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Exposure Draft ISCA Financial Reporting Guidance 3

ED FRG 3:

Preparation of Interim Financial Statements
under SFRS(I) 1-34 *Interim Financial Reporting*
(in compliance with the SGX Listing Rule
705(3A))

Comments to be received by 25 March 2021

REQUEST FOR COMMENTS

Exposure Draft Financial Reporting Guidance 3 (ED FRG 3) *Preparation of Interim Financial Statements under SFRS(I) 1-34 Interim Financial Reporting (in compliance with the SGX Listing Rule 705(3A))* is published by the Institute of Singapore Chartered Accountants (ISCA) for comment only. The proposals may be modified in light of any comments received before being issued in their final form. All comments will be considered a matter of public record. Comments need to be received by 25 March 2021 and should be submitted in writing to ISCA, by email to: technical@isca.org.sg.

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The Institute of Singapore Chartered Accountants (ISCA) is the national accountancy body of Singapore. ISCA's vision is to be a globally recognised professional accountancy body, bringing value to our members, the profession and wider community. There are over 32,000 ISCA members making their stride in businesses across industries in Singapore and around the world.

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About ISCA's Financial Reporting Committee

ISCA's Financial Reporting Committee (FRC) is chaired by Mr Reinhard Klemmer and comprises representatives from legal and accounting firms, corporate, regulators and academia in the financial reporting eco-system. FRC's terms of reference include monitoring policy and implementation issues relating to the development of accounting standards internationally and in Singapore, and to identify, understand and address accounting issues faced by professional accountants in Singapore, and provide support through the issuance of guidances.

The terms of reference are executed through FRC with the support of two Sub-Committees, namely the Core Sub-Committee and the Valuation Sub-Committee. The FRC Core Sub-Committee is the technical accounting arm of FRC and comprises various technical accounting subject matter experts from accounting firms. The Core Sub-Committee engages in technical deliberations on emerging accounting issues in Singapore and new or revised accounting developments proposed by the international accounting standards setter.

Preface

On 12 January 2021¹, SGX made amendments to the Listing Rules to clarify that issuers are to prepare their financial statements, including interim financial statements, in accordance with prescribed accounting standards. Below is an extract of the said amendments to the Listing Rules (deletions are struck-through and insertions are underlined):

Financial Statements

705(1)

An issuer must announce the financial statements for the full financial year (as set out in Appendix 7.2²) immediately after the figures are available, but in any event not later than 60 days after the relevant financial period.

705(3)

(b) An issuer that is not required to comply with Rule 705(2) ~~may~~ must either:

- (i) announce the financial statements for each of the first three quarters of its financial year (as set out in Appendix 7.2); or
- (ii) announce its first half financial statements (as set out in Appendix 7.2),

in each case immediately after the figures are available, but in any event not later than 45 days after the relevant financial period.

705(3A)

An issuer that prepares its financial statements under Rule 705 in accordance with Appendix 7.2 must also prepare such financial statements in accordance with the relevant accounting standards for interim financial reports under Singapore Financial Reporting Standards (International) ("SFRS(I)s"), or International Financial Reporting Standards ("IFRS"), or US Generally Accepted Accounting Principles ("US GAAP").

The Listing Rule amendments on accounting standards for interim financial statements will take effect for issuers' financial statements for any interim financial period ending on or after 30 June 2021³. Under SFRS(I) 1-34, any financial period shorter than a full financial year, including the fourth quarter and the second half of a financial year, is an interim financial period by definition.

With the above clarification, issuers (that prepare their financial statements in accordance with SFRS(I)s or IFRS) are required to prepare their interim financial statements in accordance with SFRS(I) 1-34 *Interim Financial Reporting* or IAS 34 *Interim Financial Reporting*.

¹ SGX press release: <https://www.sgx.com/media-centre/20210112-sgx-regco-enhances-rules-auditors-valuers-and-valuation-reports>

² Appendix 7.2 is in the Mainboard Rules. The equivalent reference for the Catalist Rules is Appendix 7C.

³ This applies to the first, second, third and fourth quarters, and the first and second halves of the financial year. This also applies to the full-year announcement, which will typically contain the full-year financial information, along with the second half or the fourth quarter financial information, depending on whether the issuer adopts half-yearly or quarterly announcements..

ISCA⁴, through its Financial Reporting Committee (FRC), is issuing this Financial Reporting Guidance 3 (FRG 3) to aid issuers in understanding the implications of the Listing Rule 705(3A) to their interim financial statements and to highlight the key areas to take note of when preparing a set of interim financial statements under SFRS(I) 1-34⁵.

Listing Rule 705(3A) requiring issuers reporting under SFRS(I) 1-34 in their interim financial statements provides a framework for comprehensive disclosures and enhances comparability of issuers' financial statements on an international level.

In addition to reading this FRG 3, issuers should read, understand and apply the requirements in SFRS(I) 1-34 when preparing a set of interim financial statements. It should be noted that this FRG 3 only highlights the key requirements in SFRS(I) 1-34 and should be read in conjunction with SFRS(I) 1-34 and other relevant SFRS(I)s.

This FRG 3 does not address the preparation of interim financial statements under US GAAP.

⁴ ISCA acknowledges and thank the following members of the FRC Core Sub-Committee for their contributions towards the development of this publication:

- Mr Reinhard Klemmer (FRC Chairman)
- Ms Chan Yen San
- Mr Chen Voon Hoe
- Ms Cheng Ai Phing
- Prof Chua Kim Chiu
- Mr Aylwin How
- Ms Kok Moi Lre
- Ms Ong Suat Ling
- Ms Soh Lin Leng
- Mr Wong Yew Chung

⁵ SFRS(I) 1-34 is equivalent to IAS 34

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1. Overview of the regulatory changes

(A) Listing Rule requirements prior to the addition of the Listing Rule 705(3A) on 12 January 2021

Prior to the addition of the Listing Rule 705(3A) on 12 January 2021, the relevant Listing Rules governing the preparation of interim financial statements were as follows:

Listing Rule 220(1)⁶

For primary listings, the financial statements submitted with the application, and future periodic financial reports, must be prepared in accordance with Singapore Financial Reporting Standards (International) ("SFRS(I)s"), or International Financial Reporting Standards ("IFRS"), or US Generally Accepted Accounting Principles ("US GAAP"). Accounts that are prepared in accordance with IFRS or US GAAP need not be reconciled to SFRS(I)s. In the case of a collective investment scheme that is authorised by MAS, it must comply with the applicable requirements under the Code on Collective Investment Schemes.

Listing Rule 705(1)

An issuer must announce the financial statements for the full financial year (as set out in Appendix 7.2⁷) immediately after the figures are available, but in any event not later than 60 days after the relevant financial period.

Listing Rule 705(3)(b)

An issuer that is not required to comply with Rule 705(2) may either:

- (i) announce the financial statements for each of the first three quarters of its financial year (as set out in Appendix 7.2); or
- (ii) announce its first half financial statements (as set out in Appendix 7.2),

in each case immediately after the figures are available, but in any event not later than 45 days after the relevant financial period.

If an issuer that is not required to comply with Rule 705(2) announces its quarterly financial statements in a format other than as set out in Appendix 7.2, it must comply with Rule 705(3)(b)(ii).

⁶ Listing Rule 220(1) is in the Mainboard Rules. With effect from 12 February 2021, Mainboard Rule 220(1) has been re-numbered to Mainboard Rule 211A(1).

The equivalent reference for the Catalist Rules is Catalist Rule 415(1). With effect from 12 February 2021, Catalist Rule 415(1) has been re-numbered to Catalist Rule 406A(1).

⁷ Appendix 7.2 is in the Mainboard Rules. The equivalent reference for the Catalist Rules is Appendix 7C.

(B) Issuance of the Listing Rule 705(3A) and SGX response paper

On 12 January 2021, SGX amended Rule 705(3)(b) and added Rule 705(3A) to its Listing Rules.

Listing Rule 705(3)

(b) An issuer that is not required to comply with Rule 705(2) ~~may~~ must either:

- (i) announce the financial statements for each of the first three quarters of its financial year (as set out in Appendix 7.2); or
- (ii) announce its first half financial statements (as set out in Appendix 7.2),

in each case immediately after the figures are available, but in any event not later than 45 days after the relevant financial period.

Listing Rule 705(3A)

An issuer that prepares its financial statements under Rule 705 in accordance with Appendix 7.2 must also prepare such financial statements in accordance with the relevant accounting standards for interim financial reports under Singapore Financial Reporting Standards (International) ("SFRS(I)s"), or International Financial Reporting Standards ("IFRS"), or US Generally Accepted Accounting Principles ("US GAAP").

In the SGX response paper⁸ titled "Enhancements to Regulatory Regime for Property Valuation and Auditors", Section III(3) "Other Enhancements on Accounting and Auditing Matters", provides the rationale for the one-word amendment to Rule 705(3)(b) and for the addition of Rule 705(3A).

With the addition of the Listing Rule 705(3A), it is clarified that issuers reporting under SFRS(I) must comply with the requirements of SFRS(I) 1-34, in addition to the disclosure requirements of Listing Rule Appendix 7.2.

⁸ https://api2.sgx.com/sites/default/files/2021-01/AuditVal%20Response%20Paper_Final.pdf

2. Key requirements in SFRS(I) 1-34

(A) What is the basis of preparation for a set of interim financial statements under SFRS(I) 1-34?

The basis of preparation is SFRS(I) 1-34, and this fact shall be disclosed⁹ in that set of interim financial statements. It should be noted that a set of interim financial statements shall not be described as complying with SFRS(I)s unless it complies with all the requirements of SFRS(I)s.

(B) What are the key requirements in SFRS(I) 1-34 and what are the implications for issuers?

S/n	Paragraphs in SFRS(I) 1-34 (underline added for emphasis)	Implications for issuers
1	4 Interim period is a financial reporting period shorter than a full financial year. Interim financial report means a financial report containing either a complete set of financial statements (as described in SFRS(I) 1-1 Presentation of Financial Statements) or a set of condensed financial statements (as described in this Standard) for an interim period.	Paragraph 4 sets out two definitions. Any financial period shorter than a full financial year is an interim period. For example, a financial period covering the second half of the financial year is an interim period by definition. Issuers can choose to publish its "interim financial report" (as defined) in the form of either a complete set (as described in SFRS(I) 1-1) or a condensed set (as described in SFRS(I) 1-34) of financial statements.
2	6 In the interest of timeliness and cost considerations and to avoid repetition of information previously reported, an entity may be required to or may elect to provide less information at interim dates as compared with its annual financial statements. This Standard defines the minimum content of an interim financial report as including condensed financial statements and selected explanatory notes. <u>The interim financial report is intended to provide an update on the latest complete set of annual financial statements. Accordingly, it focuses on new activities, events, and circumstances and does not duplicate information previously reported.</u>	The "interim financial report" is intended to provide an update on the most recent annual financial statements. Therefore, issuers should focus the disclosures in the interim financial statements on new activities, events and circumstances that have taken place since the end of the last annual reporting period.
3	8 An interim financial report shall include, at a minimum, the following components: (a) a condensed statement of financial position; (b) a condensed statement or condensed statements of profit or loss and other comprehensive income; (c) a condensed statement of changes in equity; (d) a condensed statement of cash flows; and (e) selected explanatory notes.	The minimum requirements relating to headings and sub-totals in a set of condensed financial statements and selected explanatory notes are set out in paragraphs 10 and 16A, respectively, of SFRS(I) 1-34 (see below).

⁹ Paragraph 19 of SFRS(I) 1-34

2. Key Requirements in SFRS(I) 1-34

S/n	Paragraphs in SFRS(I) 1-34 (underline added for emphasis)	Implications for issuers
4	10 If an entity publishes a set of condensed financial statements in its interim financial report, those <u>condensed statements shall include, at a minimum, each of the headings and subtotals that were included in its most recent annual financial statements</u> and the selected explanatory notes as required by this Standard. <u>Additional line items or notes shall be included if their omission would make the condensed interim financial statements misleading.</u>	Listing Rule Appendix 7.2 currently requires the presentation of the required statements in any format provided the same format is used for each quarter (for Q1, Q2 and Q3 announcements). This is different from the requirement under SFRS(I) 1-34 – the condensed statements are to include, at a minimum, each of the headings and subtotals that were included in the issuer's most recent annual financial statements. Hence, issuers are to ensure that the condensed statements contain each of the headings and subtotals that were included in their most recent annual financial statements. Issuers should include additional line items or notes are to be included in the interim financial statements, in addition to the headings and subtotals provided in the most recent annual financial statements, if the omission would make the interim financial statements misleading.
5	15 An entity shall include in its interim financial report <u>an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period.</u> Information disclosed in relation to those events and transactions shall update the relevant information presented in the most recent annual financial report.	In line with the intent to provide updates to the users of financial statements, a set of interim financial statements must include explanations of events and transactions that are significant to an understanding of the changes in the issuer's financial position or performance since the end of the last annual reporting period. Paragraphs 15B of SFRS(I) 1-34 provide examples of events and transactions that may need to be disclosed (note: the list of examples provided is not exhaustive). As individual SFRS(I)s provide guidance on the disclosure of certain events and transactions. If the relevant information has been included in the last complete set of annual financial statements, issuers should provide an update on that information in the interim financial statements. In addition to disclosing significant events and transactions, issuers are required to include the information set out in paragraph 16A of SFRS(I) 1-34 in the notes to the interim financial statements or elsewhere in the interim financial report. The information shall normally be reported on a financial year-to-date basis. If the information is disclosed elsewhere (e.g. in management commentary or risk report), the issuer should cross-reference from the interim financial statements to such other statement(s). Such other statement(s) should be available to users of the financial statements on the same terms as the interim financial statements and at the same time.
6	15B(i) The following is a list of events and transactions for which disclosures would be required if they are significant: the list is not exhaustive.	Issuers are required to disclose any loan default or breach of a loan agreement that has not been remedied on or before the end of the interim reporting period.

2. Key Requirements in SFRS(I) 1-34

S/n	Paragraphs in SFRS(I) 1-34 (underline added for emphasis)	Implications for issuers
	(i) <u>any loan default or breach of a loan agreement that has not been remedied on or before the end of the reporting period</u>	If loan defaults or breaches of loan agreements are not remedied on or before the end of the interim reporting period (i.e. the issuer has not obtained a waiver for the default or breach), the issuer should reassess the classification of its assets and liabilities as at the interim reporting date. For instance, if the breaches result in the liability becoming repayable on demand, that liability needs to be reclassified as current as at the interim reporting date.
7	16A(a) and (b) ...An entity shall include the following information, in the notes to its interim financial statements or elsewhere in the interim financial report... (a) a statement that the same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements or, if those policies or methods have been changed, a description of the nature and effect of the change. (b) explanatory comments about the seasonality or cyclicity of interim operations.	These requirements are self-explanatory.
8	16A(c) ...An entity shall include the following information, in the notes to its interim financial statements or elsewhere in the interim financial report... (c) the nature and amount of items affecting assets, liabilities, equity, net income or cash flows that are <u>unusual because of their nature, size or incidence.</u>	Issuers are required to disclose unusual items (because of nature, size or incidence) in the interim financial statements or elsewhere in the interim financial report.
9	16A(f) ...An entity shall include the following information, in the notes to its interim financial statements or elsewhere in the interim financial report... (f) <u>dividends paid (aggregate or per share) separately for ordinary shares and other shares.</u>	Issuers are required to disclose the dividends paid (aggregate or per share) separately for ordinary shares and other shares in the interim financial statements.
10	16A(g) ...An entity shall include the following information, in the notes to its interim financial statements or elsewhere in the interim financial report... (g) <u>the following segment information (disclosure of segment information is required in an entity's interim financial report only if SFRS(I) 8 Operating Segments requires that entity to disclose segment information in its annual financial statements):</u>	Issuers are required to include segment information in the interim financial statements. Listing Rule Appendix 7.2 currently requires the disclosure of segmented information for full year announcement only.

2. Key Requirements in SFRS(I) 1-34

S/n	Paragraphs in SFRS(I) 1-34 (underline added for emphasis)	Implications for issuers
	<ul style="list-style-type: none"> (i) revenues from external customers, if included in the measure of segment profit or loss reviewed by the chief operating decision maker or otherwise regularly provided to the chief operating decision maker. (ii) intersegment revenues, if included in the measure of segment profit or loss reviewed by the chief operating decision maker or otherwise regularly provided to the chief operating decision maker. (iii) a measure of segment profit or loss. (iv) a measure of total assets and liabilities for a particular reportable segment if such amounts are regularly provided to the chief operating decision maker and if there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment. (v) a description of differences from the last annual financial statements in the basis of segmentation or in the basis of measurement of segment profit or loss. (vi) a reconciliation of the total of the reportable segments' measures of profit or loss to the entity's profit or loss before tax expense (tax income) and discontinued operations. However, if an entity allocates to reportable segments items such as tax expense (tax income), the entity may reconcile the total of the segments' measures of profit or loss to profit or loss after those items. Material reconciling items shall be separately identified and described in that reconciliation. 	
11	<p>20</p> <p>Interim reports shall include interim financial statements (condensed or complete) for periods as follows:</p> <ul style="list-style-type: none"> (a) statement of financial position as of the end of the current interim period and a comparative statement of financial position as of the end of the immediately preceding financial year. 	<p>For issuers that prepare interim financial statements for either a half-yearly or a quarterly period, in addition to presenting the statements of profit or loss and other comprehensive income for that half year or that quarter, SFRS(I) 1-34 requires issuers to present the statements of profit or loss and other comprehensive income for the <u>current financial year to date</u> (with year-to-date comparatives).</p>

2. Key Requirements in SFRS(I) 1-34

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	<p>(b) statements of profit or loss and other comprehensive income for the current interim period and cumulatively for the current financial year to date, with comparative statements of profit or loss and other comprehensive income for the comparable interim periods (current and year-to-date) of the immediately preceding financial year. As permitted by SFRS(I) 1-1, an interim report may present for each period a statement or statements of profit or loss and other comprehensive income.</p> <p>(c) statement of changes in equity cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year.</p> <p>(d) statement of cash flows cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year.</p>	<p>The following tables summarise the statements required to be presented by issuers with a 31 December 20x1 financial year-end, which prepare either half-yearly or quarterly interim financial statements:</p> <p><i>Half-yearly reporting (first half) – interim financial statements for the first half-year ended 30 June 20x1:</i></p> <table border="1" data-bbox="874 528 1385 904"> <thead> <tr> <th>Statement</th> <th>Current</th> <th>Comparative</th> </tr> </thead> <tbody> <tr> <td>Statement of financial position</td> <td>30 June 20x1</td> <td>31 December 20x0</td> </tr> <tr> <td>Statements of profit or loss and other comprehensive income</td> <td>6 months ended 30 June 20x1</td> <td>6 months ended 30 June 20x0</td> </tr> <tr> <td>Statement of changes in equity</td> <td>6 months ended 30 June 20x1</td> <td>6 months ended 30 June 20x0</td> </tr> <tr> <td>Statement of cash flows</td> <td>6 months ended 30 June 20x1</td> <td>6 months ended 30 June 20x0</td> </tr> </tbody> </table> <p><i>Half-yearly reporting (second half) – interim financial statements for the second half-year ended 31 December 20x1:</i></p> <table border="1" data-bbox="874 1016 1385 1608"> <thead> <tr> <th>Statement</th> <th>Current</th> <th>Comparative</th> </tr> </thead> <tbody> <tr> <td>Statement of financial position</td> <td>31 December 20x1</td> <td>31 December 20x0</td> </tr> <tr> <td>Statements of profit or loss and other comprehensive income</td> <td>6 months ended 31 December 20x1 Year to date: 12 months ended 31 December 20x1</td> <td>6 months ended 31 December 20x0 Year to date: 12 months ended 31 December 20x0</td> </tr> <tr> <td>Statement of changes in equity</td> <td>Year to date; 12 months ended 31 December 20x1</td> <td>Year to date; 12 months ended 31 December 20x0</td> </tr> <tr> <td>Statement of cash flows</td> <td>Year to date; 12 months ended 30 June 20x1</td> <td>Year to date; 12 months ended 30 June 20x0</td> </tr> </tbody> </table> <p><i>Quarterly reporting (Q1) – interim financial statements for the first quarter ended 31 March 20x1:</i></p> <p>Similar to Q2 (see below) except that the year-to-date period is for 3 months ended 31 March 20x1.</p> <p><i>Quarterly reporting (Q2) – interim financial statements for the second quarter ended 30 June 20x1:</i></p> <table border="1" data-bbox="874 1939 1385 2042"> <thead> <tr> <th>Statement</th> <th>Current</th> <th>Comparative</th> </tr> </thead> <tbody> <tr> <td>Statement of financial position</td> <td>30 June 20x1</td> <td>31 December 20x0</td> </tr> </tbody> </table>	Statement	Current	Comparative	Statement of financial position	30 June 20x1	31 December 20x0	Statements of profit or loss and other comprehensive income	6 months ended 30 June 20x1	6 months ended 30 June 20x0	Statement of changes in equity	6 months ended 30 June 20x1	6 months ended 30 June 20x0	Statement of cash flows	6 months ended 30 June 20x1	6 months ended 30 June 20x0	Statement	Current	Comparative	Statement of financial position	31 December 20x1	31 December 20x0	Statements of profit or loss and other comprehensive income	6 months ended 31 December 20x1 Year to date: 12 months ended 31 December 20x1	6 months ended 31 December 20x0 Year to date: 12 months ended 31 December 20x0	Statement of changes in equity	Year to date; 12 months ended 31 December 20x1	Year to date; 12 months ended 31 December 20x0	Statement of cash flows	Year to date; 12 months ended 30 June 20x1	Year to date; 12 months ended 30 June 20x0	Statement	Current	Comparative	Statement of financial position	30 June 20x1	31 December 20x0
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2. Key Requirements in SFRS(I) 1-34

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12	28	<p data-bbox="395 1731 849 2029">An entity shall <u>apply the same accounting policies in its interim financial statements as are applied in its annual financial statements, except for accounting policy changes made after the date of the most recent annual financial statements that are to be reflected in the next annual financial statements.</u> However, the frequency of an entity's reporting (annual, half-yearly, or quarterly) shall not affect the measurement of its annual results. To</p> <p data-bbox="868 1731 1394 1872">Issuers are required to apply the same accounting policies in its interim financial statements as that of the most recent annual financial statements, unless the accounting policies have changed.</p> <p data-bbox="868 1899 1394 2011">Paragraphs 28 to 39 of SFRS(I) 1-34 set out the general recognition and measurement principles relevant for interim financial reporting. Part B of the illustrative examples accompanying SFRS(I)</p>																								

2. Key Requirements in SFRS(I) 1-34

S/n	Paragraphs in SFRS(I) 1-34 (underline added for emphasis)	Implications for issuers
	<p>achieve that objective, measurements for interim reporting purposes shall be made on a year-to-date basis.</p>	<p>1-34 provides examples of applying those principles.</p> <p>One of the examples relate to “Impairment of Assets”. Note that impairment losses on goodwill recognised in an interim period are not allowed to be reversed subsequently – see Section 4(B) for more details.</p> <p>Paragraphs B35 and B36 of Illustrative Examples also state that:</p> <p><u>Paragraph B35</u> SFRS(I) 1-36 <i>Impairment of Assets</i> requires that an impairment loss be recognised if the recoverable amount has declined below carrying amount.</p> <p><u>Paragraph B36</u> This Standard requires that an entity apply the same impairment testing, recognition, and reversal criteria at an interim date as it would at the end of its financial year. That does not mean, however, that an entity must necessarily make a detailed impairment calculation at the end of each interim period. Rather, an entity will review for indications of significant impairment since the end of the most recent financial year to determine whether such a calculation is needed.</p>
13	<p>16A(a)</p> <p>...An entity shall include the following information, in the notes to its interim financial statements or elsewhere in the interim financial report...</p> <p>(a) a statement that the same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements or, if those policies or methods have been changed, a description of the nature and effect of the change.</p>	<p>Issuers need to consider whether any new/revised standards that became effective during the interim reporting period would require a change in the issuer’s accounting policies.</p>
14	<p>41</p> <p><u>The measurement procedures to be followed in an interim financial report shall be designed to ensure that the resulting information is reliable and that all material financial information that is relevant to an understanding of the financial position or performance of the entity is appropriately disclosed.</u> While measurements in both annual and interim financial reports are often based on reasonable estimates, the preparation of interim financial reports generally will require a greater use of estimation methods than annual financial reports.</p>	<p>Part C of Illustrative Examples accompanying SFRS(I) 1-34 provides examples of applying the principle in paragraph 41 on the use of estimates.</p> <p>One of the samples relate to “Revaluations and fair value accounting”. Paragraph C7 of Illustrative Examples state that:</p> <p><u>Paragraph C7</u> Revaluations and fair value accounting: SFRS(I) 1-16 <i>Property, Plant and Equipment</i> allows an entity to choose as its accounting policy the revaluation model whereby items of property, plant and equipment are revalued to fair value. SFRS(I) 16 <i>Leases</i> allows a lessee to measure right-of-use assets applying the revaluation model in SFRS(I) 1-16 if those right-of-use assets relate to a class of property, plant and equipment to which the lessee applies the revaluation model in SFRS(I) 1-16. Similarly,</p>

2. Key Requirements in SFRS(I) 1-34

S/n	Paragraphs in SFRS(I) 1-34 (underline added for emphasis)	Implications for issuers
		SFRS(I) 1-40 <i>Investment Property</i> requires an entity to measure the fair value of investment property. For those measurements, an entity may rely on professionally qualified valuers at annual reporting dates though not at interim reporting dates.

(C) Is the use of the going concern assumption appropriate for the interim financial statements?

Financial statements are typically prepared on a going concern basis, that is, assuming the issuer will continue in operation for the foreseeable future (which is at least, but is not limited to, 12 months from the end of the reporting period).

Issuers are required¹⁰ to assess whether the going concern assumption is still appropriate in light of events and circumstances which may have taken place since the end of the last annual reporting period. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the issuer's ability to continue as a going concern, the issuer shall disclose those uncertainties in that set of interim financial statements.

The need to assess an entity's ability to continue as a going concern for the interim financial statements is highlighted in the IFRS Foundation's publication¹¹ titled "Going concern—A focus on disclosure":

"When preparing financial statements, whether annual or interim, IAS 1 requires management to assess the entity's ability to continue as a going concern. The Standard defines going concern by explaining that financial statements are prepared on a going concern basis unless management either intends to liquidate the entity or to cease trading or has no realistic alternative but to do so."

¹⁰ Paragraph 4 of SFRS(I) 1-1 *Presentation of Financial Statements* states that paragraphs 15 to 35 of SFRS(I) 1-1 apply to interim financial statements prepared in accordance with SFRS(I) 1-34. Paragraph 25 of SFRS(I) 1-1 requires management to make an assessment of the entity's ability to continue as a going concern.

¹¹ <https://cdn.ifrs.org/-/media/feature/news/2021/going-concern-jan2021.pdf?la=en>

3. Complying with the requirements of SFRS(I) 1-34 and Listing Rule Appendix 7.2

SFRS(I) 1-34 requires more holistic disclosures than that prescribed in Listing Rule Appendix 7.2¹².

Such additional requirements include disclosures of key judgements/estimates and explanations for significant changes from the last audited annual financial report. This enables users to have a better understanding of what has happened to the issuer since the last audited annual financial report and to understand the key judgements/estimates applied. The overriding goal of SFRS(I) 1-34 is to ensure that an interim financial report includes all information that is relevant to understanding an issuer's financial position and performance during the interim period.

Therefore, a set of interim financial statements that is prepared in compliance with SFRS(I) 1-34 should concurrently meet the requirements of Listing Rule Appendix 7.2 if it provides certain additional disclosures prescribed by Listing Rule Appendix 7.2. These additional disclosures are summarised in the table below.

Paragraph in Listing Rule Appendix 7.2		See Note
1(b)(i)	A statement of financial position (for the <u>issuer</u> ¹³ and group), together with a comparative statement as at the end of the immediately preceding financial year.	B
1(b)(ii)	In relation to the aggregate amount of the group's borrowings and debt securities, specify the following as at the end of the current financial period reported on with comparative figures at the end of the immediately preceding financial year:- (A) the amount repayable in one year or less, or on demand; (B) the amount repayable after one year; (C) whether the amounts are secured or unsecured; and (D) details of any collateral	B
1(d)(i)	A statement (for the <u>issuer</u> ⁷ and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.	B
1(d)(ii)	Details of any changes in the company's share capital arising from rights issue, bonus issue, subdivision, consolidation, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State the number of shares that may be issued on conversion of all the outstanding convertibles, if any, against the total number of issued shares excluding treasury shares and subsidiary holdings of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year. State also the number of shares held as treasury shares and the number of subsidiary holdings, if any, and the percentage of the aggregate number of treasury shares and subsidiary holdings held against the total number of shares outstanding in a class that is listed as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.	B
1(d)(iii)	To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.	B
1(d)(iv)	A statement showing all sales, transfers, cancellation and/or use of treasury shares as at the end of the current financial period reported on.	B

¹² Appendix 7.2 is in the Mainboard Rules. The equivalent reference for the Catalist Rules is Appendix 7C.

¹³ Listing Rule Appendix 7.2 requires the presentation of a statement of financial position and a statement of changes in equity of the issuer, in addition to SFRS(I) 1-34's requirement for the presentation of a statement of financial position and a statement of changes in equity of the group.

3. Complying with the requirements of SFRS(I) 1-34 and Listing Rule Appendix 7.2

Paragraph in Listing Rule Appendix 7.2		See Note																				
1(d)(v)	A statement showing all sales, transfers, cancellation and/or use of subsidiary holdings as at the end of the current financial period reported on.	B																				
2	Whether the figures have been audited or reviewed, and in accordance with which auditing standard or practice.	A																				
3	Where the figures have been audited or reviewed, the auditor's report (including any modifications or emphasis of a matter).	A																				
3A	<p>Where the latest financial statements are subject to an adverse opinion, qualified opinion or disclaimer of opinion:—</p> <p>(a) Updates on the efforts taken to resolve each outstanding audit issue.</p> <p>(b) Confirmation from the Board that the impact of all outstanding audit issues on the financial statements have been adequately disclosed.</p> <p>This is not required for any audit issue that is a material uncertainty relating to going concern.</p>	A																				
7	<p>Net asset value (for the issuer and group) per ordinary share based on the total number of issued shares excluding treasury shares of the issuer at the end of the:—</p> <p>(a) current financial period reported on; and</p> <p>(b) immediately preceding financial year.</p>	B																				
8	<p>A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following:—</p> <p>(a) any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and</p> <p>(b) any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.</p>	C																				
17	<p><i>[For announcement of the last quarter financial results or the second half-year financial results]</i></p> <p>In the review of performance, the factors leading to any material changes in contributions to turnover and earnings by the business or geographical segments.</p>	C																				
18	<p><i>[For announcement of the last quarter financial results or the second half-year financial results]</i></p> <p>A breakdown of sales as follows:</p> <table border="1"> <thead> <tr> <th></th> <th>Latest Financial Year \$'000</th> <th>Previous Financial Year \$'000</th> <th>% increase / (decrease)</th> </tr> </thead> <tbody> <tr> <td></td> <td>Group</td> <td>Group</td> <td>Group</td> </tr> <tr> <td>(a) Sales reported for first half year</td> <td></td> <td></td> <td></td> </tr> <tr> <td>(b) Operating profit/loss after tax before deducting non-controlling interests reported for first half year</td> <td></td> <td></td> <td></td> </tr> <tr> <td>(c) Sales reported for second half year</td> <td></td> <td></td> <td></td> </tr> </tbody> </table>		Latest Financial Year \$'000	Previous Financial Year \$'000	% increase / (decrease)		Group	Group	Group	(a) Sales reported for first half year				(b) Operating profit/loss after tax before deducting non-controlling interests reported for first half year				(c) Sales reported for second half year				C
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3. Complying with the requirements of SFRS(I) 1-34 and Listing Rule Appendix 7.2

Paragraph in Listing Rule Appendix 7.2					See Note
	(d) Operating profit/loss after tax before deducting non-controlling interests reported for second half year				
9	Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.				C
10	A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.				C
11	<p>If a decision regarding dividend has been made:—</p> <p>(a) Whether an interim (final) ordinary dividend has been declared (recommended); and</p> <p>(b)</p> <p>(i) Amount per share cents</p> <p>(ii) Previous corresponding period cents</p> <p>(c) Whether the dividend is before tax, net of tax or tax exempt. If before tax or net of tax, state the tax rate and the country where the dividend is derived. (If the dividend is not taxable in the hands of shareholders, this must be stated).</p> <p>(d) The date the dividend is payable.</p> <p>(e) The date on which Registrable Transfers received by the company (up to 5.00 pm) will be registered before entitlements to the dividend are determined.</p>				D
12	If no dividend has been declared (recommended), a statement to that effect and the reason(s) for the decision.				D
19	<p><i>[For announcement of the last quarter financial results or the second half-year financial results]</i></p> <p>A breakdown of the total annual dividend (in dollar value) for the issuer's latest full year and its previous full year as follows:—</p> <p>(a) Ordinary</p> <p>(b) Preference</p> <p>(c) Total</p>				D
13	If the Group has obtained a general mandate from shareholders for IPTs, the aggregate value of such transactions as required under Rule 920(1)(a)(ii) . If no IPT mandate has been obtained, a statement to that effect.				C
14	Negative confirmation pursuant to Rule 705(5) .				C
15	Confirmation that the issuer has procured undertakings from all its directors and executive officers (in the format set out in Appendix 7.7¹⁴ under Rule 720(1) .				C
20	<p><i>[For announcement of the last quarter financial results or the second half-year financial results]</i></p> <p>Disclosure of person occupying a managerial position in the issuer or any of its principal subsidiaries who is a relative of a director or chief executive officer or substantial shareholder of the issuer pursuant to Rule 704(13) in the format below. If there are no such persons, the issuer must make an appropriate negative statement.</p>				C

¹⁴ Appendix 7.7 is in the Mainboard Rules. The equivalent reference for the Catalist Rules is Appendix 7H.

3. Complying with the requirements of SFRS(I) 1-34 and Listing Rule Appendix 7.2

Paragraph in Listing Rule Appendix 7.2						See Note
	Name	Age	Family relationship with any director and/or substantial shareholder	Current position and duties, and the year the position was held	Details of changes in duties and position held, if any, during the year	

Note A: If a set of interim financial statements has been reviewed or audited, this fact is to be stated and the auditor's report is to be included in the set of interim financial statements.

Note B: As these items are accounting information, they could be included in the disclosure notes in the interim financial statements.

Note C: As these items are non-accounting information, a good practice is to show them separately from the interim financial statements (e.g. in the Management Discussion & Analysis) in the same announcement.

Note D: These are additional disclosures of dividend information in addition to SFRS(I) 1-34 requirements. A good practice is to show them separately from the interim financial statements in the same announcement.

4. Key areas of focus

When preparing the interim financial statements, an issuer should consider focusing on the following key areas (note: this is not an exhaustive list):

(A) Appropriateness of significant judgements and estimates made

Potential areas where changes in judgements and estimates could have taken place:

(i) Are the fair values of the issuer's investment properties overstated?

An issuer whose investment property accounting policy is the fair value model under SFRS(I) 1-40 *Investment Property* should ensure that the fair value measurement of investment properties in the financial statements is appropriate, both for financial year end reporting and interim reporting.

Fair values of investment properties determined as at the end of the last reporting period may no longer be appropriate for reporting for the current interim financial reporting period. Accordingly, the issuer needs to carefully assess the appropriateness of the fair values of investment properties to be reported in its balance sheet (and the corresponding change in fair values to be reported in profit or loss) as it issues the interim financial statements. This may include assessing whether the inputs and assumptions used in its valuation techniques are still appropriate, whether they reflect current market conditions, and whether these need to be updated.

The issuer should consider whether expert advice is needed in the assessment, or if an updated valuation exercise is required to be performed.

Paragraph 41 of SFRS(I) 1-34 requires that the measurement procedures for interim financial statements are to be designed to ensure that the resulting information is reliable and that all material information that is relevant to an understanding of the financial position or performance of the issuer is appropriately disclosed.

Paragraph 122 of SFRS(I) 1-1 *Presentation of Financial Statements* requires the disclosure of significant judgements that management has made in the process of applying the issuer's accounting policies in the preparation of financial statements.

Where significant judgement is exercised in the assessment of the fair value of investment properties, the issuer should ensure that appropriate disclosures of the judgements and assumptions are included in the financial statements. The disclosures should be entity-specific, clear and concise, without obscuring material information in unnecessary detail. This also applies to cases where the issuer concludes that the fair value of the investment property has not changed significantly since the end of the last reporting period. In that case, if it is considered a significant judgement, the basis for that judgement should be clearly explained in the financial statements.

The above considerations are also applicable in the determination of whether the fair values of other non-financial assets such as property, plant and equipment (measured under the revaluation model) and right-of-use assets (measured under the revaluation model), are appropriate at the interim reporting date.

(ii) Are the issuer's non-financial assets (carried at cost) overstated and impairment losses required to be recognised?

Under SFRS(I)1- 36 *Impairment of Assets*, an asset must not be carried in the issuer's financial statements at more than its recoverable amount (where recovery of the asset may be either by using it or selling it). The asset is impaired if its recoverable amount has fallen below the carrying amount.

SFRS(I)1- 36 requires the issuer to assess at the end of each reporting period whether there is any indication that an asset may be impaired. Impairment assessments to be performed on non-financial assets as follows:

- Goodwill* and other intangible assets with indefinite useful lives – to be tested for impairment at least annually or more frequently if impairment indicators exist
- Other assets (e.g. property, plant & equipment, investment properties carried at cost, investments in associates and joint ventures) – to be tested for impairment only when impairment indicators exist

**Note: Impairment losses on goodwill recognised in an interim period are not allowed to be reversed subsequently – see Section 4(B) for more details.*

During the current interim financial reporting period, there could be indicators that assets may be impaired (e.g. shutdown of manufacturing facilities, falling demand and reduced selling prices of goods and services).

The recoverable amount of an asset is the higher of its value in use and its fair value less costs of disposal.

When determining the recoverable amount, future cash flows are estimated based on management's best estimates of the economic conditions that will exist over the remaining useful life of the asset.

The issuer should ensure that the assumptions are reasonable and supportable and reflect conditions existing at the interim financial reporting date. The issuer should consider whether expert advice is needed in the assessment.

(iii) Are the issuer's estimates of expected credit losses appropriate in light of the current uncertain situation?

As highlighted in the IASB's publication¹⁵ titled "IFRS 9 and covid-19 – Accounting for expected credit losses", IFRS 9 sets out the framework for determining the amount of expected credit losses (ECL) that should be recognised. It requires that lifetime ECL be recognised when there is a significant increase in credit risk on a financial instrument (and other items in scope of ECL requirements). Accordingly, the issuer may need to adjust their approaches to determining ECL based on the best available information about past events, current conditions and forecast scenarios of future conditions (since the ECL model is forward-looking).

Previous assumptions and designs of ECL models may need to be revisited, reassessed, and updated.

¹⁵ <https://cdn.ifrs.org/-/media/feature/supporting-implementation/ifrs-9/ifrs-9-ecl-and-coronavirus.pdf?la=en>

(iv) Have any of the issuer's contracts become onerous?

SFRS(I) 1-37 *Provisions, Contingent Liabilities and Contingent Assets* defines an onerous contract to be a contract in which the **unavoidable costs** of meeting the obligations under the contract exceed the economic benefits expected to be received under it. SFRS(I) 1-37 explains that the **unavoidable costs** are the lower of the cost of fulfilling the contract and any compensation or penalties arising from failure to fulfil it.

When a contract is assessed to be onerous, the issuer is required by SFRS(I) 1-37 to recognise and measure the present obligation under the contract as a provision.

With disruptions to economic activities, the issuer's contracts should be reviewed to determine if any contract has become onerous. For instance, the issuer may be unable to fulfil a customer's order due to the shutdown of its manufacturing facilities. The issuer should review the contractual terms and determine:

- whether the unavoidable costs of fulfilling the contract (the lower of the cost of fulfilling the contract and any compensation arising from failure to fulfil the contract) has exceeded the consideration to be received.
- whether there are contractual terms which may relieve the issuer of its obligations (for instance, force majeure clauses). If an issuer can cancel a contract without any penalty or compensation payable to the counterparty, the contract does not become onerous since there is no obligation.

(B) Non-reversal of impairment loss on goodwill recognised in an interim period

Under SFRS(I) 1-36, the issuer is required to assess for impairment at least annually or more frequently if impairment indicators exist; and to recognise an impairment loss at that date.

If the issuer has recognised an impairment loss on goodwill in an interim period, SFRS(I) INT 10 Interim Financial Reporting and Impairment clarifies that the issuer shall not reverse the recognised impairment loss even if no loss or a smaller loss would have been recognised if the impairment assessment had been made only at the end of a subsequent reporting period.

(C) Estimation of weighted average annual income tax rate expected for the full year

The income tax expense recognised in each interim period is based on the best estimate of the weighted-average annual income tax rate expected for the full financial year. Amounts accrued for income tax expense in one interim period may have to be adjusted in a subsequent interim period of that financial year if the estimate of the annual income tax rate changes.

For reference: ISCA Financial Reporting Codification Framework

In November 2019, ISCA issued the ISCA Financial Reporting Codification Framework (Framework). The Framework establishes a formalised categorisation, degrees of authority and a due process for future issuance of ISCA's technical documents. It provides credence to ISCA's technical content, promulgates ISCA's views on the application of accounting standards as well as promotes quality, consistency and best practices in financial reporting.

The Framework is summarised in the table below.

Category	Nature	Degree of authority	Due Process	Highest level of approval
1. Financial Reporting Practice (FRP)	Recommended best practices for financial reporting for specific industries, sectors or transactions	Expected to apply	Public consultation required	ISCA Council
2. Financial Reporting Guidance (FRG)	Technical guidance, views and insights on specific financial reporting issues for specific industries, sectors or transactions	Expected to follow or explain departures	Public consultation required	ISCA Financial Reporting Committee (FRC), with authority delegated by the ISCA Council
3. Financial Reporting Bulletin (FRB)	Technical bulletin containing discussions and highlight of emerging topical financial reporting issues	For information and educational purposes	Public consultation not required	ISCA FRC

For more details on the Framework and the guidance issued under the Framework, please refer to the following:

- Framework – <https://isca.org.sg/tkc/fr/financial-reporting-codification-framework/>
- FRG – <https://isca.org.sg/tkc/fr/financial-reporting-guidances/>
- FRB – <https://isca.org.sg/tkc/fr/financial-reporting-bulletins/>

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