FRS 109

Singapore Financial Reporting Standard for Financial Instruments effective Jan 1, 2019.

Key Concepts, Implementation Guide and Transition Rules

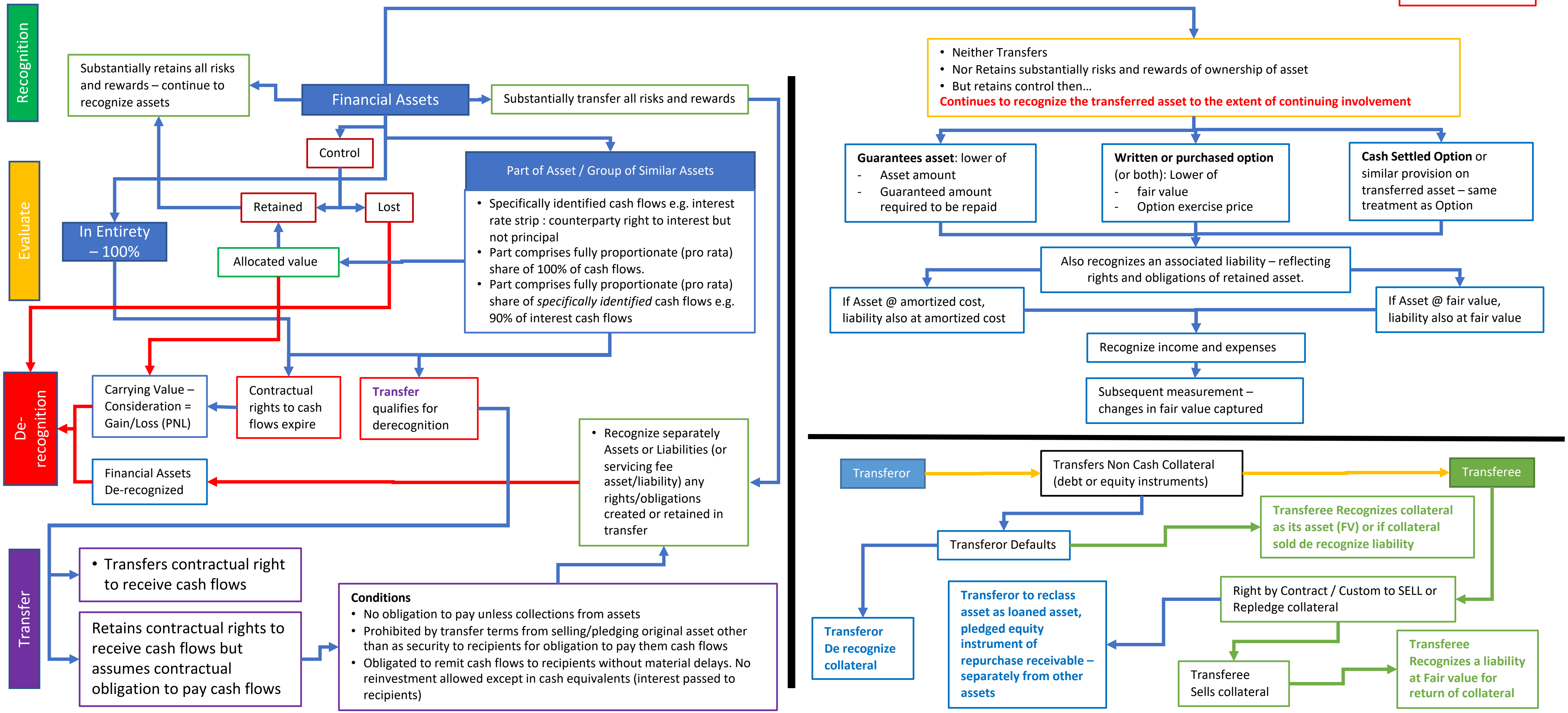
FRS 109 - Scope

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*

	FRS 109 Applicable to all entities	Except for where FRS 109 does not apply to :
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	• Finance Lease Receivables (net investments in finance leases) • Derecognition requirements of lease liabilities recognized by lessee • Embedded derivates in leases	• SB – FRS 116 Leases
Employee Benefits		Employers rights and benefits under employee benefits plans SB- FRS 19
Equity	Holder of equity instruments	Equity instruments issued under SB-FRS 32 (including options and warrants) by issuing entity
Insurance	• 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.	• Rights and obligations under an insurance contract SB-FRS 104 for an issuer other than a financial guarantee contract • Discretionary participation feature
Business Combination		• Forward contract between acquirer resulting in a business combination SB-FRS 103
Loan Commitments	• 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	• Exceptions to SB-FRS 115	• Sb-FRS 115 – Revenue from Contracts – rights and obligations within the scope that are financial instruments
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

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



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 / modificat**ion – *extinguish existing liabili*ty 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

Model

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

→ **Amortized Cost**

Option →

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**

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

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

- principal – Fair value of Financial asset at initial recognition
- interest – consideration for time value of money, for associated credit risk / basic lending risks and costs + profit margin
- Accounting Mismatch – measuring assets or liabilities or recognizing the gains and losses on different bases

Classification of Financial Liabilities

Financial Liabilities

Subsequently All measured at Amortized Cost

Except For

Financial Liabilities at FVPNL (including derivatives)

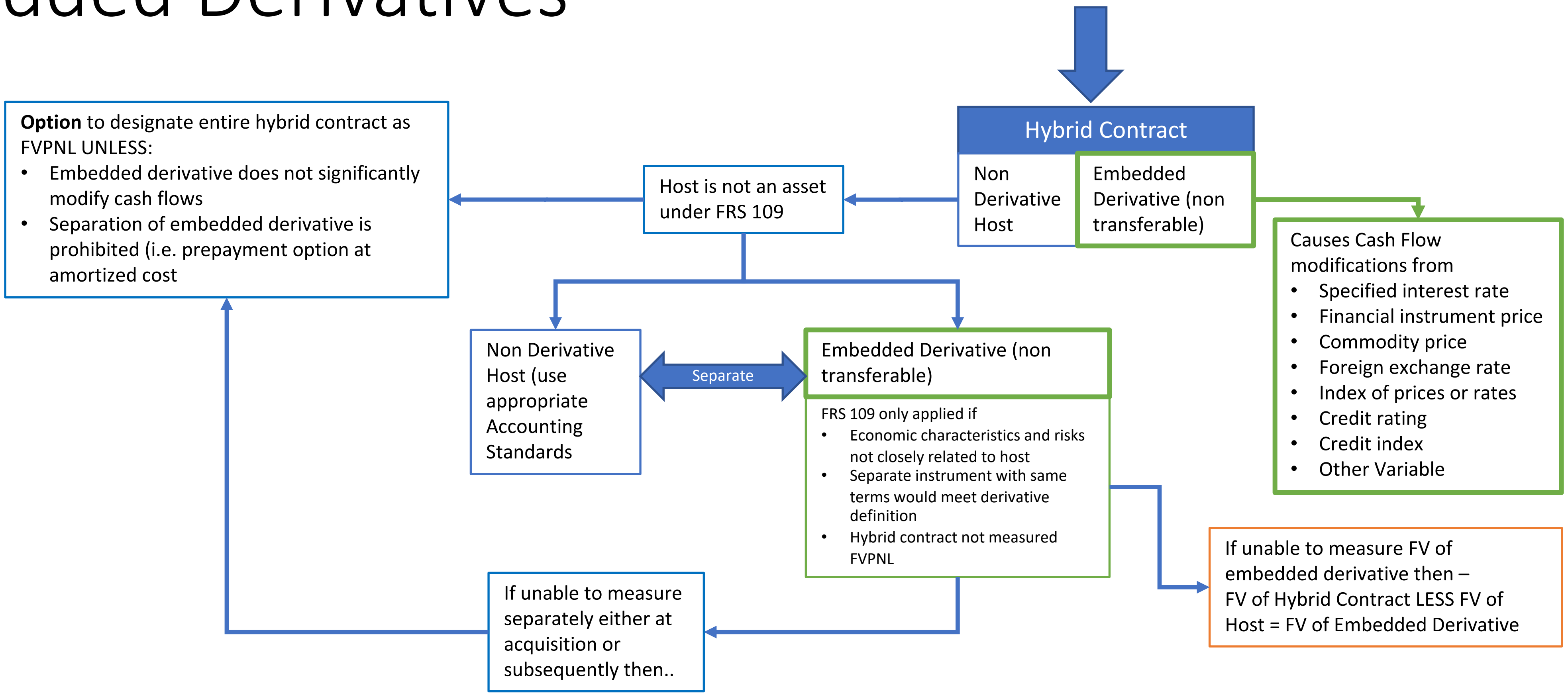
Transfer of financial asset does not qualify for derecognition OR when continuing involvement approach applies

Financial Guarantee Contracts. Measure **higher** of
- Amount of loss allowance determined
- Amount Initially recognized <u>LESS</u> 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 <u>LESS</u> 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



Measurement

Initial

FV + Transaction Costs

OR

IF FV <> Transaction Price
- FV = observable quoted market price LESS Transaction Price = Gain/Loss in PNL
- When no market price available, then defer FV Less Transaction Price as gain/loss to the extent it arises from a change in a factor market participants use to price the FA/FL

Subsequent

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
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)

Amortized

Financial Assets

Effective Interest Method : apply Eff. Int. Rate to gross carrying amount of FA
Except for –
- Purchased or originate CI FA. Apply credit adjusted EIR to AC of FA from initial recognition
- FA not purchased or originated CI FA but subsequently became CI FA – apply ERI to AC of FA in subsequent period

If FA is no longer CI, calculate interest revenue by applying EIR to gross carrying amount

Modification of contractual cash flows –
- Not resulting in de-recognition
- Recalculate gross carrying amount (PV of modified CF of original EIR) of FA
- Recognize modification gain/loss in PNL
- Costs/fees amortized over remaining term

Write Off – directly reduce the gross carrying amount of FA when no reasonable expectations of recovering a FA either entirely or a portion thereof and this constitutes a DE RECOGNITION event

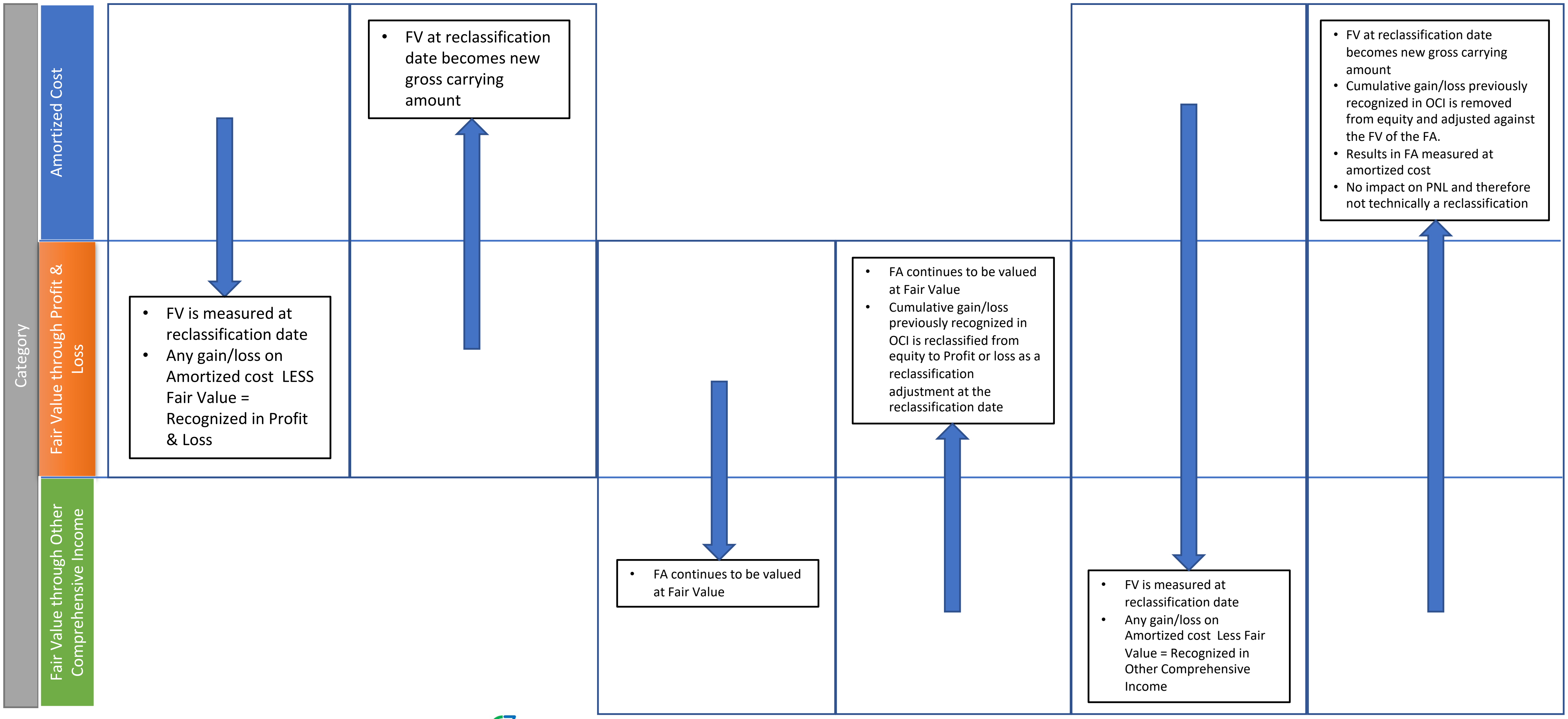
Impairment

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

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

Reclassification of Financial Assets

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**,

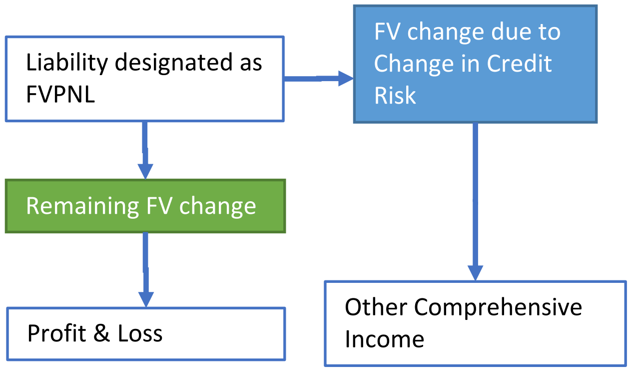
UNLESS

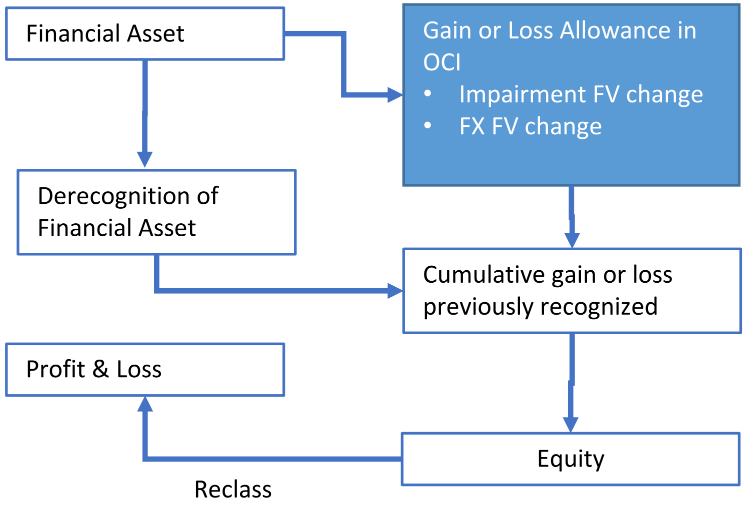
- Part of hedging relationship
- Investment in equity instrument (FVOCI elected)
- Financial liability designated as FVPNL and required to present effects of changes in credit risk in OCI
- Financial Asset measured at FVOCI

Dividends

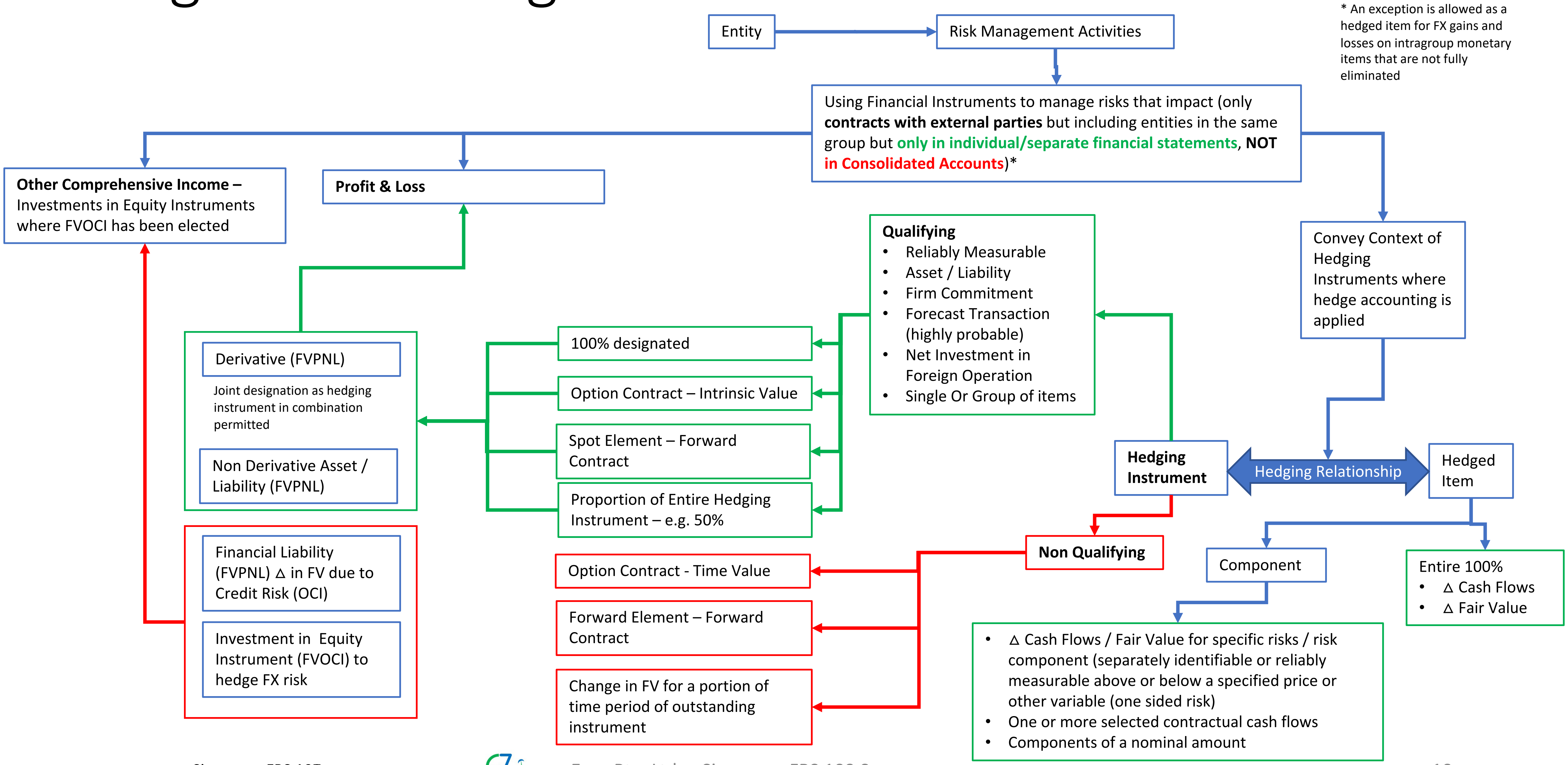
Recognized in Profit & Loss only when

- Right to received payment of dividend is established
- Probable that economic benefits for dividend will flow to entity
- Dividend can be measured reliably





Hedge Accounting

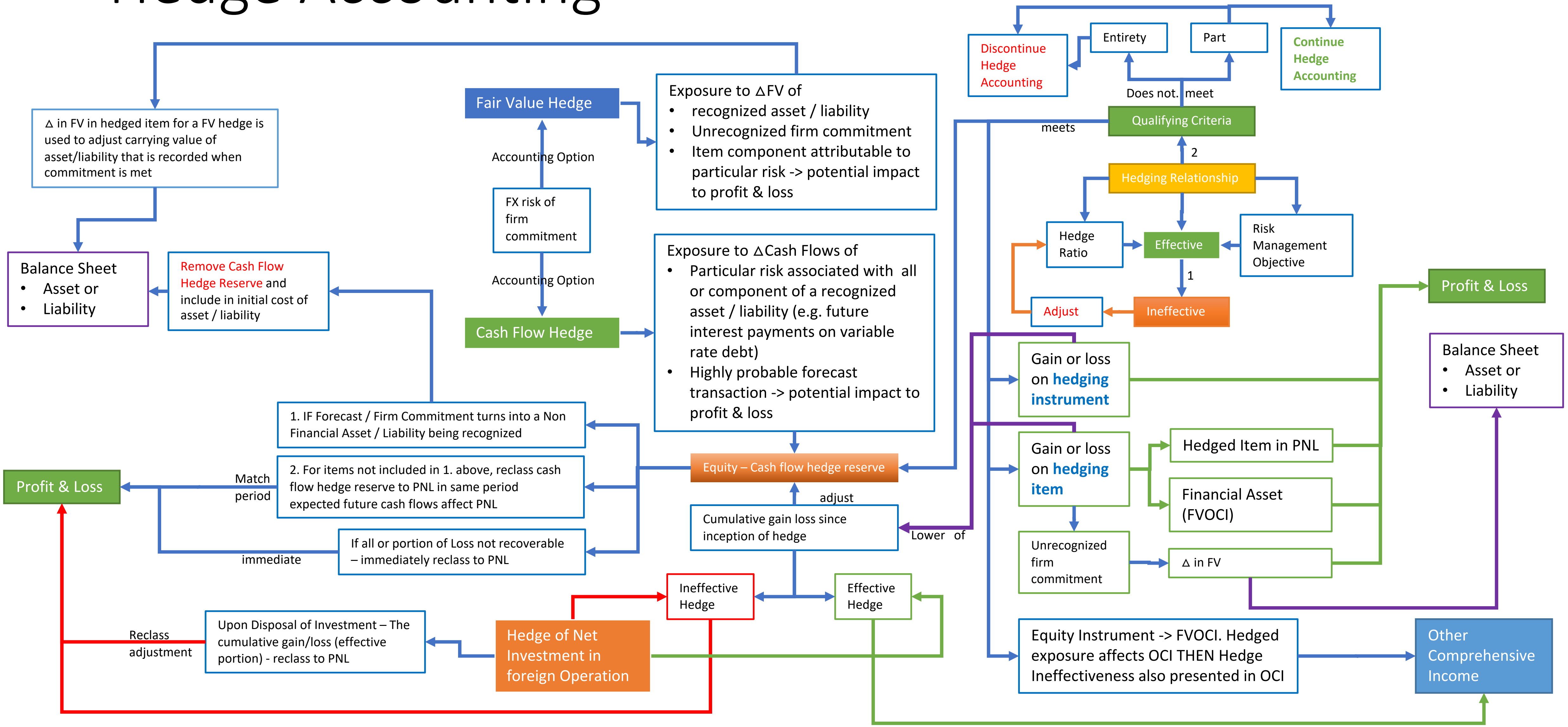


Hedge Accounting – Qualifying Criteria

Qualifying Criteria for Hedge Accounting Relationship

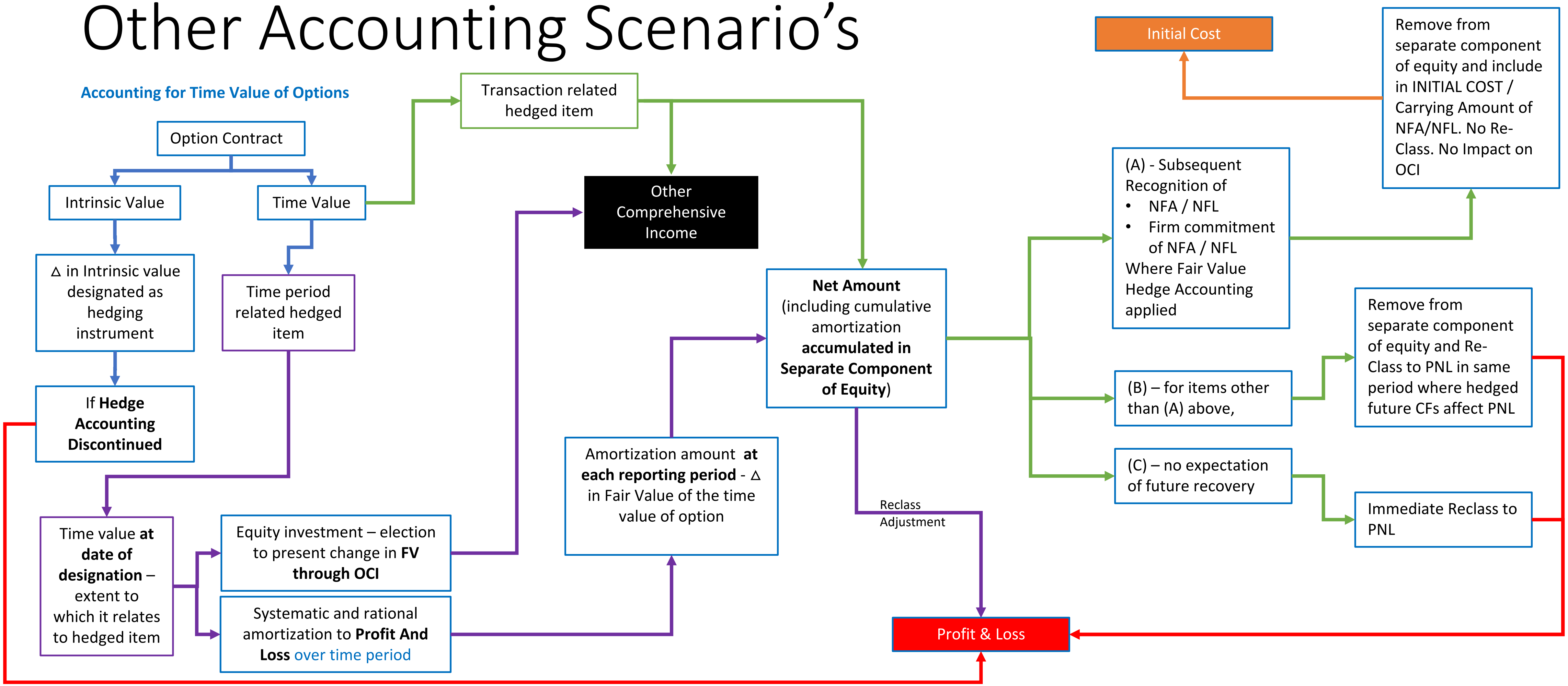
- Eligible hedging instruments and eligible hedged items
- At inception -> formal designation and documentation -> risk management objective and strategy. Documentation to include
    - hedging instrument,
    - hedged item,
    - nature and risk being hedged and
    - assessment of how entity will meet 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

Hedge Accounting



Other Accounting Scenario's

Accounting for Time Value of Options



NFA – Non Financial Asset, **NFL** – Non Financial Liability

Presentation

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.