

SINGAPORE FINANCIAL REPORTING STANDARD FOR SMALL ENTITIES (“SFRS FOR SMALL ENTITIES”) – ASC STATEMENT ON APPLICABILITY

Introduction

1. The Accounting Standards Council has adopted the International Financial Reporting Standard for Small and Medium-sized Entities (“*IFRS for SMEs*”) as the Singapore Financial Reporting Standard for Small Entities (“*SFRS for Small Entities*”) as at 30 November 2010.

Scope

2. For the purpose of this statement, “entities” refer to
 - (a) companies incorporated under the Companies Act (Cap. 50) or pursuant to any corresponding previous written law in Singapore; and
 - (b) foreign companies defined in the Companies Act (Cap. 50) in respect of their operations in Singapore.

Applicability of the *SFRS for Small Entities*

3. The *SFRS for Small Entities* applies as an alternative framework to the Singapore Financial Reporting Standard (“SFRS”) for the preparation and presentation of general purpose financial statements¹ of entities for financial reporting periods beginning on or after 1 January 2011.
4. Subject to paragraphs 11 and 12, an entity is eligible to use the *SFRS for Small Entities* if:
 - (a) it is not publicly accountable (see paragraph 5); and
 - (b) it publishes general purpose financial statements for external users²; and
 - (c) it is a small entity (see paragraph 6).

¹ Currently, all Singapore-incorporated companies and foreign companies in respect of their operations in Singapore are required under the Companies Act (Cap. 50) to comply with the requirements of the SFRS, which are the accounting standards made or formulated by the Accounting Standards Council under Part II of the Accounting Standards Act (Cap. 2B).

² General purpose financial statements provide information about an entity’s financial position, performance and cash flows and are directed towards the common information needs of a wide range of users, for example, shareholders, owners who are not involved in managing the business, existing and potential creditors, credit rating agencies, employees and the public at large. For the avoidance of doubt, exempt private companies as defined in the Companies Act (Cap. 50) that prepare general purpose financial statements also satisfy the criteria set out in paragraph 4(b).

5. For the purpose of paragraph 4(a), an entity is publicly accountable if:
 - (a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (such as a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
 - (b) it is a deposit-taking entity and/or holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. Most banks, insurance companies, securities brokers/dealers, mutual funds and investment banks³ would meet this second criterion; or
 - (c) it is a public company defined under the Singapore Companies Act (Cap. 50); or
 - (d) it is a charity defined under the Charities Act (Cap. 37).
6. For the purpose of paragraph 4(c), an entity qualifies as a small entity in respect of a financial reporting period if it meets at least two of the three following criteria:
 - (a) total annual revenue of not more than S\$10 million;
 - (b) total assets of not more than S\$10 million;
 - (c) total number of employees of not more than 50.

Determination of size criteria

7. In the case of an entity that has one or more subsidiaries and is required or chooses to prepare consolidated financial statements, the total annual revenue, total assets and total number of employees are determined on a consolidated basis, and not on the basis of the entity as a single economic entity.
8. For the purposes of paragraphs 6(a) and 6(b), the total revenue and total assets are determined at the end of the financial reporting period in accordance with either the full SFRSs or the *SFRS for Small Entities*. Where the financial reporting period is shorter or longer than a year, the total revenue must not exceed such proportion of S\$10 million as the length of financial reporting period bears to a year (i.e. 12 months).
9. For the purpose of paragraph 6(c), the number of employees is based on the number of full-time employees employed by the reporting entity at the end of the financial reporting period.

³ For the avoidance of doubt, all regulated or exempt financial institutions are not permitted to use the *SFRS for Small Entities*, except for money changers, financial advisers, insurance brokers, captive insurers and Lloyds Asia Scheme service companies. These entities may elect to use the *SFRS for Small Entities* only if they meet the qualifying criteria as set out in paragraph 4 of this statement.

Subsidiaries and intermediate holding companies

- 10. An entity that is a subsidiary or, subject to paragraph 7, an intermediate holding company of an entity, qualifies for reporting under the *SFRS for Small Entities* for its own financial statements if it satisfies the conditions set out in paragraph 4.

Qualifying period for initial application

- 11. Subject to paragraphs 12 and 13, the *SFRS for Small Entities* is applicable [as an option] to an entity only if the entity has met the criteria set out in paragraph 4 for each of the previous two consecutive financial reporting periods.
- 12. For newly incorporated entities under the Companies Act, the *SFRS for Small Entities* is applicable [as an option] for the first and second financial reporting periods after incorporation if the entity meets the qualifying criteria set out in paragraphs 4(a) and 4(b) for the full financial reporting period in respect of which the *SFRS for Small Entities* is sought to be used.

Cessation of application

- 13. Where the *SFRS for Small Entities* is applicable [as an option] to an entity under paragraphs 11 or 12, the *SFRS for Small Entities* will continue to be applicable to that entity unless —
 - (a) the entity ceases to meet the “qualitative criteria” set out in paragraphs 4(a) and 4(b) for the full financial reporting period in respect of which the *SFRS for Small Entities* is sought to be used; or
 - (b) for the previous two consecutive financial reporting periods before the financial reporting period in respect of which the *SFRS for Small Entities* is sought to be used, the entity was not or had ceased to be a small entity (because it did not meet the “quantitative criteria” set out in paragraph 6) at the end of each of those financial reporting periods.

Subsequent application

- 14. Where the *SFRS for Small Entities* ceases to be applicable to an entity under paragraph 13, the *SFRS for Small Entities* may be applicable [as an option] to that entity again if it subsequently meets the criteria set out in paragraph 11.

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Questions and Answers (Q & As)

The Q&As provide guidance on the application of the SFRS for Small Entities (“the standard”). They do not form part of the standard and reference should be made to the standard to determine its requirements.

Q1: What is the purpose of the SFRS for Small Entities?

The standard is issued in response to a high demand for a simpler financial reporting standard that is tailored to the needs of small and private entities. The standard seeks to reduce the financial reporting burden arising from the considerable number of recognition and measurement bases, and detailed disclosure requirements as required under the full SFRSs. The standard also seeks to provide information that is fit-for-purpose to the users of the financial statements.

Q2: Is there a difference between the SFRS for Small Entities and the IFRS for SMEs?

The *SFRS for Small Entities* is largely aligned to the *IFRS for SMEs* as the ASC believes that the *IFRS for SMEs* is a robust and comprehensive standard that is premised on the principles of the full IFRS framework and is internationally recognised as a high quality standard⁴.

Q3: Is it mandatory for entities that qualify for the standard to comply with its requirements?

No, the standard is not mandatory. Eligible entities can choose to comply with the standard or the full SFRSs.

Q4: Can my company partially adopt the SFRS for Small Entities, i.e. adopt some accounting policies that are based on full SFRSs and some on the SFRS for Small Entities?

No, the *SFRS for Small Entities* must be adopted in its entirety. In other words, partial adoption or mixed adoption of the *SFRS for Small Entities* is not allowed.

Q5: Why is there a need to set a size threshold as the qualifying criteria?

The International Accounting Standards Board (IASB) has indicated that jurisdictions may choose to prescribe quantified size criteria to exclude entities that are economically significant from the use of *IFRS for SMEs*. The ASC believes that a size threshold is required to ensure that entities that are large but not listed continue to provide necessary information and disclosures that will be required by users of those financial statements.

⁴ The main differences are the references to SFRS instead of IFRS, as well as the description of the scope and applicability of the *SFRS for Small Entities* in Section 1 of the standard (which does not constitute a deviation from the *IFRS for SMEs*).

Q6: Will the size threshold be revised?

The ASC intends to review the threshold criteria after the IASB completes its first comprehensive review of the *IFRS for SMEs* in 2011/ 2012. The review will assess the need for revision based on the IASB's findings, as well as public response from local constituents.

Q7: Can an entity apply the *SFRS for Small Entities* if its holding company applies the full SFRSs?

Yes. A subsidiary whose parent uses full SFRSs, or that is part of a consolidated group that uses full SFRSs, is not prohibited from using the *SFRS for Small Entities* in its own financial statements if the subsidiary does not have public accountability and fulfills the qualifying criteria.

Q8: Can an entity apply the *SFRS for Small Entities* if it has plans to obtain public listing in the future?

Yes. As long as an entity does not have public accountability and has fulfilled all the qualifying criteria, it is entitled to apply the *SFRS for Small Entities* framework. However, it would have to adopt the full SFRSs once it is listed (or is in the process of getting listed). This is a decision that has to be made by its management.

Q9: If an entity qualifies as a small entity for any one financial year (e.g. ending 31 December 2011) but is no longer a small entity starting from the next financial year (e.g. ending 31 December 2012), when does the entity cease to be qualified for reporting under the *SFRS for Small Entities*?

When an entity has previously qualified for reporting under the *SFRS for Small Entities* in terms of its size under paragraph 6, the entity continues to qualify for reporting under the *SFRS for Small Entities* until the entity does not satisfy the size threshold criteria under paragraph 6 for two consecutive reporting periods (i.e. the entity qualifies for *SFRS for Small Entities* for financial years ending 31 December 2012 and 2013 but has to transit to full SFRSs for its financial statements for financial year ending 31 December 2014).

Q10: If a company does not qualify as a small entity for any one financial year (e.g. ending 31 December 2011) and becomes a small entity starting from the next financial year (e.g. ending 31 December 2012) and thereafter, when does the company start to qualify for reporting under the *SFRS for Small Entities*?

When an entity has not been considered a small entity in terms of its size under paragraph 6 and subsequently becomes a small entity, the entity will not qualify for reporting under the *SFRS for Small Entities* until the entity has been determined to be a small entity for two consecutive reporting periods (i.e. the entity qualifies for reporting under the *SFRS for Small Entities* for its financial statements for financial year ending 31 December 2014 only if it qualifies as a small entity for financial years ending 31 December 2012 and 2013).

Q11. Can a newly-formed entity use the *SFRS for Small Entities* in the first year of set-up even though it does not have financials for preceding years to determine its eligibility?

Yes. A newly-formed entity is eligible to use the *SFRS for Small Entities* in the first two years of set-up, provided it satisfies the criteria in paragraph 4(a) and 4(b). Please refer to paragraph 12 and the following possible scenarios for the treatment of newly-formed entities.

	<u>Yr 1</u>	<u>Yr 2</u>	<u>Yr 3</u>	<u>Yr 4</u>	<u>Yr 5</u>	<u>Yr 6</u>
Small entity?	No	Yes	Yes	No	No	Yes
Eligible for <i>SFRS for Small Entities</i> ?	✓	✓	✓	✓	✓	×

	<u>Yr 1</u>	<u>Yr 2</u>	<u>Yr 3</u>	<u>Yr 4</u>	<u>Yr 5</u>	<u>Yr 6</u>
Small entity?	No	No	Yes	Yes	Yes	Yes
Eligible for <i>SFRS for Small Entities</i> ?	✓	✓	×	×	✓	✓

	<u>Yr 1</u>	<u>Yr 2</u>	<u>Yr 3</u>	<u>Yr 4</u>	<u>Yr 5</u>	<u>Yr 6</u>
Small entity?	Yes	No	No	Yes	Yes	Yes
Eligible for <i>SFRS for Small Entities</i> ?	✓	✓	✓	×	×	✓

Q12. For the purpose of the size test, should an entity take into account the employees under a subcontracting agreement in determining the number of employees?

No. Normally, employees under a subcontracting agreement are not employees of the reporting entity and therefore, are not included in determining the size of a small entity (i.e. an entity has to take into account the number of employees employed by itself only).

Q13: Can an entity early adopt the standard (i.e. before 1 January 2011)?

No. Entities are eligible for the standard only for financial reporting periods beginning on or after 1 January 2011.

Q14: Can an entity adopt at a later date (i.e. after 1 January 2011)?

Yes, the standard is available as an option and an eligible entity may adopt the standard as and when it chooses.