



# Financial Reporting Standard

## FRS 107 Financial Instruments: Disclosures

(compiled by Yap Li Joon)

In this issue, we discuss the requirements of FRS 107 "Financial Instruments: Disclosures".

Entities listed on the Singapore Exchange Securities Trading Limited have to comply with FRS 107 for financial statements covering financial periods beginning on or after 1 January 2007. All other entities have to comply for financial periods beginning on or after 1 January 2008.

It was believed that users of the financial statements need information about an entity's exposure to risks and how those risks are managed. Such information can influence the user's assessment of the financial position of the entity and its financial performance. As such, FRS 107 was introduced to enhance the disclosure requirements in FRS 32 "Financial Instruments: Disclosure and Presentations".

FRS 107 requires entities to provide disclosure of significance of financial instruments for the entity's financial position and performance.

FRS 107 requires disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments including minimum disclosure about credit risk, liquidity risk and market risk. The qualitative disclosures describe management's objectives, policies and process for managing those risks. The quantitative disclosures provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel.

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Additional disclosures required by FRS 107.

**1. Reclassification of financial assets recorded at cost or amortised cost to fair value, or vice versa, to disclose the amount reclassified and the reason for the reclassification.**

**2. On financial assets whereby the fair value cannot be measured reliably (e.g equity instruments that do not have quoted prices in an active market or contract continuing a discretionary participation feature), the entity shall disclose:**

- a) information about the market for the instruments.
- b) information about whether and how the entity intends to dispose of the financial instruments.

**3. Disclosure on credit risk for each class of financial instruments**

- a) information about the credit quality of financial assets that are neither past due or impaired;
- b) the carrying amount of re-negotiated financial assets that would have been past due or impaired if not for the re-negotiation;
- c) an analysis of the age of the financial assets that are past due as at the reporting date but not impaired;
- d) an analysis of the financial assets that are individually determined to be impaired as at the reporting date, including the factors considered in determining impairment; and
- e) for assets recorded by taking possession of collaterals the entity holds as security or calling on other credit enhancements, the entity shall disclose the nature and carrying amount of assets obtained and its policies for disposal or utilization of assets not readily convertible to cash.

**4. Market risk**

- a) The entity has to perform a sensitivity analysis for each type of market risk (currency risk, interest rate risk, price risk) to which the entity is exposed at the reporting date. The sensitivity analysis should show the effect on the profit or loss and equity of reasonably possible changes in the relevant risk variable;
- b) The methods and assumptions used by the entity to prepare such sensitivity analysis should also be disclosed; and
- c) In addition, changes from previous period in the methods and assumptions used and the reason for such changes.

**5. Liquidity risk**

An entity shall disclose:

- a) a maturity analysis for financial liabilities that shows the remaining contractual maturities; and
- b) a description of how it manages the liquidity risk inherent in (a).

**6. Defaults and Breaches**

For loans payable recognized at the reporting data, the entity shall disclose:

- a) details of any default;
- b) the carrying amount of the loans payable in default at the reporting date; and
- c) whether the default was remedied, or the terms of loan were re-negotiated before the financial statements are authorized for issue.

Although FRS 107 is about disclosure, a significant preparation lead time is required for an entity to comply with the requirements of this standard. In particular where an entity is a holding company, it has to ensure that all its subsidiaries report the information on the same basis. As such, the entity should commence the process of information collation early especially when comparative information is required. **BSI**

# Striking off Defunct Companies Pursuant to Section 344 of The Companies Act, Cap 50.

(compiled by Tan Ching Chek)

ACRA has issued a Circular No. 1 of 2008 on 3 September 2008 on its action to strike defunct local companies off the register pursuant to Section 344 of the Companies Act, Cap 50.

Section 344 of the Companies Act, Cap 50 empowers the Registrar of Companies ("Registrar") to strike off the name of a company off the Register if he has reasonable cause to believe that the company is not carrying on business or is not in operation (i.e. defunct). Currently, the Registrar will only do so when he receives a striking off application from the company and the company is able to meet the criteria for striking off.

## (I) CRITERIA FOR STRIKING OFF

ACRA will be adopting the following two criteria before it considers striking the company off the register:

**a) the last set of accounts submitted to ACRA was made up to a date which is more than 6 years.**

ACRA will commence the exercise by targeting companies whose last accounts filed were for the period ending on or before 30 June 2002. For companies that have yet to file any Annual Returns since the date of incorporation, ACRA will target those companies which were incorporated before 1 Jan 2002.

**b) the company has not created any fresh charge in the last 6 years prior to the proposed striking off action.**

Though the limitation period under the Limitation Act for actions of contract is 6 years commencing from the date on which the cause of action accrued, it is unlikely that a chargee would wait the full 6 years before taking action to recover any debt due from these defunct companies. As such, ACRA would presume that the chargee is no longer interested in pursuing against the defunct company if it has been more than 6 years since the charge was created. For a start, ACRA will target companies that either do not have any outstanding charges or have outstanding charges which have been created before 1 July 2002.

## (II) OUTSTANDING SUMMONSES AND WARRANTS OF ARREST

ACRA will proceed to strike off a company even if there are outstanding summonses or Warrants of Arrest against the directors. Once the company has been struck off, the Enforcement Division ("ED") will be in a position to compound the summonses and close the case. The notice that will be sent to such companies will list out the outstanding summonses and Warrant of Arrest details so as to alert the directors to take the necessary action to settle the matter with ACRA.

## (III) ACTION TO BE TAKEN BY ACRA

ACRA will send a Intention of Striking Off Notice together with a rider that if the company is still carrying on business even though its last set of accounts were made up to 30 June 2002 or earlier, it has to satisfy ACRA (within one month of the date of notice) that it is still actively trading or have good reasons as to why it should

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not be struck off. If the company does not want to be struck off, it has to file its outstanding Annual Returns with up to date accounts within 3 months of the date of the Intention of Striking Off Notice failing which ACRA will refer the matter to ED for enforcement action. Companies that file their outstanding Annual Return will still have to pay the usual penalties under Section 201 of the Companies Act, Chapter 50, and they will be taken off the list of companies to be struck off.

#### (IV) OBJECTIONS FROM CREDITORS

If ACRA receives any objection before it strikes off the company, it will first ascertain from the objector the details of the debt incurred and the reasons for the objection. If the objection is justified, ACRA will inform the company that it will not proceed with the striking off action until the objections have been cleared.

If no objection has been received by ACRA, it will proceed with the striking off action.

#### (V) IMPLEMENTATION

ACRA will send the notices in September 2008. The notices will be sent to the company at its registered office address and to the directors, company secretary and shareholders at their residential address. The notice will also be copied to the Inland Revenue Authority of Singapore.

#### (VI) COMPANIES WITHOUT DIRECTORS OR WITHOUT LOCAL RESIDENT DIRECTORS

For companies without directors, ACRA will proceed with striking off action. However for companies with no locally resident director, ACRA will send a letter to these companies to advise them to appoint a local director and give them a grace period of 2 months to do so. The letter will be sent to the company at its registered office address, foreign director, company secretary and shareholders on record. If they fail to comply within the grace period, ACRA will then proceed to strike off these companies on the basis that the companies are defunct and are no longer carrying on business. **BSL**

## Unique Entity Number (UEN)

(compiled by Karin Ang)

From 1 January 2009, all entities that are registered in Singapore, such as businesses, local companies, limited liability partnerships (LLPs), societies, representative offices, healthcare institutions and trade unions, will have a Unique Entity Number (UEN) as its identification number. The UEN will be used for correspondence and interaction with government agencies.

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### What is UEN?

UEN is the standard identification number of an entity, i.e. it uniquely identifies the entity. UEN replaces all other identification numbers issued to them by different government agencies. UEN brings convenience to entities where only one identification number is needed to interact with government agencies such as filing of corporate tax returns, applying for import and export permits or submitting their employees' CPF contributions.

### Who will use UEN?

From 1 January 2009, 51 government agencies will use UEN to interact with entities (both over-the-counter and online interactions). Among the 51 agencies using the UEN from 1 January 2008 are the following

- Accounting and Corporate Regulatory Authority;
- Central Provident Fund Board;
- Inland Revenue Authority of Singapore;
- Housing and Development Board;
- Immigration & Checkpoints Authority;
- JTC Corporation;
- Singapore Customs;
- Singapore Land Authority; and
- Urban Redevelopment Authority.

All other government agencies will use UEN from 1 July 2009.

Businesses and local companies currently registered with the Accounting and Corporate Regulatory Authority will retain their ACRA Registration Number as their UEN. The reason for this is to minimise impact of UEN as these two entity-types constitute 85% of all registered entities in Singapore.

### What is my UEN?

If you are a business or local company registered with the Accounting and Corporate Regulatory Authority (ACRA), there will be no change for you. Your existing ACRA registration number will be retained as your UEN.

If you are not a business or local company (e.g. limited liability partnership or society), a new UEN will be issued to you by the government agency that registers or oversees you (known as UEN Issuance Agency).

### How does UEN benefit me?

Your UEN is your one number for convenient interaction with government agencies. Whether it is filing your corporate tax returns or applying for import and export permit, you will no longer need to use different numbers to interact with different government agencies. Entities will only need to remember one identification number in their interaction with government agencies.


### Who will get UEN?

UEN will be issued to entities (such as businesses, local companies, LLPs, societies and representative offices) that

- have multiple interactions with government agencies
- are recognised by a UEN Issuance Agency (e.g. ACRA, ROS)

### UEN will NOT be issued to:

- Individuals  
They will interact with government agencies using their NRIC numbers
- Entities that have no or only one-off interaction with just one government agency  
E.g. overseas company that sells products to government agencies on a one-off basis
- Sub-entities such as branches and divisions of an entity

However, some government agencies may choose to add sub-entity codes to UEN in their systems if they need to identify and interact with branches and divisions. For example, the CPF Board will replace the existing Employer Reference Number with the CPF Submission Number (CSN) to identify the different types of payment that you are making to CPF Board. The CSN will be your "UEN + CPF Payment Code". For employers who are individuals hiring local employees, e.g. personal driver, gardener etc, the CSN will be your "NRIC/Foreign Identification Number + CPF Payment Code". 

# Tax Exemption Scheme for Qualifying Family-Owned Investment Holding Companies

(compiled by N Vimala Devi)

The Minister of Finance, in the recent 2008 Budget introduced a new tax exemption scheme for family-owned investment holding companies ("FOIHC").

The Monetary Authority of Singapore on 23 June 2008 has issued a Circular to clarify on the tax exemption scheme for FOIHC. We summarize and provide our thoughts on this Circular for your information and action where applicable.

## Background

As most of you already know, since 1 January 2004 individuals are exempt from tax on all foreign sourced income received in Singapore. In addition, individuals are also exempt from tax on specified Singapore-sourced income including, inter alia-

- interest from deposits with approved financial institution
- any income from any structured product offered by a financial institution
- interest and discount from debt securities
- distributions from qualifying unit trusts
- distributions from Real Estate Investment Trusts

The above tax exemption on foreign and Singapore sourced income is not applicable to such income derived through a Singapore partnership.

The Minister has extended the exempt tax treatment of such income in the hands of individuals to also apply to FOIHC. This is in order to streamline the current tax treatment so that there is no difference between the taxation of an individual directly or through a company.

## What is the Tax incentive Scheme about?

Under the Tax Incentive Scheme, a qualifying FOIHC will be exempted from tax on specified Singapore sourced investment income accrued or derived on or after 1 April 2008 and foreign sourced income received in Singapore on or after 1 April 2008, to the extent that such income would have been exempted from tax if derived or received directly by an individual.

A qualifying FOIHC refers to a company:

- 1) Whose principal activity is that of holding or making investments;
- 2) Where the immediate shareholders throughout the basis period for any year of assessment are all individuals and the individuals are connected persons. Connected persons inter alia are spouse, descendants of the individuals and their spouses, parents, grandparents, parents-in-laws, brothers/sisters, step brothers/sisters, in laws, uncle and aunts etc, in other words, any relationships that may be established by blood as well as those established by adoption;
- 3) That is administered or the assets held under the FOIHC are managed/advised by a financial institution in Singapore;
- 4) Where the assets held by it were not transferred (unless transacted at market terms and conditions) from any business carried on in Singapore by any person and the income in relation to those assets derived by that person from that business in Singapore was not or would not be, as the case may be, exempt from tax;

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- 5) Whose shares were not transferred (unless transacted at market terms and conditions) to its existing shareholders by virtue of whom enable it to be a qualifying FOIHC, where at any time prior to any such transfer, it was carrying on a business in Singapore which generated income that was not, or would not have been if not for the transfer, be exempt from tax; and
- 6) Where the transactions with its related parties are carried out on an arm's length basis.

In order to enjoy the tax exempt status for FOIHC, in addition to the annual tax return to the Comptroller of Income Tax, an annual declaration to MAS and the Comptroller of Income Tax must be made and this annual declaration must be signed off by:

- 1) The director of the qualifying FOIHC and
- 2) Key Management in Singapore belonging to the financial institution providing the administration, management or advisory services to the FOIHC.

### Reporting requirement


The above reporting requirement, which we will need to understand further, may pose a major obstacle, if a financial institution is required to vouch for all of the investments of a FOIHC, especially when there are many different types of investments and accounts. This means that FOIHC may be required to be managed and advised by FI in order for the FI to be in a position to provide the annual declaration. In addition, there would be additional costs, as taxpayers may require professional help to analyze their investments from the tax perspective whether the company is investment holding or trading etc.

### Qualifying period

Any company incorporated as a qualifying FOIHC before 1 April 2013, and this exemption status will apply even after this date, provided it continues to satisfy the conditions to be a qualifying FOIHC in any basis period beginning on or after 1 April 2013.

However, should the company not meet the above requirement then the tax exemption status will not apply to the company in the subsequent basis period, even if it satisfies the conditions to be a qualifying FOIHC in the subsequent basis period.

### Conclusion

If the intention of the asset owner is very clear from the onset, and it is to invest only then, one should consider setting up a FOIHC to hold such assets. This is also good from control and management, and succession planning perspectives so that the family assets can be passed on to surviving family members. 

A wise man will make more opportunities than he finds.

- Francis Bacon

# Did You Know?

(compiled by Faustina Lim)

## Changes to Skills Development Levy (SDL) contributions

It is a statutory requirement for employers in Singapore to make SDL contributions for employees who fall within the salary ceiling for levy contributions. The levy collected will go into the Skill Development Fund where training assistance is given as incentives to employers who invest in the skills upgrading of their employees under the administration of the Singapore Workforce Development Agency.

With effect from 1 October 2008, there are changes to the contribution requirements as shown in the table below:

	BEFORE 1 OCT 08	EFFECTIVE 1 OCT 08
SALARY CEILING	\$2,000.00	\$4,500.00
LEVY RATES	1%	0.25%
MINIMUM CONTRIBUTION	\$2.00	\$2.00
MAXIMUM	\$20.00	\$11.25

Previously, all employers must contribute SDL for employees\* who earn a monthly gross remuneration\*\* of \$2,000 or less. The levy rate is 1% of the gross remuneration or \$2, whichever is higher.


With effect from 1 October 2008, employers will be required to contribute SDL at a reduced levy rate of 0.25%, for all employees up to the first \$4,500 of their monthly gross remuneration or \$2, whichever is higher.

### Summary of SDL contributions with effect from 1 October 2008:

SALARY	SDL CONTRIBUTION
\$1 TO \$800	\$2.00
\$801 TO \$4,500	0.25% OF MONTHLY REMUNERATION
\$4501 AND ABOVE	\$11.25

#### Note:

\* Employees include full-time, part-time, casual, temporary and foreign workers rendering services wholly or partly in Singapore.

\*\* Remuneration include wages, salaries, commission, bonus, leave pay, overtime pay, allowances and other payments in cash. 

#### Writer's Caveat

These articles have merely attempted to provide a broad overview on the subject matters. It is not in any way intended to be comprehensive and no specific action should be taken on the basis of the above without consulting your professional advisors.

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