the cash flows from the asset expire; or
- the entity transfers substantially all the risks and rewards of ownership of the asset; or
- control of the asset is transferred.

A financial liability is removed from the balance sheet only when the liability is distinguished i.e. when the obligation specified in the contract is either discharged, cancelled or expired.

Hedge Accounting

Hedge accounting is not mandatory and may only be applied if certain stringent criteria relating to documentation and hedge effectiveness are met. The requirements relating to the three hedge accounting models under FRS 39 are summarised in the table below:

	Hedging instrument	Changes in fair value of hedging instrument	Hedged item	Changes in fair value of hedged item attributable to the hedge risk
Fair value hedge	Derivative/ Non-derivative[1]	P/L	Changes in the fair value of: • Recognised assets and liabilities • Firm commitment	P/L
Cash flow hedge	Derivative/ Non-derivative[1]	Effective: Equity Ineffective: P/L	Variability in cash flows attributable to a risk associated with: • Recognised assets and liabilities • Forecasted transaction • Foreign currency risk on a firm commitment in foreign currency	N.A.
Hedge of net investment in a foreign entity	Derivative/ Non-derivative[1]	Effective: Equity Ineffective: P/L	• Net assets of foreign entity	Equity

1 A non-derivative financial asset or liability may be designated as a hedging instrument only for a hedge of a foreign currency risk.

FRS 102 *Share-based Payment*

Effective: Annual periods beginning from 1 January 2005 (listed companies) and 1 January 2006 (all others)

Refer to Financial Reporting Matters October 2004 for details.

Implementation

For cash-settled share-based payment transactions that have not been settled at the effective date, the standard is generally applied retrospectively and comparatives are adjusted. However, an entity is not required to restate comparative information to the extent that the information relates to a date that is earlier than 22 November 2002, the date of issuance of the exposure draft.

For equity-settled transactions, the standard needs to be applied retrospectively only for equity instruments granted after 22 November 2002 and had not yet vested at the effective date. In addition, any modification made after the effective date should be accounted for under the standard.

Scope

The focus of the standard is on accounting for transactions where the reporting entity pays for goods and services by giving:

- the entity's own shares or other equity securities (such as share options over their own shares); or
- other assets (generally cash), where the amount payable will be linked to the price of the entity's own shares or other equity instruments.

The scope of the standard also extends to recording the value of certain share-based payment (SBP) benefits given to an entity's employees by other group companies, if they relate to services provided to the entity.

The standard does not concern itself with other transactions involving equity, when the counter-party is acting in the role of a shareholder. Also, shares issued as consideration in a business combination are outside the scope of FRS 102.

Where to put the debits and credits?

The debit is charged to the profit and loss account unless the goods or services qualify for recognition as assets. The credit is:

- recorded as a liability if the counter-party will receive cash; or
- recorded directly in equity if the counter-party will receive the entity's equity instruments.

Equity-settled share-based payment transactions

- SBP transactions with employees must be measured by reference to the fair value of equity instruments granted.
- As market prices are seldom available, the fair value is often estimated using a valuation technique.
- In measuring the fair value of an equity instrument, market conditions (such as performance of the share price for a period) attaching to that grant would need to be taken into account. However, other vesting conditions, such as length of service, would not be.
- Intrinsic value should only be used in rare circumstances.
- If the instruments vest immediately, then the charge is generally recognised immediately. If the instruments do not vest immediately, then the charge is generally spread pro-rata over the vesting period.
- The fair value of each instrument is not re-estimated. However, the total charge being spread over a vesting period will be re-estimated at each reporting date to take into account changes in estimates of how many instruments will vest under the non-market vesting conditions. No changes, other than transfers within equity, are made after the instruments vest.

Cash-settled share-based payment transactions

At initial recognition, the transaction is measured at the fair value of the liability. After initial recognition, the fair value of the liability is re-measured at each balance sheet date until settlement. Changes as a result of the re-measurement of the fair value are recognised in the profit and loss account.

FRS 104 *Insurance Contracts*

Effective: Annual periods beginning from 1 January 2005

Refer to Financial Reporting Matters October 2004 Supplement for details.

This first standard on insurance accounting is based on, without modifications, IFRS 4 *Insurance Contracts.* FRS 104 applies to all insurance contracts (including reinsurance contracts) that an entity issues and to reinsurance contracts that it holds, except for specified contracts covered by other FRSs.

FRS 104 defines an insurance contract as *"a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder."*

What constitutes an insurance contract is restricted by the definition of insurance risk, which is "risk other than financial risk". This definition of insurance risk excludes many financial instruments, including most derivatives, from the scope of the standard.

Generally, FRS 104 permits companies in most cases to continue their existing accounting practices for insurance contracts, although certain industry-wide practices are now prohibited.

FRS 105 *Non-current Assets Held for Sale and Discontinued Operations*

Effective: Annual periods beginning from 1 January 2005

Refer to Financial Reporting Matters August 2004 for details.

Implementation

FRS 105 should be applied prospectively. Entities are permitted to apply the standard to all non-current assets held for sale and discontinued operations from any date before 1 January 2005, provided that the valuations and other information needed to apply the standard were obtained at the time the original events were accounted for. FRS 105 will replace FRS 35 *Discontinuing Operations* when it becomes effective.

Classification as held for sale

A new classification of assets as 'assets held for sale' is introduced. A non-current asset (or disposal group) is classified as held for sale if:

- the asset (or disposal group) is available for immediate sale in its present condition; and
- the sale is highly probable.

For the sale to be highly probable management must be committed to a plan to sell the asset and the asset must be actively marketed at a reasonable price. The sale should also be expected to be completed within one year from the date of the asset is classified as held for sale.

Measurement

On initial classification as held for sale, the non-current asset (or disposal group) is re-measured at the lower of the carrying amount and the fair value less costs to sell. Any loss as a result of re-measurement is included in the profit and loss account regardless of whether the asset is previously measured based on a revalued amount. Depreciation should also cease.

A consequential change arising from FRS 105 is the removal of the consolidation exemption relating to a subsidiary that is acquired and held exclusively with a view to disposal. Hence, such subsidiaries must be consolidated but the related assets and liabilities are classified, measured and presented as disposal groups or held for sale if they meet the relevant criteria.

Discontinued Operations

FRS 105 requires classification as a discontinued operation at the earlier of the date that:

- the entity actually disposes of the operation; or
- the operation meets the criteria to be classified as held for sale.

This is different from FRS 35 that requires the classification of an operation as discontinuing at the earlier of (a) the entity entering into a binding sale agreement or (b) the board of directors approving and announcing the formal disposal plan.

E: List of FRS and INT FRS extant as at 30 November 2004

FRS /INT FRS	Title	Effective	Aligned with IFRS?	Superceded by
Preface	Preface to FRS Preface to INT FRS		Yes	
FRS Framework	Framework for the Preparation and Presentation of Financial Statements		Yes	
FRS 1	Presentation of Financial Statements	FY 1 Jan 2000	Yes	
Improved FRS 1	Presentation of Financial Statements	FY 1 Jan 2005	Yes	
INT FRS-8	First-Time Application of FRS as the Primary Basis of Accounting	FY 1 Jan 2003	Yes	FRS 101
INT FRS-18	Consistency - Alternative Methods	FY 1 Apr 2002	Yes	FRS 8
INT FRS-29	Disclosure - Service Concession Arrangements	1 Apr 2002	Yes	
FRS 2	Inventories	FY 1 Jul 1997	No	
Improved FRS 2	Inventories	FY 1 Jan 2005	Yes	
INT FRS-1	Consistency - Different Cost Formulas for Inventories	FY 1 Jan 1999	Yes	Improved FRS 2
FRS 7	Cash Flow Statements	FY 1 Jan 1995	Yes	
FRS 8	Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies	FY 1 Jul 2000	Yes	
Improved FRS 8	Accounting Policies, Changes in Accounting Estimates and Errors	FY 1 Jan 2005	Yes	
FRS 10	Events After the Balance Sheet Date	FY 1 Oct 2000	Yes	
Improved FRS 10	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 15	Information Reflecting the Effects of Changing Prices	FY 1 Apr 2001	Yes	
FRS 16	Property, Plant and Equipment	FY 1 Jan 1997	No	
Improved FRS 16	Property, Plant and Equipment	FY 1 Jan 2005	No	
INT FRS-14	Property, Plant and Equipment - Compensation for the Impairment or Loss of Items	FY 1 Oct 2000	Yes	Improved FRS 16
INT FRS-23	Property, Plant and Equipment - Major Inspection or Overhaul Costs	1 Apr 2001	Yes	Improved FRS 16
INT FRS-101	Changes in Existing Decommissioning, Restoration and Similar Liabilities	FY 1 Sep 2004	Yes	
FRS 17	Leases	FY 1 Jan 2000	No	
Improved FRS 17	Leases	FY 1 Jan 2005	No	
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 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	The Effects of Changes in Foreign Exchange Rates	FY 1 Jan 1997	Yes	
Improved FRS 21	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	
INT FRS-11	Foreign Exchange - Capitalisation of Losses Resulting from Severe Currency Devaluations	1 Jan 2000	Yes	Improved FRS 21
INT FRS-19	Reporting Currency - Measurement and Presentation of Financial Statements under FRS 21 and FRS 29	FY 1 Jan 2003	Yes	Improved FRS 21
INT FRS-30	Reporting Currency - Translation from Measurement Currency to Presentation Currency	FY 1 Jan 2003	Yes	Improved FRS 21
FRS 22	Business Combinations	FY 1 Oct 2000	No	FRS 103
INT FRS-9	Business Combinations - Classification either as Acquisitions or Unitings of Interest	FY 1 Oct 2000	Yes	FRS 103
INT FRS-22	Business Combinations - Subsequent Adjustment of Fair Values and Goodwill Initially Reported	Adjustments made in FY 1 Apr 2001	Yes	FRS 103
INT FRS-28	Business Combinations - "Date of Exchange" and Fair Value of Equity Instruments (SAS 22)	FY 1 Apr 2002	Yes	FRS 103

FRS /INT FRS	Title	Effective	Aligned with IFRS?	Superceded by
FRS 23	Borrowing Costs	FY 1 Jan 1997	Yes	
INT FRS-2	Consistency - Capitalisation of Borrowing Costs	FY 1 Jan 1999	Yes	Improved FRS 8
FRS 24	Related Party Disclosures	FY 1 Jan 1987	Yes	
Improved FRS 24	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	
FRS 27	Consolidated Financial Statements and Accounting for Investments in Subsidiaries	FY 1 Jan 1990	No	
Improved FRS 27	Consolidated and Separate Financial Statements	FY 1 Jan 2005	No	
INT FRS-12	Consolidation - Special Purpose Entities	FY 1 Jan 2000	Yes	
INT FRS-33	Consolidation and Equity Method - Potential Voting Rights and Allocation of Ownership Interests	FY 1 Apr 2002	Yes	Improved FRS 27
FRS 28	Accounting for Investments in Associates	FY 1 Jan 1991	No	
Improved FRS 28	Accounting for Investments in Associates	FY 1 Jan 2005	No	
INT FRS-3	Elimination of Unrealised Profits and Losses on Transactions with Associates	1 Jan 1999	Yes	Improved FRS 28
INT FRS-20	Equity Accounting Method - Recognition of Losses	1 Apr 2001	Yes	Improved FRS 28
INT FRS-33	Consolidation and Equity Method - Potential Voting Rights and Allocation of Ownership Interests	FY 1 Apr 2002	Yes	Improved FRS 28
FRS 29	Financial Reporting in Hyper-inflationary Economies	FY 1 Apr 2001	Yes	
FRS 31	Financial Reporting of Interests in Joint Ventures	FY 1 Jan 1995	No	
Improved FRS 31	Financial Reporting of 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	Financial Instruments: Disclosure and Presentation	FY 1 Oct 2000	No	
Improved FRS 32	Financial Instruments: Disclosure and Presentation	FY 1 Jan 2005	Yes	
INT FRS-5	Classification of Financial Instruments - Contingent Settlement Provisions	FY 1 Jan 2003	Yes	Improved FRS 32
INT FRS-16	Share Capital - Reacquired Own Equity Instruments (Treasury Shares)	FY 1 Jan 2003	Yes	Improved FRS 32
INT FRS-17	Equity - Cost of an Equity Transaction	FY 1 Apr 2002	Yes	Improved FRS 32
FRS 33	Earnings per Share	FY 1 Jan 1999	Yes	
Improved FRS 33	Earnings per Share	FY 1 Jan 2005	Yes	
INT FRS-24	Earnings Per Share - Financial Instruments that may be settled in shares	1 Apr 2001	Yes	Improved FRS 33
FRS 34	Interim Financial Reporting	FY 1 Oct 2001	Yes	
FRS 35	Discontinuing Operations	FY 1 Oct 2000	Yes	FRS 105
FRS 36	Impairment of Assets	FY 1 Oct 2000	Yes	Revised FRS 36
Revised FRS 36	Impairment of Assets	FY 1 July 2004	No	
FRS 37	Provisions, Contingent Liabilities and Contingent	FY 1 Oct 2000	Yes	
FRS 38	Intangible Assets	FY 1 Oct 2000	Yes	Revised FRS 38
Revised FRS 38	Intangible Assets	FY 1 July 2004	No	
INT FRS-6	Costs of Modifying Existing Software	FY 1 Oct 2000	Yes	Improved FRS 16
INT FRS-32	Intangible Assets - Web Site Costs	1 Oct 2002	Yes	
FRS 39	Financial Instruments: Recognition and Measurement	FY 1 Jan 2005	Yes	
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) FY 1 Jan 2006 (All Others)	Yes	
FRS 103	Business Combinations	FY 1 July 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	

First-time applicable in 2004 | First-time applicable in 2005 | Superceded in 2005

F. Differences between FRS and IFRS

Ref.	FRS / INT FRS	Comparison with IFRS
1.	FRS 2: *Inventories* (effective FY 1 July 1997)	IAS 2: *Inventories* There are no significant differences between IAS 2 and FRS 2, except that the allowed alternative of using the Last-in, First-out ("LIFO") formula in assigning costs to inventories is not allowed under FRS 2. The difference will be eliminated when the improved IAS 2 becomes effective. The improved IAS 2 does not permit the use of LIFO formula to measure the cost of inventories.
2.	FRS 16: *Property, plant and equipment* (effective FY 1 January 1997) Improved 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.
3.	FRS 17: *Leases* (effective FY 1 January 2000) Improved FRS 17: *Leases* (effective FY 1 January 2005)	IAS 17: *Leases* Paragraph 11 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. The improved FRS 17 has retained the current departure for leasehold land by amending paragraphs 14 and 15.
4.	FRS 22: *Business Combinations* (effective FY 1 October 2000) FRS 103: *Business Combinations* (effective FY 1 July 2004)	IAS 22: *Business Combinations* There are no significant differences between IAS 22 and FRS 22, except for the following arising from a different implementation date. IAS 22 requires goodwill to be capitalised and amortised for all acquisitions with effect from 1 January 1995. FRS 22 only requires this treatment for goodwill with effect from 1 October 2000. IFRS 3: *Business Combinations* IFRS 3 is applicable to accounting for business combinations for which **agreement date** is on or after **31 March 2004**. FRS 103 is applicable to accounting for business combinations for **annual periods** beginning on or after **1 July 2004**.
5.	FRS 25: *Accounting for Investments* (effective FY 1 Jan 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. FRS 25 is applicable, as Singapore does not have an FRS that is the equivalent of IAS 40. FRS 39 is only applicable for financial periods beginning on or after 1 January 2005. 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'.
6.	FRS 27: *Consolidated Financial Statements and Accounting for Investments in Subsidiaries* (effective FY 1 January 1990) Improved FRS 27: *Consolidated and Separate Financial Statements* (effective FY 1 January 2005)	IAS 27: *Consolidated Financial Statements and Accounting for Investments in Subsidiaries* There are no significant differences between IAS 27 (revised 2000) and FRS 27, other than those relating to IAS 39, which are not currently relevant in Singapore. Improved IAS 27 Under IAS 27 (revised 2003), for a wholly owned subsidiary to be exempted from presenting consolidated financial statements, the ultimate or any intermediate parent of the parent prepares consolidated financial statements that are available for public use and **comply with International Financial Reporting Standards**. FRS 27 only requires the ultimate or any intermediate parent's consolidated financial statements to be available for public use. FRS 27 does not specify the accounting standards that the ultimate parent should use to prepare its consolidated financial statements.

Ref.	FRS / INT FRS	Comparison with IFRS
7.	FRS 28: *Accounting for Investments in Associates* (effective FY 1 January 1991) Improved FRS 28: *Accounting for Investments in Associates* (effective FY 1 January 2005)	IAS 28: *Accounting for Investments in Associates* There are no significant differences between IAS 28 (revised 2000) and FRS 28 other than those relating to IAS 39, which are not currently relevant in Singapore. Improved IAS 28 Under IAS 28 (revised 2003), a company does not have to account for its investment in associates using the equity method if it is a wholly owned subsidiary and the ultimate or any intermediate parent of the parent prepares consolidated financial statements that are available for **public use and comply with International Financial Reporting Standards**. FRS 28 only requires the ultimate or any intermediate parent's consolidated financial statements to be available for public use. FRS 28 does not specify the accounting standards that the ultimate parent should use to prepare its consolidated financial statements.
8.	FRS 31: *Financial Reporting of Interests in Joint Ventures* (effective FY 1 January 1995) Improved FRS 31: *Financial Reporting of Interests in Joint Ventures* (effective FY 1 January 2005)	IAS 31: *Financial Reporting of Interests in Joint Ventures* There are no significant differences between IAS 31 (revised 2000) and FRS 31 other than those relating to IAS 39, which are not currently relevant in Singapore. Improved IAS 31: Under IAS 31 (revised 2003), a venturer with an interest in a jointly controlled entity is exempted from proportionate consolidation and equity method if the venturer is a wholly or partially owned subsidiary, and the ultimate or any intermediate parent of the parent prepares consolidated financial statements that are available for public use and **comply with International Financial Reporting Standards**. FRS 31 only requires the ultimate or any intermediate parent's consolidated financial statements to be available for public use. FRS 31 does not specify the accounting standards that the ultimate parent should use to prepare its consolidated financial statements.
9.	FRS 32: *Financial Instruments: Disclosure and Presentation* (effective FY 1 October 2000)	IAS 32: *Financial Instruments: Disclosure and Presentation* There are no significant differences between IAS 32 and FRS 32 other than those re lating to IAS 39, which are not currently relevant in Singapore.
10.	Revised FRS 36: *Impairment of Assets* (effective FY 1 July 2004)	Revised IAS 36: *Impairment of Assets* Revised 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 p respectively from the beginning of the first annual period beginning on or after **31 March 2004**. Revised FRS 36 is applicable to: (a) goodwill and intangible assets acquired in business combinations for **annual periods** beginning on or after **1 July 2004**; and (b) all other assets prospectively for annual periods beginning on or after **1 July 2004**.
11.	Revised FRS 38: *Intangible Assets* (effective FY 1 July 2004)	Revised IAS 38: *Intangible Assets* Revised 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 on or after **31 March 2004**. Revised FRS 38 is applicable to the accounting for: (a) intangible assets acquired in business combinations for **annual periods** beginning on or after **1 July 2004**; and (b) all other intangible assets prospectively for annual periods beginning on or after 1 July 2004.
12.	No FRS equivalent	IAS 30: *Disclosures in the Financial Statements of Banks and Similar Financial Institutions* Not yet adopted by ICPAS and is currently being reviewed. The Monetary Authority of Singapore has adopted it in its MAS 608 circular to banks.
13.	No FRS equivalent	IAS 40: *Investment Property* Singapore has not yet implemented IAS 40 and investment properties are accounted for under FRS 25 which allows the difference in fair value for one period to another to be taken to equity.

G. Future Changes

Draft Companies (Amendment No.2) Bill 2004

The Ministry of Finance (MoF) has initiated a public consultation exercise to seek comments on the proposed draft Companies (Amendment No. 2) Bill 2004. The consultation closed on 20 September 2004. The draft bill proposes to:

- abolish the concept of par value and authorised capital;
- introduce an alternative capital reduction process which does not require court sanction;
- liberalise the financial assistance restrictions to allow financial assistance to be provided under specific circumstances;
- allow share-buyback to be funded out of profits as well as capital where supported by a solvency statement;
- allow repurchased shares to be held as treasury shares; and
- introduce a more effective and efficient statutory form of merger/amalgamation process.

Singapore Exchange Listing Manual

Review of the threshold for quarterly reporting requirements
For financial years beginning from 1 January 2003, quarterly reporting was mandated for listed companies with market capitalisation exceeding $75 million as at 31 March 2003. This threshold will be reviewed in mid-2005.

Review of the Code of Corporate Governance
The CCDG is currently reviewing the Code of Corporate Governance (the Code), which was first issued by the Corporate Governance Committee in 2001. The review is intended to introduce improvements to the Code, taking into account feedback received since the inception of the Code and international developments in corporate governance. The CCDG aims to complete its review and submit its recommendations to the MoF by the first half of 2005.

Financial Reporting Standards

The October 2004 issue of IFRS in Brief covers the September 2004 meeting of the IASB and other recent activities of both the IASB and the International Financial Reporting Interpretation Committee (IFRIC). The November 2004 issue of IFRS in Brief covers the October 2004 meeting of the IASB. The IFRS Briefing Sheet enclosed contains a summary of the IASB's current projects.

Significant future developments in financial reporting standards relate to work on the Business Combinations Phase II project and amendments to IAS 37 and IAS 12.

Business Combinations Phase II: Application of purchase method
It will require entities to adopt the full goodwill method when acquiring less than 100% of an entity. It also will include significant revisions to the accounting for changes in minority interests, which will be treated as transactions within equity.

Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
Generally the proposals will require recognition of restructuring provisions at a later date than is current practice. This project also will propose changes to accounting for contingent assets and contingent liabilities as a result of Phase II of the Business Combinations Project.

Amendments to IAS 12 *Income Taxes*
This project proposes to eliminate exceptions to the basic principles of recognising deferred taxes. Possible areas for changes include exemption from initial recognition and not providing for unremitted earnings of subsidiaries.

For the above three proposals, exposure drafts are scheduled for release in the fourth quarter of 2004 and the final standards are expected late in 2005.

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

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