FRS 109


Key Concepts, Implementation Guide and Transition Rules
**FRS 109 - Scope**

**Objective** – establish principles for the financial reporting of *Financial Assets* and *Financial Liabilities* for financial statement users to assess the *amounts, timing and uncertainty of entity’s future cash flows*.

<table>
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<th>FRS 109 Applicable to all entities</th>
<th>Except for where FRS 109 does not apply to:</th>
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</table>
| **Investments**                   | • Interests in subsidiaries, associates and JVs under SB-FRS 110 Consolidated Financial Statements,  
                                  • SB-FRS 27 Separate Financial Statements or  
                                  • SB FRS 28 Investment in Associates and Joint Ventures |
| **Leases**                        | • SB – FRS 116 Leases                    |
| • Finance Lease Receivables (net investments in finance leases)  
  • Derecognition requirements of lease liabilities recognized by lessee  
  • Embedded derivatives in leases |                                             |
| **Employee Benefits**             | Employers rights and benefits under employee benefits plans SB- FRS 19 |
| **Equity**                        | Equity instruments issued under SB-FRS 32 (including options and warrants) by issuing entity |
| **Insurance**                     | • Rights and obligations under an insurance contract SB-FRS 104 for an issuer other than a financial guarantee contract  
                                  • Discretionary participation feature |
| • Derivative embedded in an insurance contract  
  • Financial guarantee contracts (previously explicitly asserted as insurance contract). Option to use FRS 104 or 109 but irrevocable once elected. |                                             |
| **Business Combination**          | • Forward contract between acquirer resulting in a business combination SB-FRS 103 |
| • Issuer of loan commitments – apply impairment requirements and recognition requirements  
  • Designated loan commitments as financial liabilities FVPNL  
  • Loan commitments can be settled Net in Cash by delivering or issuing another financial instrument  
  • Commitments to provide a loan at below market interest rates | Loan commitments |
| **Share based payments**          | Financial instruments, contracts and obligations under share based transactions SB-FRS 102 |
| **Provisions & Contingent Liabilities** | SB-FRS 37 – Provisions, Contingent Liabilities and Contingent Assets – rights to payments to reimburse expenditure to settle a liability recognized as a provision |
| **Revenue from Contracts**        | SB-FRS 115 – Revenue from Contracts – rights and obligations within the scope that are financial instruments |
| • Exceptions to SB-FRS 115        |                                             |
| **Contracts for Non Financial Items** | Contracts to buy/sell Non-Financial item : settled net in cash / another financial instrument / exchange (except for held to maturity for delivery of items)  
  • Designated for FVPNL at inception  
  • A written OPTION to buy/sell a Non Financial item (except for held to maturity for delivery of items) |                                             |
Financial Assets - Recognition, Transfers, Derecognition

**Recognition**
- **Substantially retains all risks and rewards – continue to recognize assets**
- **Substantially transfer all risks and rewards**

**Evaluate**
- **In Entirety – 100%**
  - **Allocated value**
  - **Control**
    - **Retained**
    - **Lost**

**De-recognition**
- **Carrying Value – Consideration = Gain/Loss (PNL)**
- **Contractual rights to cash flows expire**
- **Transfer qualifies for derecognition**
  - **Part of Asset / Group of Similar Assets**
    - Specifically identified cash flows e.g. interest rate strip: counterparty right to interest but not principal
    - Part comprises fully proportionate (pro rata) share of 100% of cash flows.
    - Part comprises fully proportionate (pro rata) share of specifically identified cash flows e.g. 90% of interest cash flows

**Transfer**
- **Transfers contractual right to receive cash flows**
  - **Retains contractual rights to receive cash flows but assumes contractual obligation to pay cash flows**

**Conditions**
- No obligation to pay unless collections from assets
- Prohibited by transfer terms from selling/pledging original asset other than as security to recipients for obligation to pay them cash flows
- Obligated to remit cash flows to recipients without material delays. No reinvestment allowed except in cash equivalents (interest passed to recipients)

**Retention**
- **Neither Transfers**
- **Nor Retains substantially risks and rewards of ownership of asset**
- **But retains control then...**
  - Continues to recognize the transferred asset to the extent of continuing involvement

**Guarantees asset: lower of**
- Asset amount
- Guaranteed amount required to be repaid

**Written or purchased option**
- (or both): Lower of
  - fair value
  - Option exercise price

**Cash Settled Option or similar provision on transferred asset – same treatment as Option**

**Also recognizes an associated liability – reflecting rights and obligations of retained asset.**

**Recognize income and expenses**

**Subsequent measurement – changes in fair value captured**

**Transferor**
- **Transfers Non Cash Collateral (debt or equity instruments)**
- **Transferee**

**Transferee Recognizes collateral as its asset (FV) or if collateral sold de recognize liability**

**Transferee Recognizes a liability at Fair value for return of collateral**

**Transferor Defaults**
- **Transferee Recognizes collateral as loaned asset, pledged equity instrument of repurchase receivable – separately from other assets**

**Transferor to reclassify collateral**
- **Transferor to reclassify asset as loaned asset, pledged equity instrument of repurchase receivable – separately from other assets**

**Transferee Sells collateral**
- **Right by Contract / Custom to SELL or Repledge collateral**

For ALL TRANSFERS – assets and liabilities will NOT be offset, income and expenses will NOT be offset

**Ezee Pte. Ltd. – Singapore FRS 109 Summary**

Singapore FRS 109
Financial Liabilities - Derecognition

- Removing Financial Liability – ONLY when extinguished i.e. obligation in contract discharged or cancelled or expired
- Exchange of debt instruments between lender and borrower with **substantially different terms / modification** – extinguish existing liability and replace with new liability
- Liability Carrying value – consideration paid (including non-cash assets transferred or liabilities assumed) = Recognized in Profit and Loss

Classification of Financial Assets

- **Hold** financial assets to collect contractual cash flows
- Contract terms generate cash flows of **principal** and **interest** on specified dates

**Amortized Cost**

- **Fair Value Through Profit & Loss (FVPNL)**
  - If IRREVOCABLE election at initial recognition for particular Equity investments
  - To eliminate or significantly reduce **ACCOUNTING MISMATCH**
  - Documented risk management or investment strategy to manage performance for a group of financial assets / liabilities – performance info shared with key management personnel

- **Fair Value through Other Comprehensive Income (FVOCI)**

**Model**

- Option

- **Hold** financial assets to collect contractual cash flows **AND selling assets**
- Contract terms generate cash flows of **principal** and **interest** on specified dates

- **Loss** financial assets to collect contractual cash flows
- Contract terms generate cash flows of **principal** and **interest** on specified dates
Classification of Financial Liabilities

- **Financial Liabilities**
  - **Subsequently All measured at Amortized Cost**
    - **Except For**
      - **Financial Liabilities at FVPNL (including derivatives)**
      - **Transfer of financial asset does not qualify for derecognition OR when continuing involvement approach applies**
      - **Financial Guarantee Contracts. Measure higher of**
        - Amount of loss allowance determined
        - Amount initially recognized LESS cumulative amount of income recognized
      - **Commitments to provide loans at below market interest rate. Subsequent measure higher of**
        - Amount of loss allowance determined
        - Amount initially recognized LESS cumulative amount of income recognized
      - **Contingent consideration recognized by acquirer in business combination (SB-FRS 103)**
        - subsequently measured at Fair Value with changes recognized in Profit & Loss (FVPNL)
Embedded Derivatives

Option to designate entire hybrid contract as FVPNL UNLESS:
- Embedded derivative does not significantly modify cash flows
- Separation of embedded derivative is prohibited (i.e. prepayment option at amortized cost)

Host is not an asset under FRS 109

Non Derivative Host (use appropriate Accounting Standards)

If unable to measure separately either at acquisition or subsequently then...

Embedded Derivative (non-transferable)

FRS 109 only applied if
- Economic characteristics and risks not closely related to host
- Separate instrument with same terms would meet derivative definition
- Hybrid contract not measured FVPNL

If unable to measure FV of embedded derivative then – FV of Hybrid Contract LESS FV of Host = FV of Embedded Derivative

Causes Cash Flow modifications from
- Specified interest rate
- Financial instrument price
- Commodity price
- Foreign exchange rate
- Index of prices or rates
- Credit rating
- Credit index
- Other Variable

If unable to measure FV of hybrid contract then –

Hybrid Contract

Non Derivative

Embedded Derivative (non-transferable)
### Measurement

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<tr>
<th>Initial</th>
<th>Subsequent</th>
<th>Amortized</th>
<th>Impairment</th>
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#### Financial Assets:

- **Amortized Costs**
- **FVOCI**
- **FVPNL**

#### Financial Liabilities:

- Subsequently All measured at Amortized Cost
- **Financial Liabilities at FVPNL (including derivatives)**
- Transfer of financial asset does not qualify for derecognition OR when continuing involvement approach applies
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- Contingent consideration recognized by acquirer in business combination (SB-FRS 103) subsequently measured at Fair Value with changes recognized in Profit & Loss (FVPNL)

#### Expected Credit Losses

- **Recognize LA in PNL as impairment gain/loss for ECL for FA, lease receivable, financial guarantee**
- **For FA under FVOCI, LA recognized in OCI but not reduce FA carrying amount**
- **At each reporting date – measure LA for Lifetime ECL due to credit risk increase and risk of default over expected life of instrument**
- **If credit risk stable since initial LA, then measure at 12 month ECL**
- **Use forward looking info without undue cost/effort where available to assess risk. Where not available then use past due information to evaluate risk.**
- **Simplified approach for trade receivables, contract assets and lease receivables using lifetime ECL**
- **ECL should reflect**
  - an unbiased and probability weighted amount determined using a range of possible outcomes,
  - time value of money and reasonable and
  - supportable information available without undue cost or effort at reporting date about past events, current conditions and forecasts of future economic conditions

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**FA** – Financial Asset | **FL** – Financial Liability | **FV** – Fair Value | **AC** – Amortized Cost | **FVOCI** – Fair Value through Other Comprehensive Income | **CI** – Credit Impaired | **CI** – Credit Impaired | **HA** – Hedge Accounting | **CF** – Cash Flows | **EIR** – Effective Interest Rate | **LA** - Loss Allowance | **ECL** – Expected Credit Losses

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Reclassification of Financial Assets

**Amortized Cost**
- FV at reclassification date becomes new gross carrying amount

**Fair Value through Profit & Loss**
- FV is measured at reclassification date
- Any gain/loss on Amortized cost LESS Fair Value = Recognized in Profit & Loss
- Results in FA measured at amortized cost
- No impact on PNL and therefore not technically a reclassification

**Fair Value through Other Comprehensive Income**
- FV at reclassification date becomes new gross carrying amount
- Cumulative gain/loss previously recognized in OCI is removed from equity and adjusted against the FV of the FA.
- Results in FA measured at amortized cost
- Cumulative gain/loss previously recognized in OCI is reclassified from equity to Profit or loss as a reclassification adjustment at the reclassification date

Reclassification – Prospectively from Effective Date. No restatement for previously recognized gains, losses or interest
Gains & Losses

Gain or Loss on Financial Asset or Financial Liability – measured at Fair Value shall be Recognized in Profit & Loss, UNLESS:
- Part of hedging relationship
- Investment in equity instrument (FVOCI elected)
- Financial liability designated as FVPNL and required to present effects of changes in credit risk in OCI
- Financial Asset measured at FVOCI

Dividends
Recognized in Profit & Loss only when:
- Right to received payment of dividend is established
- Probable that economic benefits for dividend will flow to entity
- Dividend can be measured reliably

Diagram:
- Liability designated as FVPNL
- Remaining FV change
- Profit & Loss
- Other Comprehensive Income
- FV change due to Change in Credit Risk
- Financial Asset
- Derecognition of Financial Asset
- Cumulative gain or loss previously recognized
- Reclass
- Gain or Loss Allowance in OCI
  - Impairment FV change
  - FX FV change
- Equity
Hedge Accounting

Entity

Risk Management Activities

Using Financial Instruments to manage risks that impact (only contracts with external parties but including entities in the same group but only in individual/separate financial statements, NOT in Consolidated Accounts)*

Convey Context of Hedging Instruments where hedge accounting is applied

Qualifying
- Reliably Measurable
- Asset / Liability
- Firm Commitment
- Forecast Transaction (highly probable)
- Net Investment in Foreign Operation
- Single Or Group of items

Non Qualifying
- Entire 100%
  - △ Cash Flows
  - △ Fair Value

Hedging Instrument

Component

Non Qualifying

100% designated

Option Contract – Intrinsic Value

Spot Element – Forward Contract

Proportion of Entire Hedging Instrument – e.g. 50%

Option Contract - Time Value

Forward Element – Forward Contract

Change in FV for a portion of time period of outstanding instrument

Financial Liability (FVPNL) △ in FV due to Credit Risk (OCI)

Non Derivative Asset / Liability (FVPNL)

Derivative (FVPNL)

Joint designation as hedging instrument in combination permitted

Investment in Equity Instrument (FVOCI) to hedge FX risk

Other Comprehensive Income – Investments in Equity Instruments where FVOCI has been elected

Profit & Loss

Ezee Pte. Ltd. – Singapore FRS 109 Summary

* An exception is allowed as a hedged item for FX gains and losses on intragroup monetary items that are not fully eliminated

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Hedge Accounting – Qualifying Criteria

Qualifying Criteria for Hedge Accounting Relationship

- Eligible hedging instruments and eligible hedged items
- At inception -> formal designation and documentation -> risk management objective and strategy. Documentation to include
  - hedging instrument,
  - hedged item,
  - nature and risk being hedged and
  - assessment of how entity will meet hedge effectiveness requirements (analysis / sources of hedge ineffectiveness and hedge ratio
- Meets following hedge effectiveness requirements
  - Economic relationship between hedged item and hedging instruments
  - Effect of credit risk does not dominate the value changes resulting from economic relationship
  - Hedge ratio = qty of hedged item : qty of hedged instrument (no imbalance between between weighting of items to create hedge ineffectiveness where outcome of hedge inconsistent with hedge purpose
Other Accounting Scenario’s

**Accounting for Time Value of Options**

- **Option Contract**
  - **Intrinsic Value**
  - **Time Value**
    - △ in Intrinsic value designated as hedging instrument
    - Transaction related hedged item

**If Hedge Accounting Discontinued**

- Time value at date of designation – extent to which it relates to hedged item
  - Equity investment – election to present change in FV through OCI
  - Systematic and rational amortization to Profit And Loss over time period

**Other Comprehensive Income**

- **Net Amount** (including cumulative amortization accumulated in Separate Component of Equity)
  - Amortization amount at each reporting period - △ in Fair Value of the time value of option
  - Reclass Adjustment

**Profit & Loss**

- Initial Cost
  - Remove from separate component of equity and include in INITIAL COST / Carrying Amount of NFA/NFL. No Re-Class. No Impact on OCI

- (A) - Subsequent Recognition of
  - NFA / NFL
  - Firm commitment of NFA / NFL Where Fair Value Hedge Accounting applied

- (B) – for items other than (A) above,
  - Remove from separate component of equity and Re-Class to PNL in same period where hedged future CFs affect PNL

- (C) – no expectation of future recovery
  - Immediate Reclass to PNL

**NFA** – Non Financial Asset, **NFL** – Non Financial Liability
Hedging gains or losses on a group of items with offsetting risk positions (net position) where the hedged risks affect different line items in the Profit or Loss and Other Comprehensive Income, shall be presented in a separate line from those affected by the hedged items.

In the statement of financial position, the gain or loss on assets and liabilities that are hedged together as a group in a fair value hedge, shall be recognized as an adjustment to the carrying amount of the respective individual items comprising the group.