

Amendments to FRS 1
Presentation of Financial Statements
Capital Disclosures

This document is issued as a reference. The amendments in this document have been incorporated into FRS 1.

CONTENTS

STANDARD

IMPLEMENTATION GUIDANCE

Amendments to FRS 1 *Presentation of Financial Statements*

This document sets out amendments to FRS 1 *Presentation of Financial Statements*. The amendments finalise some of the proposals that were contained in Exposure Draft *Financial Instruments: Disclosures* published in July 2004. The remaining proposals in the ED were finalised in FRS 107 *Financial Instruments: Disclosures*.

Companies incorporated or foreign companies registered under the Companies Act, that have been admitted to the official list of a securities exchange in Singapore and have not been removed from that official list, shall apply the amendments in this document for annual periods beginning on or after 1 January 2007. All other entities incorporated or registered in Singapore shall apply the amendments for annual periods beginning on or after 1 January 2008. Earlier application is encouraged.

In the Introduction, paragraph IN20 is added, as follows.

- IN20 In January 2006, the following requirements for disclosures were added:
- (a) the entity's objectives, policies and processes for managing capital;
 - (b) quantitative data about what the entity regards as capital;
 - (c) whether the entity has complied with any capital requirements; and
 - (d) if it has not complied, the consequences of such non-compliance.

In the Standard, a heading and paragraphs 124A–124C are added, as follows.

Capital

124A An entity shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital.

124B To comply with paragraph 124A, the entity discloses the following:

- (a) qualitative information about its objectives, policies and processes for managing capital, including (but not limited to):
 - (i) a description of what it manages as capital;
 - (ii) when an entity is subject to externally imposed capital requirements, the nature of those requirements and how those requirements are incorporated into the management of capital; and
 - (iii) how it is meeting its objectives for managing capital.
- (b) summary quantitative data about what it manages as capital. Some entities regard some financial liabilities (e.g. some forms of subordinated debt) as part of capital. Other entities regard capital as excluding some components of equity (e.g. components arising from cash flow hedges).

- (c) any changes in (a) and (b) from the previous period.
- (d) whether during the period it complied with any externally imposed capital requirements to which it is subject.
- (e) when the entity has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

These disclosures shall be based on the information provided internally to the entity's key management personnel.

124C An entity may manage capital in a number of ways and be subject to a number of different capital requirements. For example, a conglomerate may include entities that undertake insurance activities and banking activities, and those entities may also operate in several jurisdictions. When an aggregate disclosure of capital requirements and how capital is managed would not provide useful information or distorts a financial statement user's understanding of an entity's capital resources, the entity shall disclose separate information for each capital requirement to which the entity is subject.

In the Guidance on Implementing FRS 1, new headings and paragraphs IG5 and IG6 are added after the illustrative examples of financial statement structure.

Illustrative examples of capital disclosures (paragraphs 124A–124C)

An entity that is not a regulated financial institution

IG5 The following example illustrates the application of paragraphs 124A and 124B for an entity that is not a financial institution and is not subject to an externally imposed capital requirement. In this example, the entity monitors capital using a debt-to-adjusted capital ratio. Other entities may use different methods to monitor capital. The example is also relatively simple. An entity decides, in the light of its circumstances, how much detail it provides to satisfy the requirements of paragraphs 124A and 124B.

Facts

Group A manufactures and sells cars. Group A includes a finance subsidiary that provides finance to customers, primarily in the form of leases. Group A is not subject to any externally imposed capital requirements.

Example disclosure

The Group's objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

Consistently with others in the industry, the Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt ÷ adjusted capital. Net debt is calculated as total debt (as shown in the balance sheet) less cash and cash equivalents. Adjusted capital comprises all components of equity (i.e. share capital, share premium, minority interest, retained earnings, and revaluation reserve) other than amounts recognised in equity relating to cash flow hedges, and includes some forms of subordinated debt.

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During 20X4, the Group's strategy, which was unchanged from 20X3, was to maintain the debt-to-adjusted capital ratio at the lower end of the range 6:1 to 7:1, in order to secure access to finance at a reasonable cost by maintaining a BB credit rating. The debt-to-adjusted capital ratios at 31 December 20X4 and at 31 December 20X3 were as follows:

	31 Dec X4	31 Dec X3
	CU million	CU million
Total debt	1,000	1,100
Less: cash and cash equivalents	(90)	(150)
Net debt	910	950
Total equity	110	105
Add: subordinated debt instruments	38	38
Less: amounts recognised in equity relating to cash flow hedges	(10)	(5)
Adjusted capital	138	138
Debt-to-adjusted capital ratio	6.6	6.9

The decrease in the debt-to-adjusted capital ratio during 20X4 resulted primarily from the reduction in net debt that occurred on the sale of subsidiary Z. As a result of this reduction in net debt, improved profitability and lower levels of managed receivables, the dividend payment was increased to CU2.8 million for 20X4 (from CU2.5 million for 20X3).

An entity that has not complied with externally imposed capital requirements

- IG6 The following example illustrates the application of paragraph 124B(e) when an entity has not complied with externally imposed capital requirements during the period. Other disclosures would be provided to comply with the other requirements of paragraphs 124A and 124B.

Facts

Entity A provides financial services to its customers and is subject to capital requirements imposed by Regulator B. During the year ended 31 December 20X7, Entity A did not comply with the capital requirements imposed by Regulator B. In its financial statements for the year ended 31 December 20X7, Entity A provides the following disclosure relating to its non-compliance.

Example disclosure

Entity A filed its quarterly regulatory capital return for 30 September 20X7 on 20 October 20X7. At that date, Entity A's regulatory capital was below the capital requirement imposed by Regulator B by CU1 million. As a result, Entity A was required to submit a plan to the regulator indicating how it would increase its regulatory capital to the amount required. Entity A submitted a plan that entailed selling part of its unquoted equities portfolio with a carrying amount of CU11.5 million in the fourth quarter of 20X7. In the fourth quarter of 20X7, Entity A sold its fixed interest investment portfolio for CU12.6 million and met its regulatory capital requirement.